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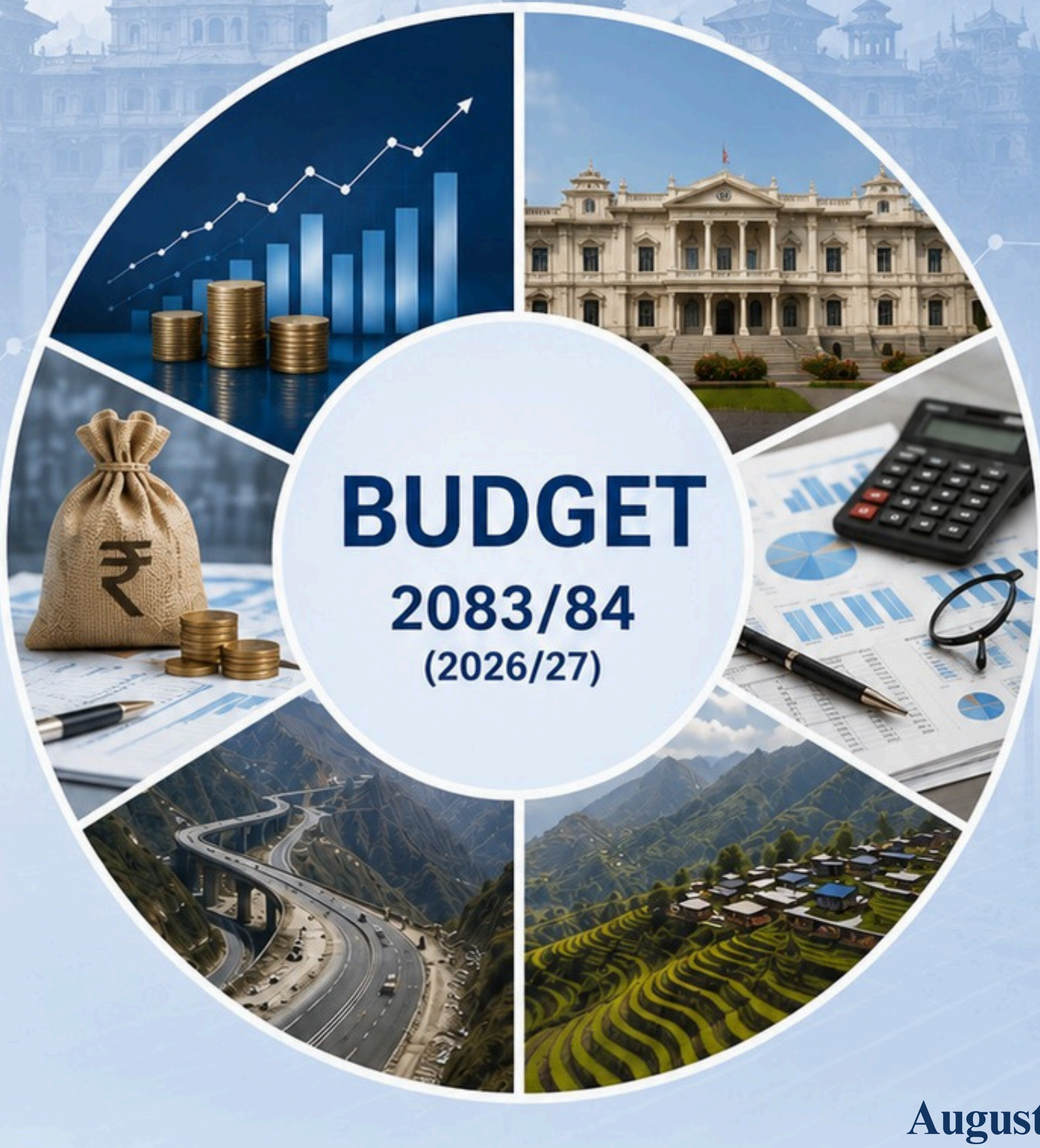
National Budget Analysis of Nepal FY 2083/84 B.S. (2026/27 A.D.)



August 2026

National Budget Analysis of Nepal
FY 2083/84 B.S. (2026/27 A.D.)

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Preface

It is my pleasure to introduce this publication by the Nepal Development Research Institute (NDRI), prepared as part of its continued contribution to the analysis and understanding of Nepal's economic development and public policy.

Since FY 2080/81 B.S (2023/24 A.D), NDRI has been conducting independent analyses of the Government of Nepal's annual national budget. Building on this tradition, NDRI has undertaken an independent analysis of the FY 2083/84 budget as well. This continued effort reflects NDRI's commitment to generating evidence-based analysis and contributing to informed public discourse on Nepal's economic and development policies.

I am particularly pleased to note that this publication has been prepared by NDRI without external funding. This demonstrates the commitment of NDRI and its team to fulfilling the role of an independent think tank by critically examining government policies, identifying emerging opportunities and challenges, and contributing constructive perspectives to policy discussions. Through this publication, NDRI seeks to uphold the important role of think tanks in strengthening evidence-based policymaking and public accountability.

The budget for FY 2083/84 B.S. (2026/27 A.D) comes at a critical juncture for the country's economic and development trajectory. Nepal continues to face a number of challenges, including sluggish economic growth, limited private-sector investment, low capital expenditure, delays in the implementation of development projects, and a high dependence on remittances. In this context, the national budget is important not only as a mechanism for allocating public resources but also as a key instrument for creating the conditions necessary for economic recovery, employment generation, private-sector investment, and inclusive and sustainable development. This publication provides an independent assessment of the FY 2083/84 budget, highlighting its key priorities, opportunities, and areas of concern. It seeks to go beyond a review of budgetary allocations by examining the broader implications of the budget for economic growth, investment, employment, public expenditure, and inclusive development.

By highlighting both the strengths and challenges of the FY 2083/84 budget, the report aims to contribute to a more informed and constructive discussion on how public resources can be mobilized and utilized more effectively to advance Nepal's economic and social development. I am confident that this publication will be useful to policymakers, development practitioners, researchers, private-sector actors, and more for Nepal's economy and public policy.

Shikha Thapa Magar, PhD
Executive Director, NDRI
August, 2026

Acknowledgment

Nepal Development Research Institute (NDRI) wishes to express its sincere gratitude to all those who contributed to the successful completion of NDRI's Budget Analysis Report FY 2083/84 B.S. (2026/27 A.D.).

We extend our heartfelt gratitude to Dr. Jaya Kumar Gurung, President, NDRI, for his invaluable support and cooperation, which contributed greatly to the National Budget Review Press Release , where more than 40 press representatives and guests were in attendance. Our sincere thanks go to all who attended the event.

We would like to express our deepest appreciation to our Thematic Leads, whose thoughtful and insightful presentations enriched NDRI's National Budget Analysis of Nepal programme. Their expertise extended further through written analyses of their respective thematic areas, which now forms an integral part of this Budget Analysis Report. In no particular order, we extend our heartfelt thanks to: Dr. Krishna Pahari – Thematic Lead, Livelihood and Food Security (LFS), Dr. Nawa Raj Khatiwada – Thematic Lead, Health, Education and Environment (HEE), Dr. Divas Basnyat – Thematic Lead, Water and Climate (WC), Prof. Dr. Tara Nidhi Bhattarai – Thematic Lead, Disaster Management (DM), Dr. Shikha Thapa Magar – Senior Research Specialist and GESI Team Member (GESI).

We are especially grateful to Dr. Rudra Suwal, Former Lead/Coordinator, Economic Development Program, for being the pioneer who initiated NDRI's in-house National Budget Analysis publication series. As Nepal's research think tank, we consider it a crucial responsibility to understand and analyze the national budget and the country's overall economic status, and to offer recommendations from our own perspective and expertise.

Within our Economic Development Program team, we warmly thank Dr. Shankar Shrestha for his diligent review; his thoughtful insights and constructive feedback greatly enriched this work. We are equally grateful to our researcher, Ms. Dikshya Barasaini, whose dedication and role as Master of Ceremony at NDRI's Budget Analysis Press Meet were instrumental to its success.

