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An Analysis of Government Expenditure and Revenue in Nepal: Trends, Challenges and Policy Implications

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Abstract

This study provides a comprehensive examination of the trends and patterns in government expenditure and revenue in Nepal, spanning from fiscal year 1975/76 to 2024/25. Using time series data analysis and visual representations, the research identifies key phases of growth, contraction, and structural shifts in Nepal's fiscal landscape. Government expenditure has shown a sustained upward trajectory, with distinct periods of sharp increases and moderation. The period 1990/91–1994/95 witnessed significant growth in expenditure, averaging 17.33% annually, driven by the democratic transition and the prioritization of social and infrastructure development. Similarly, the highest growth rate of 60.95% was observed in 2009/10, fueled by post-conflict reconstruction and development efforts. Conversely, fiscal constraints resulted in minimal growth, as low as 0.3% in 2001/02, during political instability. The research categorizes expenditure into recurrent and capital components, revealing a structural shift in fiscal priorities. Recurrent expenditure, which primarily encompasses administrative and public service obligations, began to surpass capital expenditure post-1995/96. This shift highlights the growing demand for government services and the challenges of balancing short-term operational costs with long-term investment needs. On the revenue side, the study reveals a robust upward trend, with significant improvements in growth rates during periods of political stability and economic reforms. The peak revenue growth rate of 24.14% was recorded during 2005/06–2009/10, reflecting enhanced tax collection mechanisms and fiscal policies. However, the analysis also notes a recent moderation in revenue growth, attributed to structural challenges in the economy and external shocks. In conclusion, the study underscores the dynamic interplay between government expenditure and revenue in shaping Nepal's fiscal trajectory. It calls for strategic fiscal management to address emerging challenges such as rising recurrent expenses and slower revenue growth. The findings provide critical insights for policymakers aiming to enhance resource allocation, promote economic stability, and ensure sustainable development in Nepal's evolving fiscal landscape.

Keywords: Capital expenditure, government expenditure, government revenue, Nepal, recurrent expenditure

Introduction

All government spending is aimed at enhancing the welfare of a country's citizens, often assessed by economic development, typically indicated by economic growth. Public economics addresses a wide variety of subjects, including responses to market failures from externalities and the formulation of optimal social security policies (Myles, 1995). Public economics is both theoretical and practical, as markets alone cannot always fulfill the economic and social objectives of a democratic society. Achieving these objectives requires a partnership between the public and private sectors, highlighting the importance of an efficient public sector to set a benchmark for activities (Musgrave & Musgrave, 1989).

There has been an ongoing academic debate on whether government intervention through public expenditure positively impacts economic growth. Advocates of expansionary fiscal policy argue that government spending creates opportunities and choices within the economy, while critics contend that excessive government spending crowds out private investment and innovation. Government intervention is mainly achieved through fiscal policy and fiscal tools, with core functions including the efficient allocation of public resources, effective distribution of scarce resources, economic stabilization, and budgetary coordination among various agencies.

Developing countries rely heavily on government investments in health, education, and public infrastructure to drive economic growth, enhance social welfare, and alleviate poverty (Shonchoy, 2010). As defined by the System of National Accounts (SNA) 1993, government final consumption expenditure (GFCE) includes current spending by government bodies on services such as defense, education, public order, infrastructure maintenance, wages, and office expenses (Kendrick, 1996).

The budget is the government's key tool for implementing policies, as policy is ineffective without funding. Governments are often some of the largest institutions in any country in terms of human and financial resources. Public concern regarding budget allocations for services and programs reflects the significant impact these expenditures have on individuals' lives. With the current economic downturn, public sector spending has again become a central topic. Mazorodze (2018) empirically demonstrated that government spending has not had a negative effect in Zimbabwe, contrary to the World Bank and IMF's stance that a growing public sector hampers long-term economic growth. Moreover, econometric tests on data from 1979 to 2017 indicated that government consumption and investment spending positively affected Zimbabwe's economic growth, with a recommendation to prioritize investment over consumption spending.

Government expenditure also includes deficit financing, where the government borrows domestically or internationally to cover budget deficits. A study on Ethiopia using data from 1991 to 2019 found that a budget deficit negatively affected economic growth, with each 1% increase in the deficit leading to a 1.43% decline in growth. Conversely, trade openness and inflation had positive effects, suggesting the need for revenue generation over deficit financing (Emana, 2021). A significant portion of modern government spending is derived from public debt, essentially loans obtained domestically or internationally. Due to economic complexities, government spending has recently outpaced revenue generation, leading to budget deficits when expenses exceed income, making growth-oriented budget deficits essential.

