Full budget faces host of challenges

PRABHAKAR GHIMIRE
KATHMANDU, April 10

Almost nine months after the start of the current fiscal year, the government has come up with a full-fledged budget that attempts to soothe the private sector, according priority to agriculture, export promotion and infrastructure development amid concerns over slowing industrial growth, reduced farm output and low progress over development expenditure.

Totalling Rs 404.82 billion, the budget has given pride of place to conducting the Constituent Assembly (CA) election, allocating Rs 14 billion for the purpose. This includes security expenditure for the proposed polls.

However, the government has also attempted to restore the investment climate in the country, a step that has pleased the private sector.

"We welcome the budget for taking initiative to address the concerns of the private sector. We can't expect more from this election government though the programs are not sufficient to bring back the confidence of the business community for investment," said Pashupati Murarka, vice-president of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI).

A heap of challenges greet the government that has announced it is to ensure 'macro-economic stability' in the country. Slowing performance of the industrial sector, bleak progress in capital expenditure, double digit inflation, industrial insecurity, power scarcity, reduced farm output and ballooning trade deficit, among other things, are the key challenges.

"Though the finance minister has announced different measures to boost economic activity in the coming months, the growth target has been set on the basis of data for the last seven years. This shows that no progress is expected for the next three months with the additional Rs 52.89 billion allocated," said economist Dr Posh Raj Pandey.

Pandey, who is also a former member of the National Planning Commission (NPC), said the newly announced budget would not restore the confidence of the private sector as it was announced without forging a political consensus.

news analysis

The government faces a challenge to jack up the contribution of manufacturing in the economy, given the adverse industrial climate fueled by labor unrest, fuel crisis and declining private sector investment.

The government faces a challenge to jack up the contribution of manufacturing in the economy, given the adverse industrial climate fueled by labor unrest, fuel crisis and declining private sector investment. Contribution of manufacturing to Gross Domestic Product (GDP) has dropped to 6.2 percent from 8.2 percent recorded a decade ago. Amid the declining confidence of investors, the contribution of private investment to GDP fell to 15.3 percent as of the end of last fiscal year from 18 percent reported five years ago.

Inflation is another factor that has weakened the competitiveness of Nepali industries. Taming rising inflation that has now reached 10.1 percent, up from an earlier estimate of 7.5 percent, is challenging.

"But this budget lacks visible measures for bringing down the double digit inflation," added Pandey. Ballooning trade deficit, which posted a 28 percent rise to reach Rs 340.65 billion during eight months of the current fiscal year, and slowing farm sector growth are also worrying factors. This budget has expected the agriculture and non-agriculture sectors to grow at moderate 1.3 percent and 4.8 percent respectively. Service and industrial sectors are expected to expand only by 6 percent and 1.5 percent respectively this year.

Given the situation, the central bank has already revised the economic growth rate target downward to 4.1 percent for the current fiscal year from 5.5 percent estimated earlier. The government has further revised downward the economic growth this year to 3.6 percent from an earlier estimate, coinciding with a 3.5 percent growth estimated by the Asian Development Bank's Outlook released on Tuesday.

The budget has announced a host of pro-

See page 4: Full budget...

Full budget...

grams aimed at boosting farm output, thereby substituting imports and strengthening food security. "Areas of export promotion with comparative advantage and competitive edge will be identified and focus will be given to the development, expansion, diversification, marketing and branding of such goods," the finance minister said in the budget speech.

Continuation of export subsidy, appropriation of funds for 50 percent subsidy under a newly introduced insurance scheme for fisheries, poultry and agriculture, additional funding for enhancing supplies of chemical fertilizers, interest subsidy for commercial livestock farming, opening five collection centers for farm products, 'One District One Product' programs in Okhaldhunga, Arghakhanchi, Rasuwa, Dhading, Sindhupalchowk, Pyuthan, Bara, Rautahat, Jajarkot and Manang, and additional budget allocations for optimal utilization of the multi-fuel plant in Biratnagar and the diesel plant in Hetauda are some of the steps taken in the budget to spur the development of the farm and agriculture sector. "However, lack of adequate investment and modern technology, scarcity of farm inputs and heavy dependence on the monsoon are major obstacles in farm commercialization," added Pandey.

In a bid to accelerate development activities, the government has assured a sufficient budget for national pride projects, foreign-aided projects and other multi-year contracted projects. "But, with lack of political stability, the implementation of such projects is also difficult," he further added.

The current full-sized adjusted budget has allocated Rs 279.01 billion or 68.92 percent of its total for recurrent expenditure, Rs 66.13 billion or 16.34 percent for capital expenditure and Rs 59.67 billion or 14.74 percent for financing provisions.

To meet all these expenses, the government has estimated a collection of Rs 289.60 billion through revenue, Rs 4.39 billion from receipts of principal repayment and Rs 46.98 billion from foreign grants. "To meet the revenue target, the government has to get tougher, which means the private sector will be under greater government scrutiny," he said.