We also acknowledge the contributions of our technical and administrative staff, Mr. Prabin Shrestha (Senior Research Assistant-IT), Ms. Deepa Luintel (Admin and Finance Officer), Mr. Shekhar Lamichhane (Admin and Finance Assistant), Ms. Kareena Nepali (Outreach and Communication Assistant), and Ms. Manisha Upreti (Front Desk Officer), whose efforts ensured the smooth execution of this work.

Finally, NDRI acknowledges the support of all individuals and organizations who contributed directly or indirectly to this endeavor.

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Abbreviations and Acronyms

AD	Anno Domini
ADP	Annual Development Plan
AI	Artificial Intelligence
BCR	Benefit-cost Ratio
Bn	Billion
BS	Bikram Sambat
CPI	Consumer Price Inflation
FCGO	Financial Comptroller General Office
FRSP	Field Research Safety Protocol
FY	Fiscal Year
GESI	Gender Equality and Social Inclusion
GoN	Government of Nepal
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GLOF	Glacial Lake Outburst Flood
HDI	Human Development Index
IMF	International Monetary Fund
ID	Identity Document
IT	Information Technology
LAPAs	Local Adaptation Plans
MoF	Ministry of Finance
MSMEs	Micro, Small and Medium Enterprises
NAMP	National Agricultural Modernization Programme
NNRFC	National Natural Resources and Fiscal Commission
NAP	National Adaptation Plan
NDRRMA	National Disaster Risk Reduction and Management Authority
NDRI	Nepal Development Research Institute
NEA	Nepal Electricity Authority
NPR	Nepali Rupees
NPC	National Planning Commission
NSO	National Statistics Office
NRB	Nepal Rastra Bank
SSF	Social Security Fund
TVET	Technical and Vocational Education and Training
USD	United States Dollar
VAT	Value Added Tax
WHO	World Health Organization

Executive Summary

Nepal's Federal Budget for FY 2083/84 B.S. (2026/27 A.D.) has been introduced at a critical point in the country's fiscal trajectory. Valued at NPR 2,124.34 billion, it is the largest nominal budget in Nepal's history and coincides with the most significant administrative restructuring since the introduction of federalism. NDRI's analysis finds that the budget is both ambitious and transitional. It places greater emphasis on growth oriented investment and institutional reform, while many of its underlying assumptions on growth and revenue remain ambitious when compared with Nepal's recent economic and fiscal performance. At the same time, several structural challenges that have constrained previous budgets, including under execution of capital spending, persistent revenue shortfalls, and a growing debt servicing burden, remain.

GDP growth has not exceeded 4.6 percent in any of the past three fiscal years, while the budget assumes 7 percent growth and inflation below 6 percent. Revenue projections present a similar challenge. The Government collected 83.07 percent of its original revenue target in FY 2081/82 B.S. (2024/25 A.D.) and 98.41 percent of its revised target in FY 2082/83 B.S. (2025/26 A.D.). Against this recent performance, the Government projects total revenue of NPR 1,405.31 billion, an increase of 8.59 percent, with federal tax revenue expected to increase by 19.78 percent. Achieving these targets will require stronger tax administration, taxpayer compliance, and revenue mobilization than in recent years.

The projected increase in tax revenue is also concentrated among a limited number of sources. Nearly 90 percent of the anticipated increase is expected to come from customs duties and income tax, leaving revenue performance more exposed to changes in trade activity and overall economic conditions. Value Added Tax, historically an important source of revenue, is expected to contribute less than 1 percent of the projected increase. If either of the two dominant sources underperforms, there is limited scope for other major revenue sources to compensate.

On the expenditure side, capital spending has increased by 22.35 percent to NPR 431.10 billion, accounting for 20.3 percent of the total budget. This remains below the National Planning Commission's target of increasing capital expenditure to 29 percent by FY 2085/86 B.S. (2028/29 A.D.). However, higher allocations alone do not guarantee improved development outcomes. Nepal executed only 46.8 percent of the original capital allocation in FY 2082/83 B.S. (2025/26 A.D.), highlighting the importance of strengthening project preparation, procurement, and implementation alongside increasing capital allocations.

Financial management expenditure has also increased significantly. At NPR 422.64 billion, or 19.9 percent of the total budget, it is now within 0.4 percentage points of capital expenditure. This reflects a longer term trend in which financial management expenditure has increased by 201.2 percent over the past decade, compared with 28.6 percent growth in capital expenditure. If this trend continues, financial obligations could eventually exceed capital investment in nominal terms, reducing the fiscal space available for new development investment. The issue is therefore not simply the size of debt servicing obligations, but whether public borrowing is generating sufficient productive investment to support future economic and fiscal capacity.

Institutional restructuring is another major feature of the FY 2083/84 B.S. (2026/27 A.D.) budget. The number of federal ministries has been reduced from 22 to 18, while 61 public entities are being restructured through mergers, dissolution, or other institutional changes. The Government estimates that these reforms could generate approximately NPR 20 billion in recurrent expenditure savings. The restructuring provides an opportunity to reduce duplication and improve coordination, but its effectiveness will depend on how the transition is managed, including the settlement of existing liabilities and the continuity of public services.

Measured against the Sixteenth Periodic Plan, the budget's implementation levels indicate the scale of acceleration required during the remaining years of the Plan. "Actual GDP growth during the Plan's first two years has averaged approximately 4.2 percent against the Plan's target of 7.3 percent. Electricity generation currently stands at 4,500 MW against an eventual target of 11,700 MW by FY 2085/86 B.S. (2028/29 A.D.), while Social Security Fund enrolment is budgeted to reach 1.0 million workers against the Plan's target of 2.0 million. The report also identifies a policy misalignment concerning Nepal's graduation from Least Developed Country status. Successive National Policies and Programs and annual budgets had targeted graduation in 2026, but the Government has recently decided to defer graduation until 2029.

Sectoral allocations point to infrastructure, education, and social protection as major priorities, although the depth and composition of investment vary across sectors. The Ministry of Infrastructure Development receives the largest allocation at NPR 302.84 billion, followed by Education and Sports at NPR 218.31 billion and Women, Children, Gender and Social Security at NPR 122.61 billion. Health spending across all levels of government, at NPR 101.95 billion or 4.8 percent of the budget, remains below the 8 to 10 percent share recommended by the WHO. Agriculture receives its smallest budget share in nearly a decade, with 69.2 percent of its allocation directed toward chemical fertilizer subsidies rather than productivity, value chain development, and market access. Only 6.68 percent of the budget is classified as direct climate expenditure, while Nepal's National Adaptation Plan remains heavily dependent on external financing. Disaster risk spending also continues to place greater emphasis on response than prevention, despite Nepal's continued exposure to floods, landslides, and glacial lake outburst floods.

Inclusion measures represent progress, although programme design may affect their reach. For the first time, the budget introduces ring fenced, identity specific allocations, including NPR 3 billion for Dalit under five nutrition, and extends formal social protection to informal agricultural and home based workers. These measures broaden the scope of existing social protection efforts. However, eligibility requirements may limit participation in some programmes. For example, the NPR 20 million minimum investment threshold for commercial agriculture grants may exclude many smallholder farmers and could also limit access for women led enterprises and cooperatives. The effectiveness of these measures will therefore depend not only on the level of funding but also on whether programme design allows intended beneficiaries to participate.

Collectively, the analysis suggests that Nepal's development challenges are increasingly linked to implementation, institutional capacity, and the allocation of public resources across competing priorities. The FY 2083/84 B.S. (2026/27 A.D.) budget places greater emphasis on growth, investment, institutional reform, and social development, but the scale of allocations alone will not determine its effectiveness. Revenue mobilization, capital budget execution, institutional capacity, and programme design will be equally important in determining whether the budget translates into improved development outcomes.