To fund government expenditure effectively, it is essential to generate sufficient revenue. This requires increased investment in capital formation, especially in sectors that directly influence future growth and prosperity (Bhattarai, 2024a, 2024b; Bhattarai & Karmacharya, 2022). Political instability hinders fiscal policy implementation, economic growth, political decisions, policy choice and priorities. Weak governance and corruption can lead to inefficient allocation of resources, reduced revenue collection and increased expenditure. Revenue generation is equally important for democratic government and fostering equitable development. Revenue generation is crucial for the development and sustainability of democracy. Proper understanding of the dynamics of revenue and expenditure is necessary to achieve equitable economic growth, improve the living standards of the people and enhancement of democracy. In such context, this study has the objective of analysing the trend and composition of revenue and expenditure of government of Nepal, providing insights that could inform policymakers and contribute to the broader discourse on fiscal management in Nepal.

Methodology

The methodology of this study is based on a descriptive research design, aiming to systematically analyze historical data spanning from 1975/76-2019/20. Study is based on secondary sources of data. Data were taken from the publications of ministry of finance, government of Nepal. The descriptive approach allows for an in-depth examination of trends, patterns and changes over nearly five decades. To enhance the clarity and interpretability of the data, tables and graphs are employed, providing visual representations of key findings and facilitating comparisons across different time periods. The use of descriptive design is suitable for this research as it enables a detailed presentation of the data while allowing for observation of long-term shifts in the variables studied.

Literature Review

Sonisi (2020) examined the nonlinear relationship between government expenditure and revenue, utilizing quarterly data from Q1 1965 to Q2 2019. Initially, linear models are applied to assess variable integration order, cointegration, Granger causality, and variance decomposition within an SVAR framework. Nonlinear methods are then used to identify asymmetries in the univariate relationship and between expenditure and revenue. Asymmetric adjustments are analyzed to untangle the dynamic interaction using threshold vector autoregressive (TVAR) and threshold vector error-correction (TVECM) models. Finally, the Markov Switching model is employed to evaluate the likelihood of variables remaining in specific regions and their transition probabilities. Empirical findings reveal a nonlinear, unidirectional causal relationship between government expenditure and revenue, with government expenditure showing more persistent equilibrium adjustments than revenue when a threshold is met.

Dudzeviciute et al. (2018) analyzed the relationship between government spending and economic growth within the European Union (EU) from 1995 to 2015 through a multi-stage methodology. Initially, descriptive statistical analysis was used to examine trends in government spending and economic growth over two decades. This was followed by correlation analysis to assess the association between government expenditures (GEs) and economic growth. In the final stage, Granger causality testing was applied to model and determine causality between GEs and growth. The results showed that in eight EU countries, a significant relationship exists between government spending and economic growth. This study focuses solely on general GEs and economic growth, without breaking down GEs by the specific activities they fund, which represents its primary limitation. Despite this, the study highlights critical relationships among EU countries: in those with unidirectional causality from GEs to growth, government spending can drive growth, whereas in countries where causality runs from GDP to GEs, governments should prioritize efficient resource management to bolster economic growth.

Bhattarai (2013) examined public debt in Nepal using descriptive analysis, focusing on the period from 1975/76 to 2010/11. Author found that over the period considered public debt increased at an average annual rate of 18.86%. On average, external debt made up a larger share at 58.85%, while internal debt accounted for 41.15%. However, in the latter years, internal debt rose significantly above external debt. For instance, from 2005/06 to 2010/11, internal debt averaged 68.01%, compared to 31.99% for external debt. Author concludes that despite rising budgets and public debt, economic growth remained low, averaging 4.28%, while inflation averaged 8.31%, indicating that Nepal’s economy struggles with slow growth and high inflation rates.

Wu et al. (2010) analyzed the causal relationship between government expenditure and economic growth by conducting the panel Granger causality test by utilizing a richer panel data set which includes 182 countries that cover the period from 1950 to 2004. Empirical results strongly support both Wagner’s law and the hypothesis that government spending is helpful to economic growth. When the countries are disaggregated by income levels and the degree of corruption, results also confirm the bi-directional causality between government activities and economic growth for the different subsamples of countries, with the exception of the low-income countries. Authors conclude that the distinct feature of the low-income countries is likely owing to their inefficient governments and inferior institutions.