NDRI's recommendations therefore focus on strengthening implementation capacity and improving the effectiveness of public spending. These include strengthening institutional and delivery capacity, improving fiscal sustainability, and gradually shifting expenditure toward productivity enhancing investment. The report also recommends strengthening domestic health financing through measures such as inflation indexed taxation of tobacco, alcohol, and sugar sweetened beverages; integrating climate and water resilience into mainstream development planning; and placing greater emphasis on disaster prevention and risk reduction. On inclusion, the report recommends reviewing eligibility criteria across government programmes to reduce barriers facing smallholder farmers, women led enterprises, and informal workers. Sustained investment in human capital and public sector capability, together with the integration of gender equality, social inclusion, and evidence based governance across sectors, will also be important.

Overall, NDRI's analysis finds that the FY 2083/84 B.S. (2026/27 A.D.) budget demonstrates a clear commitment to growth, institutional reform, and social development. Its success, however, will depend less on the scale of its commitments than on the Government's ability to mobilize projected revenues, execute approved capital investments, manage institutional reforms effectively, and ensure that programme design allows intended beneficiaries to participate.

Introduction

This report presents the Nepal Development Research Institute (NDRI)'s independent analysis of the Government of Nepal's Federal Budget for FY 2083/84 B.S. (2026/27 A.D.), presented to the Federal Parliament by Finance Minister Dr. Swarnim Wagle. The budget arrives at a critical point in Nepal's economic recovery and fiscal trajectory. Growth has improved gradually since the COVID 19 pandemic but remains uneven, public debt continues to rise, and the Government has paired record spending with the most significant administrative restructuring since the introduction of federalism. Given the scale of this spending and institutional change, the budget provides an important basis for assessing Nepal's near term fiscal direction and the reforms that will shape how public resources are managed and delivered over the medium term.

The report examines the FY 2083/84 B.S. (2026/27 A.D.) budget across several interlinked dimensions. It begins with an assessment of Nepal's macroeconomic performance and key economic indicators, including GDP growth, inflation, consumption and investment, the trade balance, public debt, remittance dependence, and unemployment. It then situates the current budget within a ten year historical trend before examining its fiscal architecture, expenditure composition, financing strategy, and revenue mobilization performance. Subsequent sections assess the administrative restructuring and its institutional implications, the budget's alignment with Nepal's Sixteenth Periodic Plan and successive National Policies and Programs, and the sectoral allocation of resources. The sectoral analysis is organized around NDRI's four core thematic areas: Livelihood and Food Security; Health, Education and Environment; Water and Climate; and Economic Development. It also considers two cross cutting themes: Gender Equality and Social Inclusion, and Disaster Risk Management. The report concludes with a synthesis of the principal findings and a set of evidence based recommendations, followed by a discussion of the assessment's limitations and priorities for implementation.

This analysis draws on official government sources, including Ministry of Finance budget speeches and estimates, Financial Comptroller General Office data, and Nepal Rastra Bank's macroeconomic reporting, alongside NDRI's own field research, prior policy assessments, and engagement with government, academia, and development partners across Nepal. By bringing these sources together, the report assesses not only the scale and composition of the FY 2083/84 B.S. (2026/27 A.D.) budget but also the extent to which its priorities, financing assumptions, and institutional reforms are aligned with Nepal's broader development objectives. It is intended to serve policymakers, development partners, researchers, media, and the wider public as an independent, evidence based reference on Nepal's evolving fiscal landscape.

1 Macroeconomic Performance and Economic Indicators of Nepal

1.1 Gross Domestic Product (GDP) Growth Rate

The Gross Domestic Product (GDP) growth rate is one of the most widely used indicators for measuring a country's overall economic performance. GDP represents the total monetary value of all final goods and services produced within a country over a specific period, usually one fiscal year. The GDP growth rate measures the percentage increase or decrease in this output compared to the previous year and serves as the standard indicator of economic growth. A higher GDP growth rate generally reflects increased production, investment, employment opportunities, and income generation, while a lower growth rate signals slower economic activity and reduced economic momentum.

In Nepal, GDP growth has consistently remained below the targets set by the Government, reflecting a persistent gap between economic planning and actual economic performance. During FY 2080/81 B.S. (2023/24 A.D.), the economy grew by only 3.87 percent (Nepal Rastra Bank, 2024), well below the Government's target of 6 percent. Economic growth improved modestly to 4.6 percent in FY 2081/82 B.S. (2024/25 A.D.), representing the closest the country came to achieving its annual growth target during the recent period. However, this improvement was short-lived. For FY 2082/83 B.S. (2025/26 A.D.), economic growth is estimated to decline again to 3.85 percent, returning to nearly the same level recorded two years earlier. This pattern suggests that the growth observed in FY 2081/82 B.S. (2024/25 A.D.) was largely cyclical rather than driven by sustained structural improvements in the economy. Despite this recent performance, the Government has projected an ambitious GDP growth target of 7 percent for FY 2083/84 B.S. (2026/27 A.D.) (Figure 1). While setting higher growth targets demonstrates the government's aspiration to accelerate economic development, achieving this objective may prove challenging given Nepal's recent economic trajectory. The country has not achieved annual GDP growth above 5 percent during this period, indicating that substantial policy reforms and improvements in economic fundamentals will be necessary to reach the projected target.

Several structural constraints continue to hinder Nepal's economic growth. One of the most significant challenges is the persistent underutilization of the development budget, as a considerable share of capital expenditure remains unspent by the end of each fiscal year (Ministry of Finance, 2025; Nepal Rastra Bank, 2026). Delays in project implementation reduce the potential impact of public investment on infrastructure development and productive capacity. Private sector investment also remains subdued due to relatively high borrowing costs, policy uncertainty, frequent regulatory changes, and a business environment that discourages long-term investment. Furthermore, Nepal's economy remains heavily dependent on remittance inflows, which primarily support household consumption rather than productive investment and industrial expansion (Nepal Rastra Bank, 2025; World Bank, 2025). This dependence limits the economy's capacity to generate sustainable domestic growth. In addition, external factors, including slower economic growth among major trading partners, global economic uncertainties, and the lasting effects of the COVID-19 pandemic, continue to affect trade, tourism, foreign investment, and overall economic activity (International Monetary Fund, 2025; Asian Development Bank, 2025). Addressing these structural challenges will be essential if Nepal is to achieve higher, more sustainable, and inclusive economic growth in the coming years.