Cooray (2009) analyzed the role of the government in economic growth by extending the neo- classical production function to incorporate two dimensions of the government – a size and a quality dimension. The government size and quality augmented model, where size is measured by government expenditure and quality by governance, is tested on a cross section of 71 economies. Estimation is also carried out on the sample by income distribution. The empirical results indicate that both the size and quality of the government are important for economic growth. Author concludes that investing in the capacity for enhanced governance should be a priority for the improved growth performance of the countries examined.

Data Presentation

Trend of Government Expenditure in Nepal

Throughout the observation period, Nepal's government spending demonstrated a consistent upward trajectory. Table 4.1 serves as a visual guide, delineating the evolution of total government expenditure from 1975/76 to 2024/25, organized into five-year intervals for clarity and coherence. The table reveals a pattern of steady growth in government spending, underscoring a commitment to economic development and public welfare. However, amidst this overall trend, two distinct deviations stand out: a period of stability in 2003/04 and a subsequent decline in 2019/20, reflective of unique circumstances and economic challenges.

Noteworthy is the remarkable surge in average annual expenditure witnessed between 1990/91 and 1994/95, marking a significant inflection point in Nepal's fiscal landscape. Prior to this period, the initial 15 years were characterized by relatively modest yearly spending. However, following the transformative events of 1990/91, expenditure levels soared, signaling a newfound impetus towards economic expansion and social investment

Of particular interest are the peak and nadir moments in government expenditure growth rates. The zenith was reached in 2009/10, where expenditure surged by an impressive 60.95%, indicative of ambitious development initiatives and robust fiscal stimulus. In stark contrast, the lowest growth rate was recorded in 2001/02, registering a marginal increase of 0.3%, underscoring the challenges and constraints faced during that fiscal cycle.

On average, the growth rate of government expenditure stood at a commendable 16%, reflecting a sustained commitment to strategic investment and resource mobilization for the betterment of Nepalese society.

Table 1

Trend of Total Government Expenditure (Rs. million)

Period	Total government expenditure	Average yearly expenditure	Average annual growth rate of government expenditure (%)
1975/76-1979/80	1,341.0	268.2	18.2
1980/81-1984/85	3,226.5	645.3	19.7
1985/86-1989/90	4,567.5	913.5	18.7
1990/91-1994/95	15,352.3	3,070.5	14.8
1995/96-1999/00	27,923.6	5,584.7	11.2

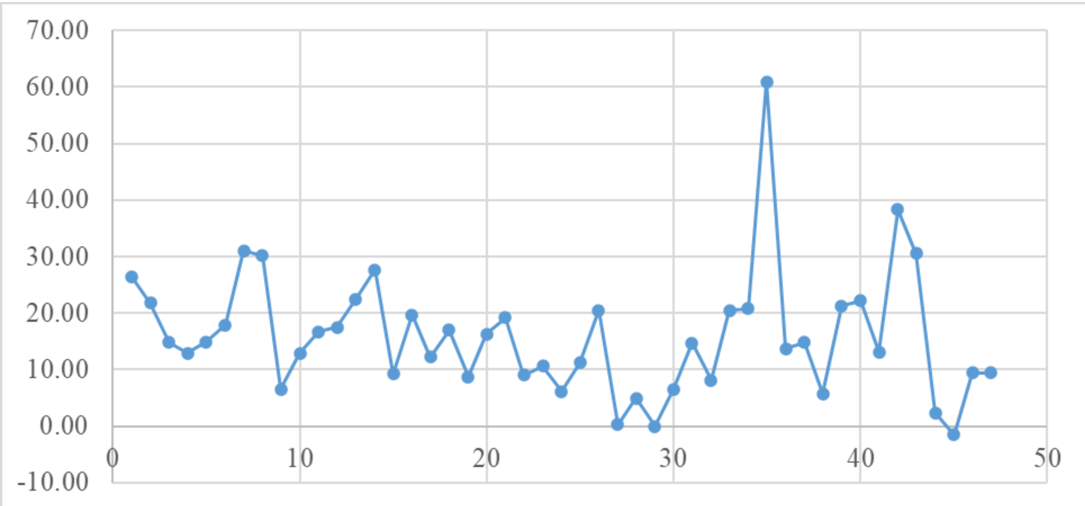
2000/01-2004/05	41,736.2	8,347.2	6.4
2005/06-2009/10	76,809.4	15,361.9	25.0
2010/11-2014/15	195,978.0	39,195.6	15.6
2015/16-2019/20	472,047.0	94,409.4	16.5

Source: MOF (2010, 2014, 2018, 2020).

In summary, table 1 provides a comprehensive snapshot of Nepal's total government expenditure dynamics over several decades, offering valuable insights into trends, anomalies, and milestones. By charting the evolution of fiscal allocations in a structured format, the table facilitates informed analysis and decision-making, enabling stakeholders to navigate the complexities of public finance with clarity and precision. Figure 1 shows the annual growth of government expenditure over the period 1975/76-2021/22. Figure shows that there were significant fluctuations in government expenditure of Nepal over the study period.

Figure 1

The Annual Growth Rate of Total Government Expenditure of the Government of Nepal (%).



Pattern of Government Expenditure in Nepal

Table 4.2 provides a comprehensive breakdown of government expenditure in Nepal, delineating the allocation between capital and recurrent expenses from 1975/76 to 2024/25, organized into five-year intervals for clarity and coherence. A discernible shift in expenditure patterns is evident throughout the observation period. Prior to 1990/91-1994/95, capital expenditure dominated the allocation, underscoring a strategic emphasis on long-term investments and infrastructure development. However, following this period, a notable transition occurred, with recurrent expenditure assuming greater prominence in the fiscal landscape.

This transition signifies a shift in priorities towards sustaining essential government functions and meeting ongoing operational needs. While capital expenditure remains crucial for driving economic growth and development, the increased focus on recurrent expenses reflects a growing recognition of the importance of maintaining and enhancing public services and institutions. By presenting a detailed breakdown of expenditure trends over time, Table 4.2 offers valuable insights into the evolving fiscal dynamics of Nepal. This structured presentation enables stakeholders to discern patterns, identify trends, and make informed decisions regarding resource allocation and budgetary priorities.

Table 2

Pattern of Government Expenditure

Period	Capital expenditure (Rs. million)	Recurrent expenditure (Rs. million)	Average share of capital expenditure (%)	Average share of recurrent expenditure (%)
1975/76-1979/80	883.2	457.7	65.9	34.1
1980/81-1984/85	2,209.2	1,017.2	68.5	31.5
1985/86-1989/90	4,834.6	2,403.2	66.3	33.7
1990/91-1994/95	9,288.9	6,011.1	65.0	35.0
1995/96-1999/00	14,074.8	13,536.6	48.9	51.1
2000/01-2004/05	14,134.1	26,586.6	39.1	60.9
2005/06-2009/10	28,617.9	51,733.1	33.4	66.6
2010/11-2014/15	36,968.1	130,267.9	26.0	74.0
2015/16-2019/20	103,336.1	304,810.5	25.7	74.3

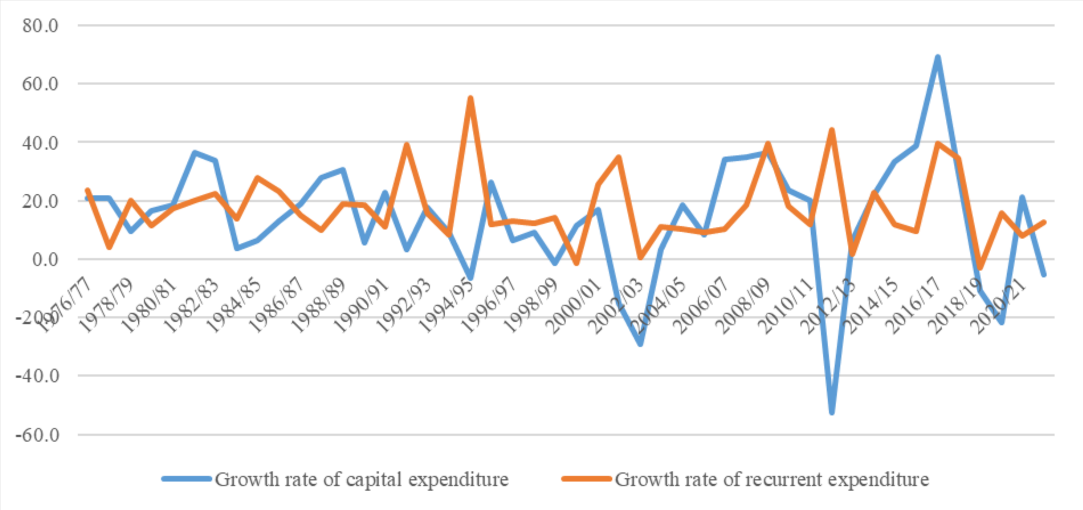
Source: MOF (2010, 2014, 2018, 2020).