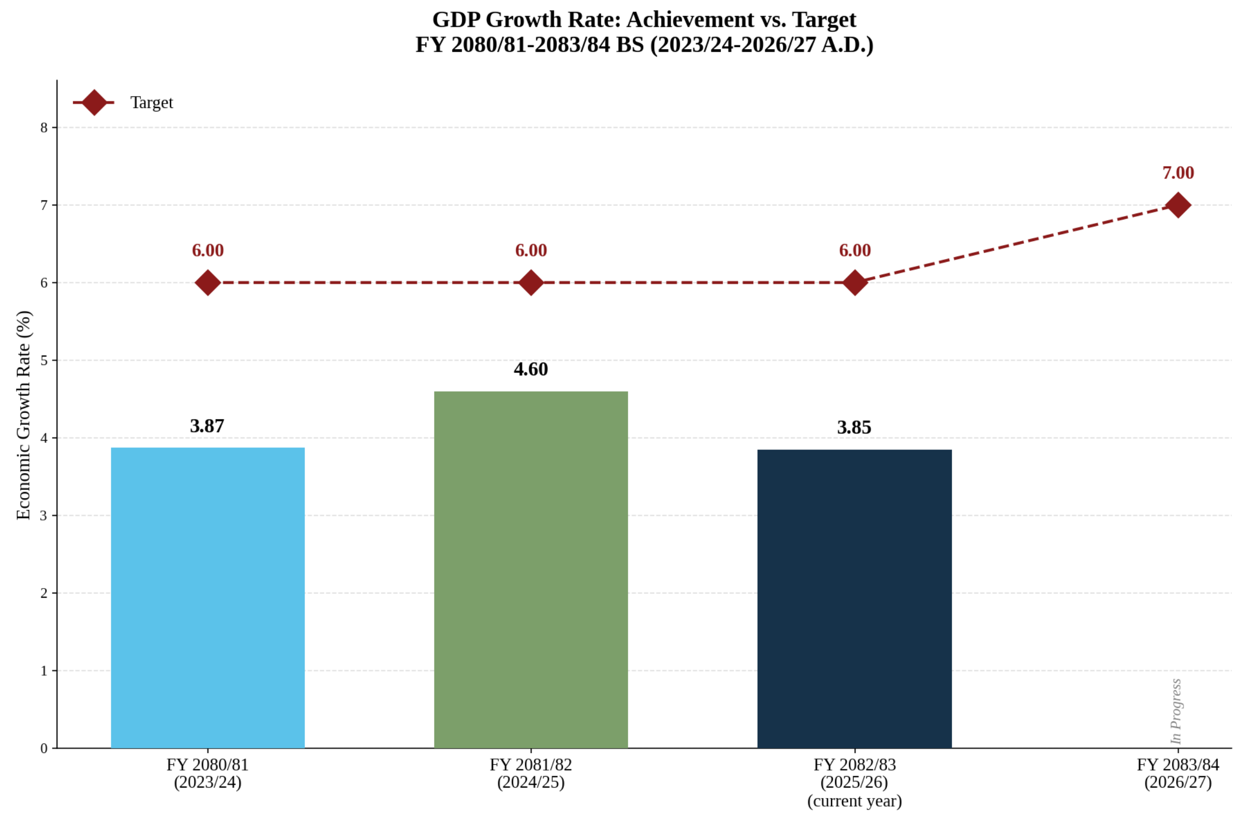

Figure 1: GDP Growth Rate of Nepal

Source: Nepal Rastra Bank (NRB) – Current Macroeconomic and Financial Situation Report 2023/24, 2024/25, 2025/26.

1.2 Consumer Price Inflation (CPI)

Consumer Price Inflation is one of the most important macroeconomic indicators used to measure changes in the general price level of goods and services purchased by households over time. It is commonly measured using the Consumer Price Index (CPI), which tracks the average price changes of a basket of goods and services consumed by households. Inflation represents the rate at which the purchasing power of money declines, meaning that consumers need to spend more to buy the same quantity of goods and services. Maintaining a stable and moderate level of inflation is essential for sustainable economic growth, as excessive inflation erodes household purchasing power, reduces savings, increases production costs, and creates uncertainty for businesses and investors. On the other hand, very low inflation may reflect weak consumer demand and sluggish economic activity. Therefore, monitoring inflation is critical for evaluating macroeconomic stability and guiding fiscal and monetary policy decisions.

Nepal's inflation trend over the four fiscal years from FY 2079/80 B.S. (2022/23 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) AD (Figure 2) indicates a gradual improvement in price stability following the sharp rise experienced during the post-pandemic period. In FY 2079/80 B.S. (2022/23 A.D.), consumer price inflation reached 7.11 percent, slightly exceeding the government's target of 7 percent. The higher inflation was largely driven by the lingering effects of the COVID-19 pandemic, elevated global fuel and food prices, supply chain disruptions, and imported inflation from India, Nepal's largest trading partner. These factors increased the prices of essential commodities and placed additional pressure on household living costs.

Inflation moderated to 5.44 percent in FY 2080/81 B.S. (2023/24 A.D.), falling below the Government's target of 6 percent. This decline reflected the combined effects of tighter monetary policy implemented by the central bank, easing global commodity prices, and gradual normalization of international supply chains. The downward trend continued in FY 2081/82 B.S. (2024/25 A.D.), when inflation declined further to 4.06 percent, the lowest level recorded during the four-year period. Lower food prices, subdued domestic demand, and relatively low inflation in India contributed significantly to maintaining price stability.

During the first nine months of FY 2082/83 B.S. (2025/26 A.D.), inflation increased slightly to 4.47 percent. Although this remained below the government's target of 5 percent, the increase suggests that the pace of disinflation has slowed. The modest rise in prices may be associated with improving domestic demand, exchange rate movements that increase the cost of imported goods, and seasonal fluctuations in food prices.

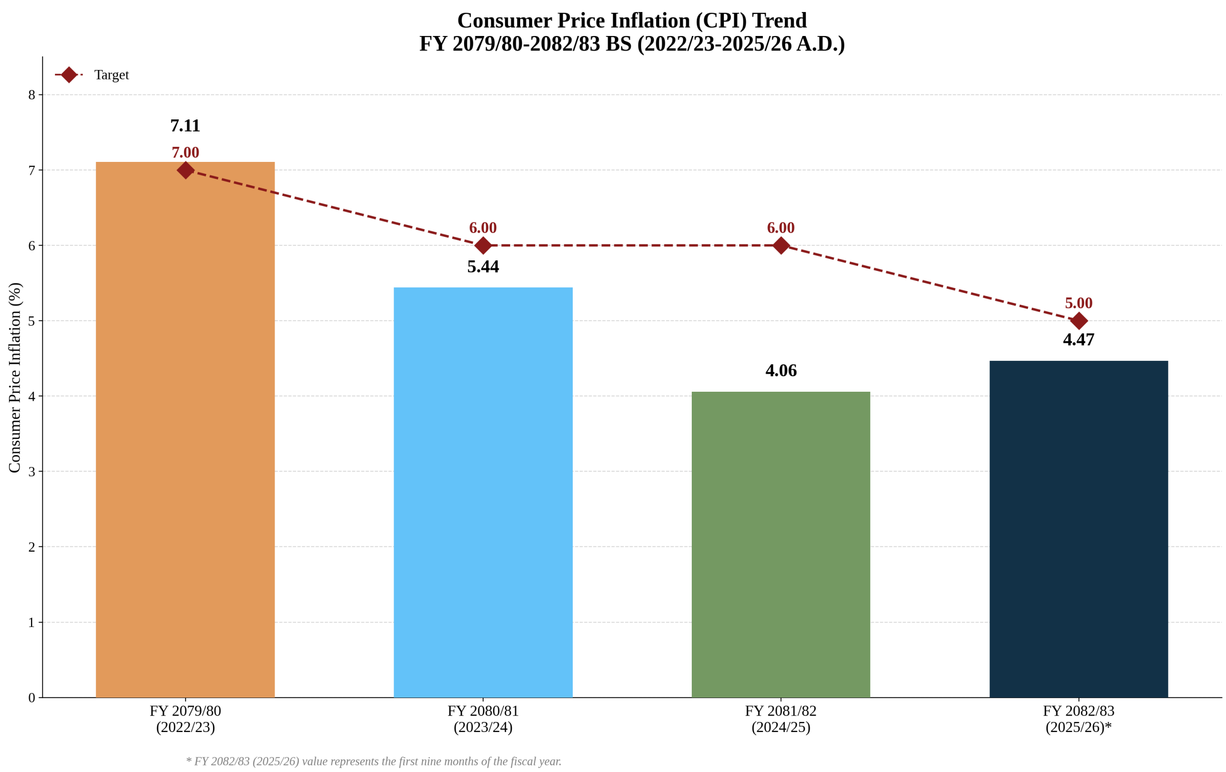

Figure 2: Consumer Price Inflation

Source: Nepal Rastra Bank (NRB)- Current Macroeconomic and Financial Situation Report 2022/23, 2023/24, 2024/25, 2025/26.

1.3 Consumption and Investment

Consumption and investment are two of the principal components of GDP and are widely used to assess the structure and sustainability of an economy. Consumption refers to the expenditure made by households, government, and non-profit institutions on goods and services to meet current needs, while investment, measured through Gross Fixed Capital Formation (GFCF), represents spending on fixed assets such as infrastructure, machinery, equipment, buildings, and other productive capital. Although consumption is an important driver of economic activity, long-term economic growth depends largely on investment, as it expands productive capacity, enhances productivity, creates employment opportunities, and supports future income generation. Therefore, examining the balance between consumption and investment provides important insights into whether an economy is driven primarily by short-term spending or by productive capital accumulation.

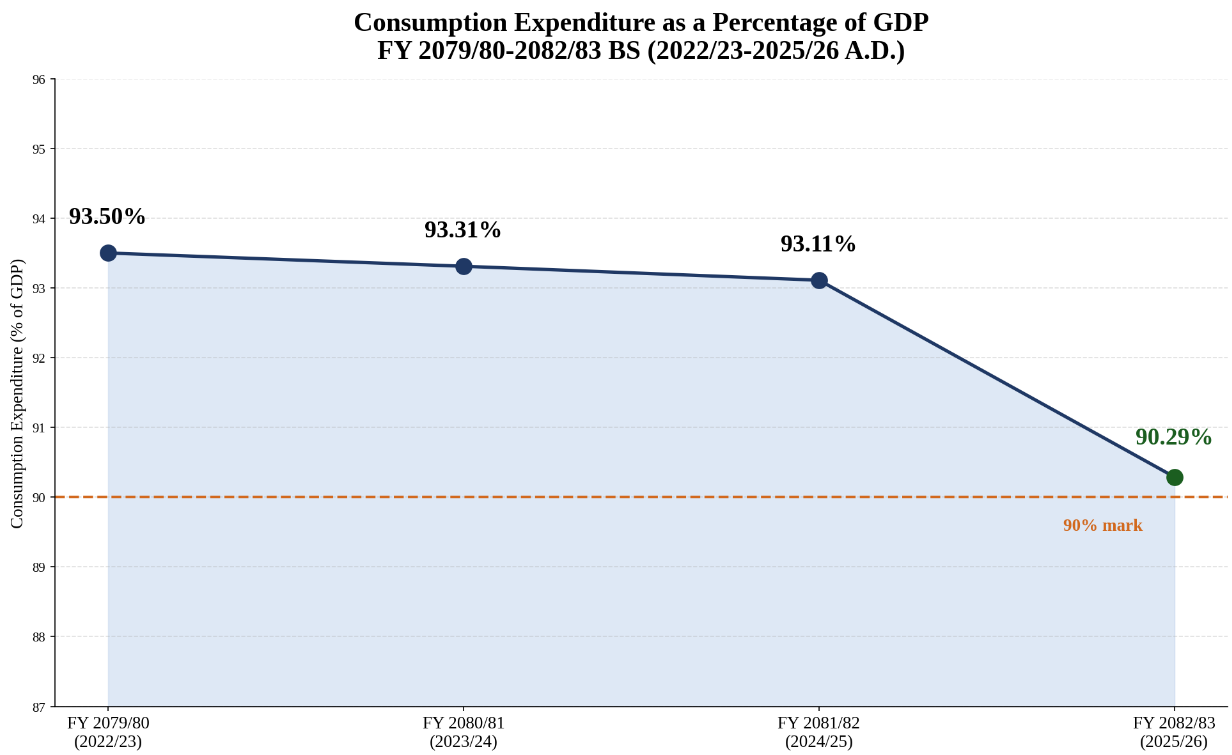

Figure 3: Consumption

Source: National Statistics Office (2026).

Nepal's consumption and investment trends from FY 2079/80 B.S. (2022/23 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) (Figure 3) indicate a gradual shift towards a more investment-oriented economy, although consumption continues to account for the largest share of economic activity. Final consumption expenditure declined from 93.5 percent of GDP in FY 2079/80 B.S. (2022/23 A.D.) to 90.3 percent in FY 2082/83 B.S. (2025/26 A.D.). While this decline represents a positive development, the share of consumption in Nepal's GDP remains considerably higher than that of many developing economies. This reflects the country's continued dependence on remittance inflows, which largely finance household consumption rather than being channeled into productive sectors that generate long-term economic returns.

Gross Fixed Capital Formation (GFCF), the standard measure of investment in the economy, declined slightly from 24.6 percent of GDP in FY 2079/80 B.S. (2022/23 A.D.) to 23.6 percent in FY 2081/82 B.S. (2024/25 A.D.) before increasing to 26.3 percent in FY 2082/83 B.S. (2025/26 A.D.) (Figure 4), the highest level recorded during the four-year period. This improvement suggests a gradual recovery in investment activity and indicates growing confidence among private investors. However, Government capital expenditure remained relatively weak, reflecting the continued challenges of delayed project implementation, low-budget execution, and underutilization of development spending. As a result, the recent increase in overall investment appears to have been driven primarily by private sector investment rather than public infrastructure development.

The recent trends suggest the beginning of a gradual structural shift, with the economy becoming slightly less dependent on consumption and showing signs of increased investment. Nevertheless, Nepal's economy continues to be predominantly consumption-driven, and the current level of investment remains insufficient to achieve the sustained high rates of economic growth envisioned in National development plans. Strengthening public capital expenditure, improving the efficiency of development budget implementation, creating a more predictable business environment, and encouraging greater private investment in productive sectors will be essential for accelerating economic transformation, enhancing productivity, and generating long-term employment and income opportunities.

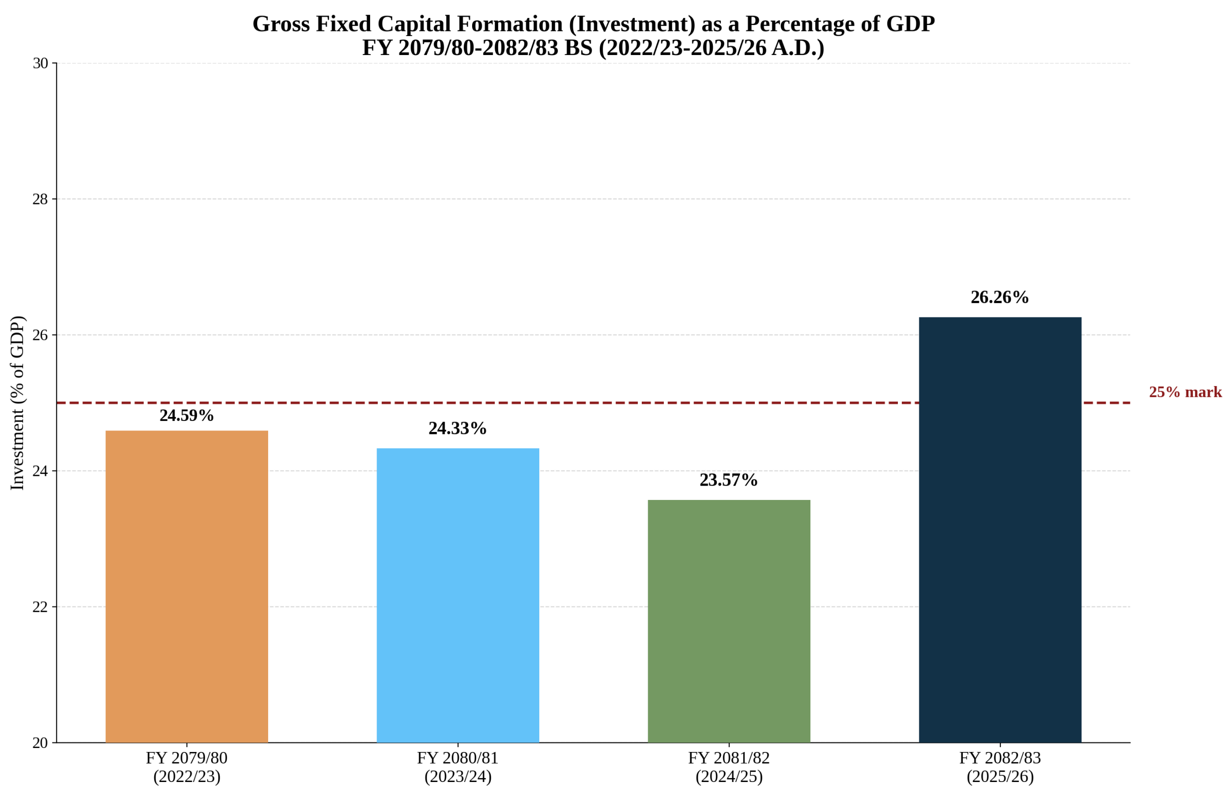

Figure 4: Investment

*Source:*National Statistics Office (2026).