Figure 2 presents a comprehensive overview of the annual growth rates of capital and recurrent expenditures within the Nepalese government over the research period. Through visual representation, it elucidates the dynamic nature of fiscal allocations, shedding light on trends and patterns that have shaped budgetary priorities. The graphical depiction vividly captures the ebb and flow of both capital and recurrent expenditures, offering insights into their respective trajectories. Notably, both categories exhibit discernible fluctuations, albeit with distinct characteristics. Capital expenditure emerges as the more volatile component, characterized by pronounced peaks and troughs indicative of the inherent variability in long-term investments and infrastructure development projects. The graph showcases instances of rapid expansion followed by periods of contraction, underscoring the cyclical nature of capital outlays within the government's budgetary framework.

In contrast, recurrent expenditure displays a relatively smoother trajectory, reflective of its stable and predictable nature encompassing routine expenses such as salaries, maintenance, and operational costs. While fluctuations are evident, they are generally less pronounced compared to capital expenditure, underscoring the consistent allocation of resources towards sustaining essential government functions. The visual narrative presented in Figure 4.2 underscores the dynamic interplay between capital and recurrent expenditures, highlighting the complexities inherent in fiscal management and resource allocation. By providing a visual roadmap of expenditure trends, the figure serves as a valuable tool for policymakers, analysts, and stakeholders alike, facilitating informed decision-making and strategic planning.

Figure 2

The Annual Growth Rate of Capital and Recurrent Expenditure of the Government of Nepal (%)



Trend of Government Revenue in Nepal

Table 3 provides a detailed view of Nepal's government revenue trends across multiple five-year intervals, highlighting essential figures such as total revenue, average annual revenue, and the average growth rate of government revenue. This table reveals a timeline of economic evolution in Nepal, influenced by both internal policy changes and external economic factors. In the initial period from 1975/76 to 1979/80, Nepal's total government revenue was NPR 626.82 million, yielding an average annual revenue of NPR 125.36 million and a growth rate of 9.43%. This early figure underscores a modest revenue base, reflective of an economy at an early developmental stage with limited revenue-generating mechanisms and a constrained tax base.

Between 1980/81 and 1984/85, the revenue nearly doubled to NPR 1256.13 million, averaging NPR 252.23 million per year. The growth rate of 15.72% during this period signals the possibility of economic reforms or external factors that positively impacted government revenue. During the early 1980s, Nepal undertook preliminary steps toward economic liberalization, which may have included improving revenue collection systems, broadening the tax base, or benefiting from favorable regional economic conditions. The period from 1985/86 to 1989/90 marks a further acceleration, with total revenue reaching NPR 2735.49 million and an average yearly revenue of NPR 547.10 million. The growth rate climbed to 18.45%, a testament to intensified revenue-collection efforts and potential increases in economic activity. This period could reflect enhanced efforts by the government to mobilize domestic resources, supported by expanding economic activity in both the formal and informal sectors. From 1990/91 to 1994/95, Nepal's total revenue rose significantly to NPR 6474.59 million, with an annual average of NPR 1294.92 million and a growth rate of 22.17%. This surge may have been influenced by the significant economic policy shifts of the early 1990s, particularly the liberalization and opening up of the economy to global markets. The government's adoption of market-oriented reforms likely enhanced economic productivity and boosted revenue collection.

In contrast, the period from 1995/96 to 1999/00 saw a slowing growth rate of 11.06%, with revenue totaling NPR 13393.7 million and an annual average of NPR 2678.74 million. This slowdown may reflect economic challenges or structural limitations in revenue generation. Political and social upheaval, such as the insurgency period, could have constrained revenue growth and limited the government's capacity to expand its fiscal reach. In 2000/01 to 2004/05, government revenue continued to grow, reaching NPR 22136.9 million with a yearly average of NPR 4427.38 million. However, the growth rate continued to moderate, falling to 10.51%. This could be attributed to political instability and macroeconomic challenges, which often hinder consistent revenue generation and economic progress. Despite these issues, the government maintained steady revenue growth, perhaps through administrative improvements and incremental policy adjustments.

The years from 2005/06 to 2009/10 experienced a marked revenue surge, with a total of NPR 48705.94 million and an average annual revenue of NPR 9741.19 million. The impressive growth rate of 24.14% during this period might be attributed to an improved economic environment and stronger fiscal policies, including enhanced revenue-collection mechanisms and potentially favorable economic policies. This period aligns with the peace process and political stability that followed the end of the insurgency, which likely encouraged economic recovery and growth.

In the subsequent period of 2010/11 to 2014/15, Nepal's total government revenue rose substantially to NPR 130335.1 million, with an average yearly revenue of NPR 26067.02 million. However, the growth rate slowed to 13.04%, potentially reflecting challenges in sustaining high growth levels as the economy matured. With increased government expenditures and economic constraints, it became challenging to maintain the prior growth rates. During the 2015/16 to 2019/20 period, revenue reached an unprecedented total of NPR 1780099 million, with an annual average of NPR 356019.8 million. However, the growth rate declined further to 9.68%. This declining growth rate may suggest that Nepal's revenue system was approaching maturity, with limited capacity for rapid revenue expansion. Additionally, external factors such as global economic conditions, domestic political developments, and natural disasters could have impacted revenue collection.

Table 3

Trend of Government Revenue (Rs. million)

Period	Total government revenue	Average yearly revenue	Average growth rate of government revenue (%)
1975/76-1979/80	626.82	125.36	9.43
1980/81-1984/85	1256.13	252.23	15.72
1985/86-1989/90	2735.49	547.10	18.45
1990/91-1994/95	6474.59	1294.92	22.17
1995/96-1999/00	13393.7	2678.74	11.06
2000/01-2004/05	22136.9	4427.38	10.51

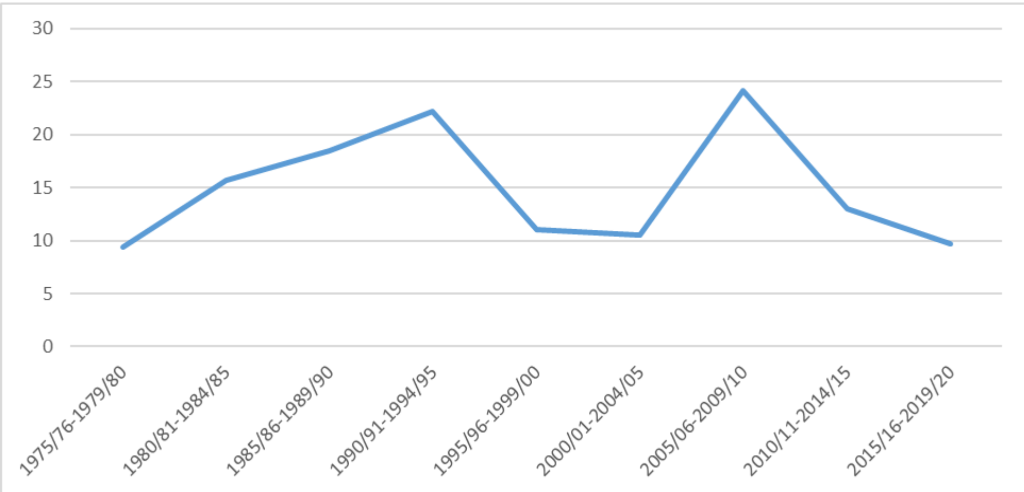
2005/06-2009/10	48705.94	9741.19	24.14
2010/11-2014/15	130335.1	26067.02	13.04
2015/16-2019/20	1780099	356019.8	9.68

Source: NRB (n.d.).

The data in Table 3 show substantial growth in Nepal's government revenue over the past few decades. The initial rapid growth rates can be attributed to early economic expansions and development strides. Over time, these growth rates have stabilized as the economy has matured. This stabilization is likely due to a combination of factors including economic reforms, improved political stability, global market conditions, and a move towards more consistent, albeit moderate, revenue increases. This shift from rapid growth to more gradual gains is consistent with Nepal's broader economic development, where initial growth spurts from liberalization and economic policy changes have evolved into a more stable, albeit slower, pattern of government revenue increase. This pattern reflects the combined influence of internal policies, political developments, and changing global economic factors that continue to define Nepal's fiscal environment.