1.4 Trade Balance

The trade balance is an important macroeconomic indicator that measures the difference between the value of a country's exports and imports of goods and services over a given period. When exports exceed imports, a country records a trade surplus, whereas a trade deficit occurs when imports are greater than exports. The trade balance provides valuable insights into a country's external sector performance, international competitiveness, foreign exchange requirements, and overall economic sustainability. A persistent trade deficit may indicate high dependence on imported goods and limited domestic production capacity, increasing pressure on foreign exchange reserves and making the economy more vulnerable to external shocks. Therefore, monitoring trade performance is essential for assessing economic resilience and designing policies that promote export growth and import substitution.

Nepal's trade performance from FY 2079/80 B.S. (2022/23 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) (Figure 5) indicates that the country continues to experience a substantial trade deficit, with imports consistently exceeding exports by a wide margin. In FY 2079/80 B.S. (2022/23 A.D.), merchandise imports amounted to NPR 1,612 billion, while exports totaled only NPR 157 billion, resulting in a trade deficit of NPR 1,455 billion. This large imbalance reflects Nepal's heavy reliance on imported goods, including petroleum products, machinery, vehicles, construction materials, pharmaceuticals, and consumer goods, while export earnings remain relatively limited.

The trade deficit narrowed slightly in FY 2080/81 B.S. (2023/24 A.D.) as both imports and exports declined. This reduction was largely driven by weaker domestic demand, tighter monetary policy, and slower economic activity, which reduced import demand while also affecting export performance. Although the smaller deficit appeared positive, it primarily reflected subdued economic activity rather than a significant improvement in Nepal's trade competitiveness. Trade activity strengthened in FY 2081/82 B.S. (2024/25 A.D.), with imports increasing to NPR 1,804 billion and exports rising significantly to NPR 277 billion, the highest export value recorded during the four-year period. The improvement in exports was likely supported by increased electricity exports to India, higher exports of agricultural commodities, and growth in selected manufactured products. However, the increase in imports was substantially larger than the growth in exports, leading to a widening of the trade deficit once again. During the first nine months of FY 2082/83 B.S. (2025/26 A.D.), imports had already reached NPR 1,692 billion, while exports stood at NPR 249 billion, indicating that the trade deficit is likely to remain substantial by the end of the fiscal year.

Nepal's external trade remains characterized by a narrow export base and a high dependence on imports. Although recent growth in exports is encouraging, it has not been sufficient to offset the rapid increase in imports. Reducing the structural trade imbalance will require sustained efforts to diversify export products and markets, improve industrial competitiveness, and increase domestic production. Expanding hydropower exports, promoting tourism, strengthening value-added manufacturing, enhancing agro-processing industries, and encouraging import substitution in selected sectors will be critical for improving Nepal's trade balance, strengthening foreign exchange earnings, and supporting long-term economic growth.

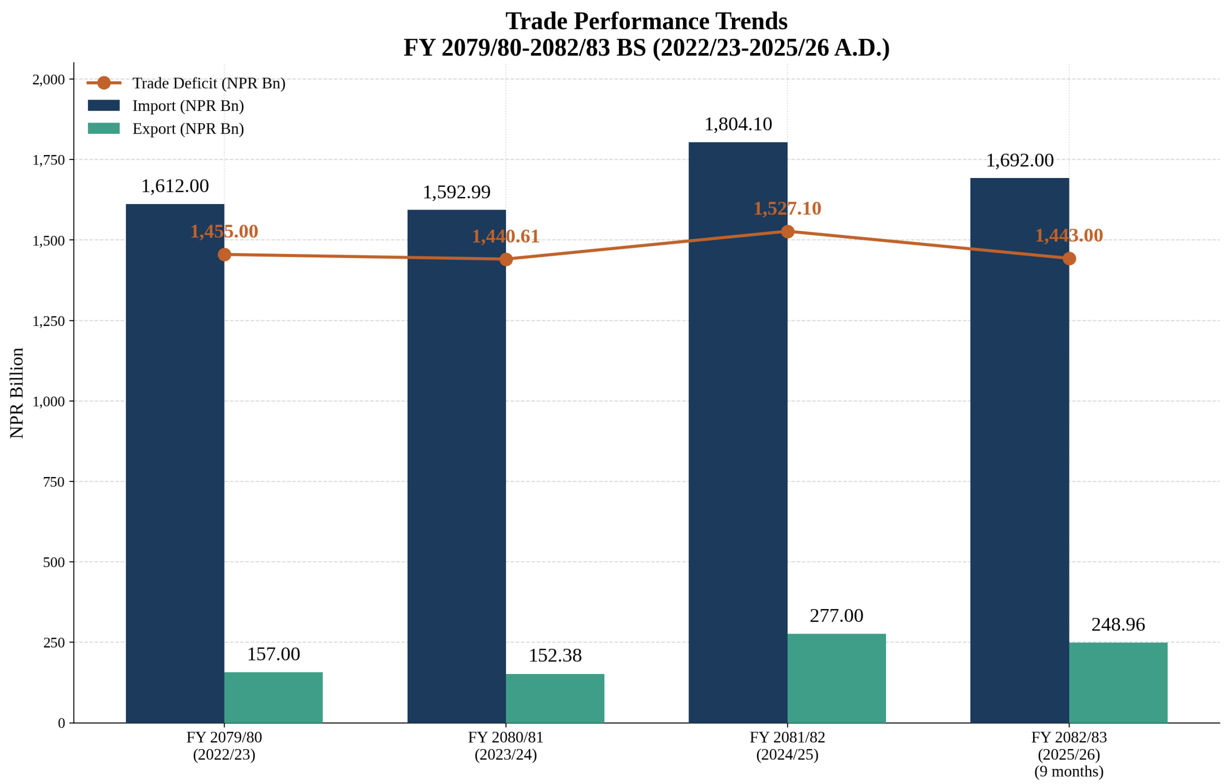

Figure 5: Trade Performance

*Source:*Trading Economics, Nepal Balance of Trade.

1.5 Public Debt

Public debt is a key macroeconomic indicator that represents the total amount of money a government owes to domestic and external creditors as a result of past borrowing. Governments typically borrow to finance budget deficits, invest in infrastructure and development projects, or respond to economic crises and emergencies. The sustainability of public debt is commonly assessed using the debt-to-GDP ratio, which compares the total outstanding public debt with the country's Gross Domestic Product (GDP). This ratio indicates a country's capacity to repay its debt relative to the size of its economy. A moderate level of public debt can support economic development by financing productive investments. However, excessive debt may increase debt servicing costs, constrain fiscal space, reduce resources available for essential public services, and expose the economy to financial and external risks. Therefore, monitoring public debt is essential for assessing fiscal sustainability and the government's long-term financial health.

Nepal's public debt has shown a gradual upward trend over the period from FY 2079/80 B.S. (2022/23 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) AD (Figure 6). The debt-to-GDP ratio increased from 47.0 percent in FY 2079/80 B.S. (2022/23 A.D.) to a projected 48.8 percent in FY 2082/83 B.S. (2025/26 A.D.), with a slight decline to 48.1 percent recorded in FY 2081/82 B.S. (2024/25 A.D.). The overall increase reflects the government's continued reliance on both domestic and external borrowing to finance persistent fiscal deficits, meet development financing needs, and support public expenditure. Although the fluctuations have been relatively modest, the upward trajectory indicates growing dependence on borrowed resources.

At present, Nepal's debt level remains below the internationally recognized benchmark of 60 percent of GDP, which is often used as a broad indicator of debt sustainability for developing economies. At present, Nepal's public debt level remains within the sustainable range under the IMF-World Bank Debt Framework for low-income countries. Recent debt sustainability analyses assess Nepal as facing a low risk of external and overall public debt distress, although prudent borrowing and improved public investment efficiency remain important to maintain long-term fiscal sustainability (International Monetary Fund & World Bank, 2024). This suggests that the country's public debt remains manageable in the short term. Nevertheless, the gradual increase warrants careful monitoring. Slower economic growth, continued budget deficits, and rising debt servicing obligations could place increasing pressure on public finances and limit the government's fiscal flexibility. In addition, a substantial share of Nepal's public debt consists of external borrowing denominated in foreign currencies, exposing the country to exchange rate risks. Any depreciation of the Nepalese Rupee would increase the domestic cost of servicing external debt, thereby placing additional strain on the National budget.