Figure 3

Annual Growth Rate of Government Revenue of Nepal (%)



Discussion

The analysis of Nepal's government expenditure reveals a sustained upward trend, indicating the government's commitment to fostering economic development and enhancing public welfare. This growth in spending aligns with Nepal's broader fiscal objectives, reflecting an ongoing prioritization of infrastructure, social services, and development initiatives. Examining the data over the years highlights several noteworthy phases, each marked by changes in fiscal policy and socio-economic context. A particularly significant period of growth occurred between 1990/91 and 1994/95. During this time, government expenditure experienced a rapid surge, likely reflecting a shift in fiscal priorities following the political transformation of the 1990s, which introduced a multiparty democratic system in Nepal. This transition marked a renewed focus on social welfare and infrastructure projects aimed at addressing longstanding development needs and fulfilling democratic mandates. The political openness of this period allowed for greater allocation of resources towards public welfare, signaling a shift toward increased spending on social services, education and health. Government expenditure reached its peak growth rate in 2009/10, with an impressive 60.95% increase. This surge can be attributed to several factors, including intensified development initiatives and greater government spending on infrastructure projects. The post-2006 period, following the end of the decade-long civil conflict, saw renewed national focus on rebuilding and development. The government allocated significant resources to projects aimed at boosting economic productivity, enhancing connectivity, and improving access to essential services. Programs targeting rural infrastructure, poverty reduction, and regional development received significant funding, driving up capital expenditure as the government sought to close infrastructure gaps and lay a foundation for long-term economic growth.

In contrast, the lowest growth rate in government expenditure, recorded in 2001/02 at just 0.3%, likely reflects fiscal constraints during this period. This phase of limited expenditure growth can be attributed to a combination of political instability and economic challenges. The early 2000s were marked by an escalation in internal conflict and resource allocation constraints, which limited the government's capacity to implement expansive fiscal policies. Additionally, external economic pressures, including fluctuations in foreign aid and remittance inflows, constrained the available fiscal space, resulting in minimal growth in government expenditure during this time. Over the years, patterns in capital and recurrent expenditures have evolved, each reflecting the shifting priorities of the government. In the earlier years of analysis, capital expenditure was the dominant form of government spending, with substantial investments directed toward building infrastructure, roads, energy projects, and other long-term assets crucial for economic growth. This emphasis on capital expenditure is consistent with the developmental needs of a growing economy like Nepal's, where initial investments in infrastructure are essential for supporting industrial growth, agricultural productivity, and improved living standards.

However, since the 1990s, there has been a shift in spending patterns, with recurrent expenditure gradually taking precedence over capital spending. This increase in recurrent expenditure reflects the expanding obligations of the government toward regular administrative costs, public sector wages, and social welfare programs. Following the democratic transition, the government took on a larger role in providing social services, resulting in higher recurrent costs to maintain these programs. Additionally, as Nepal's population grew and demands for public services increased, recurrent spending on health, education, and social welfare expanded correspondingly, making recurrent expenditure a substantial part of the national budget. Turning to revenue trends, Nepal's government revenue has shown a strong upward trajectory since 1975/76. The early years were characterized by rapid revenue growth, which can be attributed to the introduction of early economic reforms. These reforms likely included measures to broaden the tax base, streamline tax administration, and introduce new forms of revenue generation. Such changes would have enabled the government to increase its revenue collection capacity significantly, supporting its developmental agenda.

The period between 2005/06 and 2009/10 saw the highest growth rate in government revenue, reaching a peak of 24.14%. This remarkable growth was likely driven by an improved economic environment, characterized by political stabilization, increased remittance inflows, and more effective revenue-collection mechanisms. During this period, the government made concerted efforts to improve tax compliance, reduce evasion, and strengthen its institutional capacity for revenue collection. In addition, rising foreign aid and remittances bolstered economic activity, indirectly boosting revenue from indirect taxes, customs duties, and value-added tax (VAT). Despite this robust growth, revenue growth rates have moderated in recent years, with the period from 2015/16 to 2019/20 experiencing a decline to 9.68%. This deceleration reflects a maturing revenue base, where the rapid gains of earlier decades become harder to sustain as the economy stabilizes. Moreover, slowing revenue growth could indicate challenges such as tax evasion, inefficient tax administration, or structural economic issues that limit the scope for revenue expansion. As the economy matures and revenue growth slows, the government faces a critical need to implement effective fiscal strategies to ensure a sustainable and balanced revenue stream.