Nepal's current level of public debt does not pose an immediate threat to macroeconomic stability. However, ensuring long-term fiscal sustainability will require sustained economic growth, stronger domestic revenue mobilization, improved efficiency in public expenditure, and greater emphasis on financing productive investments that generate economic returns. Strengthening debt management practices, prioritizing high-impact capital projects, and reducing persistent fiscal deficits will be essential to prevent the debt burden from rising further and to preserve the government's capacity to respond effectively to future economic and fiscal challenges.

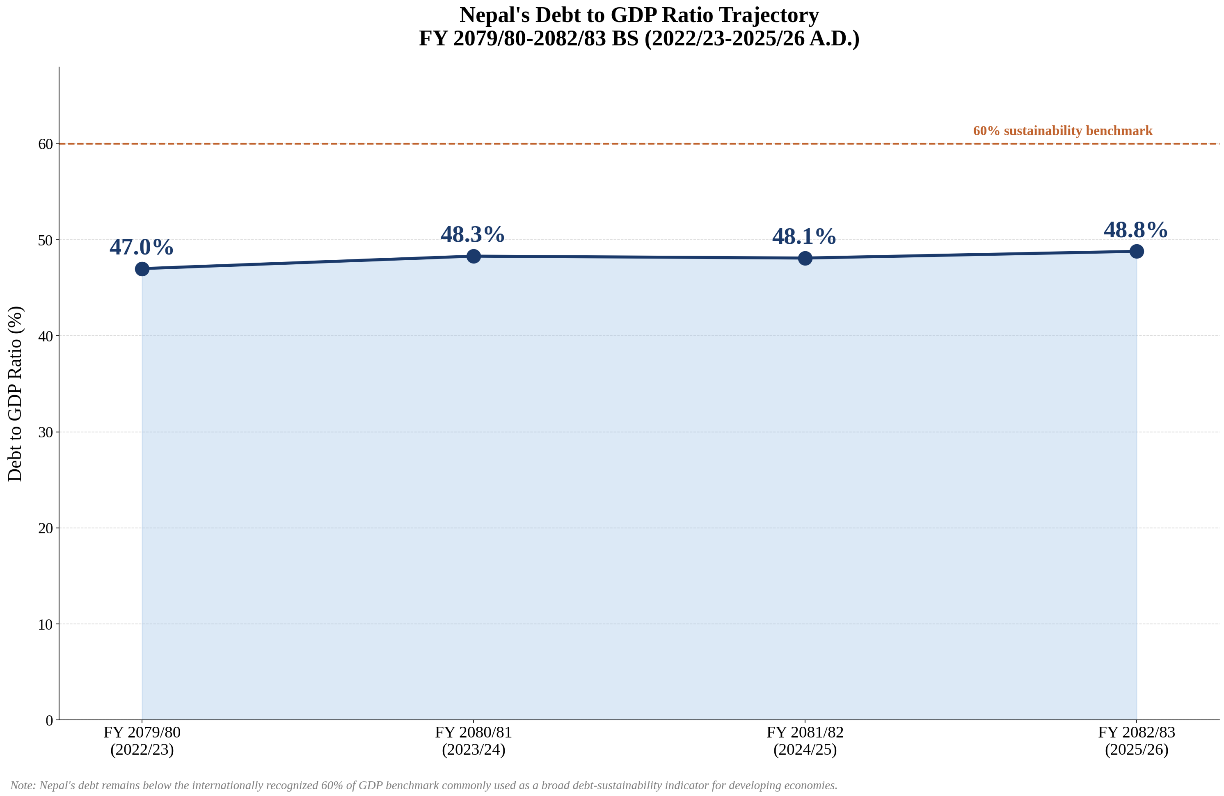

Figure 6: Debt to GDP Ratio

*Source:*Trading Economics,2026a.

1.6 Remittance-to-GDP Ratio

The remittance-to-GDP ratio is an important macroeconomic indicator that measures the value of remittances received from citizens working abroad as a percentage of a country's Gross Domestic Product (GDP). It reflects the extent to which an economy depends on income earned overseas to support domestic economic activity. In countries with high levels of labor migration, remittances play a significant role in household income, consumption, poverty reduction, foreign exchange earnings, and overall macroeconomic stability. However, an excessively high remittance-to-GDP ratio may also indicate limited domestic employment opportunities and a growing dependence on external sources of income. Therefore, this indicator is widely used to assess both the contribution of labor migration to the economy and the economy's vulnerability to external shocks.

Nepal's remittance-to-GDP ratio has increased steadily over the period from FY 2079/80 B.S. (2022/23 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) AD (Figure 7), highlighting the country's growing dependence on income earned by Nepali workers abroad. The ratio increased from 23.0 percent in FY 2079/80 B.S. (2022/23 A.D.) to 26.0 percent in FY 2080/81 B.S. (2023/24 A.D.) and further to 28.6 percent in FY 2081/82 B.S. (2024/25 A.D.). In FY 2082/83 B.S. (2025/26 A.D.), the ratio is estimated to rise sharply to 39.1 percent, the highest level recorded during the period. This substantial increase reflects continued growth in labor migration, stronger employment opportunities in major destination countries following the recovery from the COVID-19 pandemic, and higher remittance inflows. The sharp rise in the ratio may also partly reflect slower domestic GDP growth, which increases the share of remittances relative to the size of the economy.

Remittances have become one of the key pillars of Nepal's economy. They provide an important source of foreign exchange, help finance the country's large trade deficit, strengthen foreign exchange reserves, support household consumption, improve living standards, and contribute to poverty reduction. In addition, remittance inflows have helped maintain macroeconomic stability by supporting domestic demand and reducing pressure on the balance of payments.

Despite these positive contributions, Nepal's increasing dependence on remittances presents several long-term challenges. Heavy reliance on foreign income makes the economy vulnerable to external shocks, including global economic slowdowns, geopolitical uncertainties, changes in labor market conditions, and migration policy reforms in major destination countries. Furthermore, a significant proportion of remittance income is used for household consumption, housing, and land purchases rather than being invested in productive sectors that generate employment and expand the country's productive capacity.

While remittances have played a crucial role in strengthening Nepal's economic resilience and supporting household welfare, the steadily rising remittance-to-GDP ratio also highlights underlying structural weaknesses in the domestic economy. Reducing excessive dependence on remittance income will require the creation of productive employment opportunities within Nepal, promotion of industrialization and private sector investment, improvements in agricultural productivity, and policies that encourage remittance earnings to be channeled into productive investment and entrepreneurship. Such measures will help build a more diversified, resilient, and self-sustaining economy in the long run.