Looking forward, the moderation in revenue growth in recent years calls for targeted policy interventions to enhance revenue generation and manage expenditure patterns for balanced growth. Nepal’s fiscal authorities could focus on expanding the tax base by incorporating more sectors and individuals into the formal economy, thereby reducing dependency on a limited pool of taxpayers. Strengthening tax administration, improving compliance, and promoting transparency could also enhance revenue collection without overly burdening the existing taxpayer base. At the same time, careful management of government expenditure is essential for maintaining fiscal sustainability. While development projects and public services remain a priority, it is crucial to strike a balance between capital and recurrent expenditures. By optimizing spending on infrastructure projects that yield long-term economic benefits and rationalizing recurrent expenditure, Nepal can pursue growth that is both fiscally and economically sustainable.

In summary, Nepal’s government expenditure and revenue trends reflect the country’s dynamic economic and political journey. The early stages of rapid growth and infrastructure focus gave way to a more balanced approach as the government expanded its role in public welfare. Today, as revenue growth stabilizes, strategic fiscal management is paramount to ensure that Nepal’s economic growth is both inclusive and sustainable, supporting the nation’s long-term development goals.

Conclusion

In conclusion, this study emphasizes the evolving fiscal landscape of Nepal, highlighting the government's ongoing commitment to enhancing public welfare and promoting economic growth. The increase in government spending, especially during significant periods such as 1990/91–1994/95 and the post-2006 reconstruction era, demonstrates a strong dedication to meeting the country's developmental needs. However, the recent shift from capital expenditure to recurrent expenditure indicates increasing fiscal pressures to maintain public services. This trend raises concerns about balancing immediate demands with future growth investments. On the revenue front, while early reforms and improved tax administration led to rapid revenue growth, the recent slowdown necessitates urgent attention. Without a strong revenue base, the government risks jeopardizing both its developmental goals and fiscal sustainability. This analysis highlights the pressing need for strategic fiscal reforms.

To attain a balanced budget, Nepal must undertake a thorough reevaluation of its spending priorities, emphasizing the need to harmonize capital and recurrent expenditures. While In conclusion, this study highlights the dynamic evolution of Nepal's fiscal landscape, underscoring the government's sustained efforts to enhance public welfare and drive economic growth. The upward trajectory in government expenditure, particularly during transformative periods like 1990/91–1994/95 and the post-2006 reconstruction era, illustrates a commendable commitment to addressing the nation's developmental needs. However, the shift from capital to recurrent expenditure in recent decades signals growing fiscal pressures to sustain public services, raising concerns about the long-term balance between immediate needs and investments in future growth. On the revenue side, while early reforms and improved tax administration facilitated rapid growth, the recent deceleration in revenue expansion calls for immediate attention. Without robust revenue streams, the government risks compromising both developmental ambitions and fiscal sustainability. This analysis underscores the urgency of adopting strategic fiscal reforms.

On the expenditure front, a recalibrated focus is essential to balance capital and recurrent spending. Investments in infrastructure should remain a priority, given their long-term economic benefits, but must be coupled with rigorous project evaluation and implementation to ensure efficiency. Simultaneously, rationalizing recurrent costs, such as public sector wages and administrative expenses, can create fiscal space for more productive uses of government funds. On the revenue side, expanding the tax base is imperative. This can be achieved by formalizing the informal economy, simplifying tax systems, and leveraging technology to enhance compliance. Targeted measures to combat tax evasion, reduce inefficiencies, and introduce innovative revenue streams, such as environmental taxes or digital economy levies, can also bolster revenue growth. Moreover, strengthening fiscal federalism by empowering sub-national governments to mobilize their own resources could ensure a more equitable and efficient distribution of fiscal responsibilities. Nepal stands at a critical juncture where strategic fiscal management is not merely an option but a necessity for inclusive and sustainable development. By adopting these reforms, the government can lay the foundation for a resilient and prosperous future, ensuring that fiscal policies align with the aspirations of a growing and dynamic nation.

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