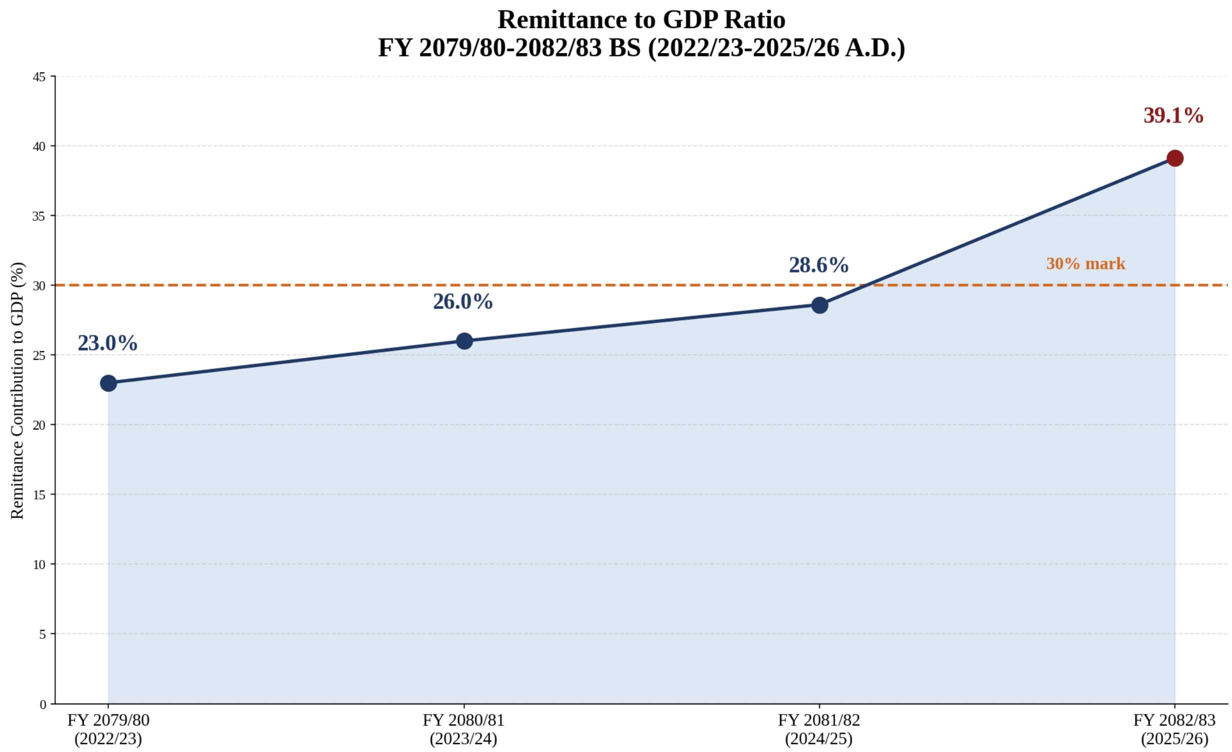

Figure 7: Remittance to GDP Ratio

*Source:*Nepal News, 2026.

1.7 Unemployment Rate

The unemployment rate is a key labor market indicator that measures the percentage of the labor force that is actively seeking work but is unable to find employment. It is widely used to assess the performance of an economy in generating jobs and utilizing its available human resources. A high unemployment rate generally indicates that economic growth is insufficient to absorb the labor force, leading to lower household incomes, increased poverty, and underutilization of productive capacity. Conversely, a lower unemployment rate suggests a healthier labor market and stronger economic performance. Therefore, monitoring the unemployment rate is essential for evaluating the inclusiveness of economic growth and the effectiveness of employment and labor market policies.

Nepal's unemployment rate has remained relatively high during the period from FY 2080/81 B.S. (2023/24 A.D.) to FY 2082/83 B.S. (2025/26 A.D.) (Figure 8), with only marginal improvement. The unemployment rate declined slightly from 10.71 percent in FY 2080/81 B.S. (2023/24 A.D.) to 10.50 percent in FY 2081/82 B.S. (2024/25 A.D.) and is estimated to remain unchanged at 10.50 percent in FY 2082/83 B.S. (2025/26 A.D.). This trend indicates that the modest economic growth recorded in recent years has not been sufficient to generate adequate employment opportunities for the growing labor force. Although the unemployment rate is projected to decline to 9.80 percent in 2026, this improvement should be interpreted with caution given the structural challenges that continue to constrain employment generation.

Several factors contribute to Nepal's persistently high unemployment. The economy remains dominated by low-productivity agriculture and informal sector activities, while the industrial and manufacturing sectors have expanded only modestly (International Labor Organization, 2025). Private sector investment has remained below potential, limiting the creation of productive jobs (International Monetary Fund, 2024; World Bank, 2024). In addition, there is a mismatch between the skills possessed by many job seekers and the skills demanded by employers, resulting in graduate unemployment and shortages of skilled workers in certain sectors (International Labor Organization, 2025). These structural constraints continue to limit the economy's capacity to absorb new entrants into the labor market.

Another important characteristic of Nepal's labor market is the large-scale migration of workers to foreign countries for employment. Labor migration reduces the number of people actively seeking jobs within the domestic labor market and, consequently, may lower the measured unemployment rate. However, this does not necessarily indicate improved domestic employment conditions, as many workers migrate due to the lack of adequate employment opportunities and comparatively lower wages within Nepal. As a result, the unemployment rate alone may not fully capture the underlying challenges of underemployment, informal employment, and labor market quality.

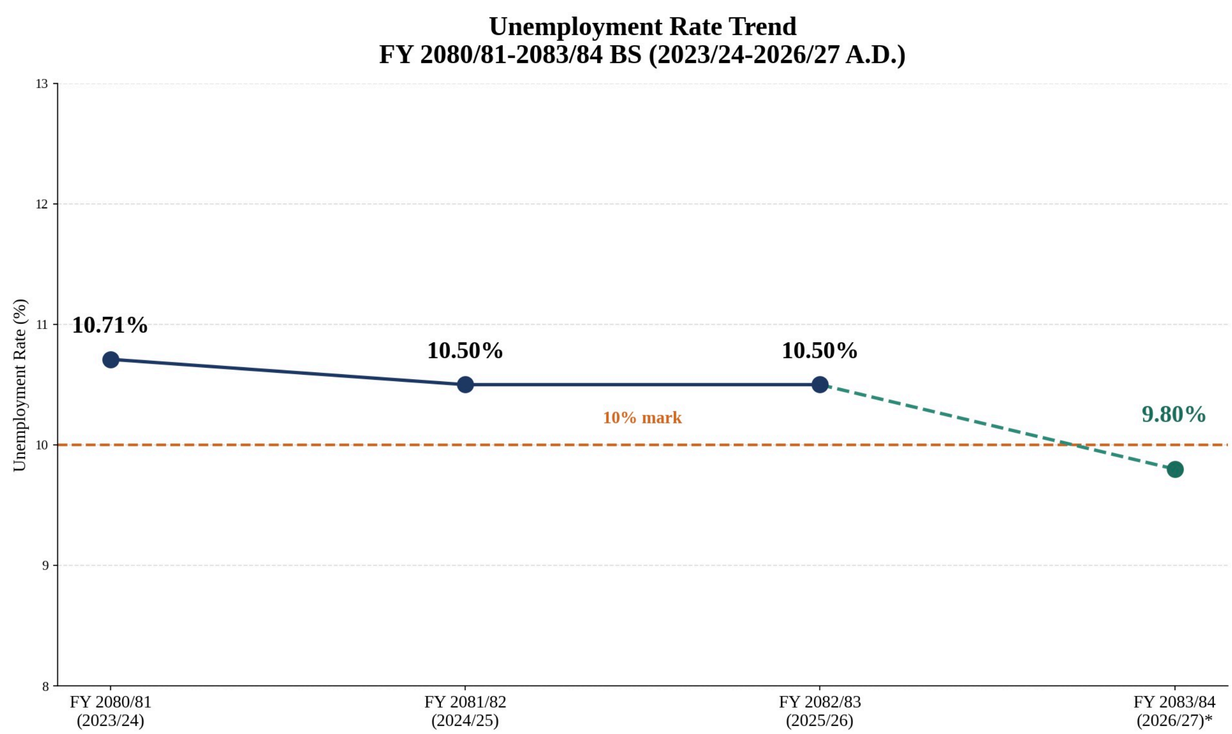

Figure 8: Unemployment Rate of Nepal

Notes: *FY 2083/84 (2026/27) value is a forecast.
Source: Trading Economics (2026b); Post Report (2024).

Therefore, reducing unemployment in Nepal will require sustained and inclusive economic growth supported by the expansion of productive industries, increased private and public investment, and a stronger business environment. Policies that promote industrialization, strengthen small and medium-sized enterprises, improve technical and vocational education, and better align workforce skills with labor market demand will be essential for creating quality employment opportunities. At the same time, encouraging entrepreneurship and increasing investment in high-productivity sectors such as manufacturing, tourism, agriculture, information technology, and hydropower will be critical for achieving long-term employment generation and reducing dependence on foreign labor markets.

2 Ten-Year Historical Budget Analysis FY 2074/75 B.S. (2017/18 A.D.) to FY 2083/84 B.S. (2026/27 A.D.)

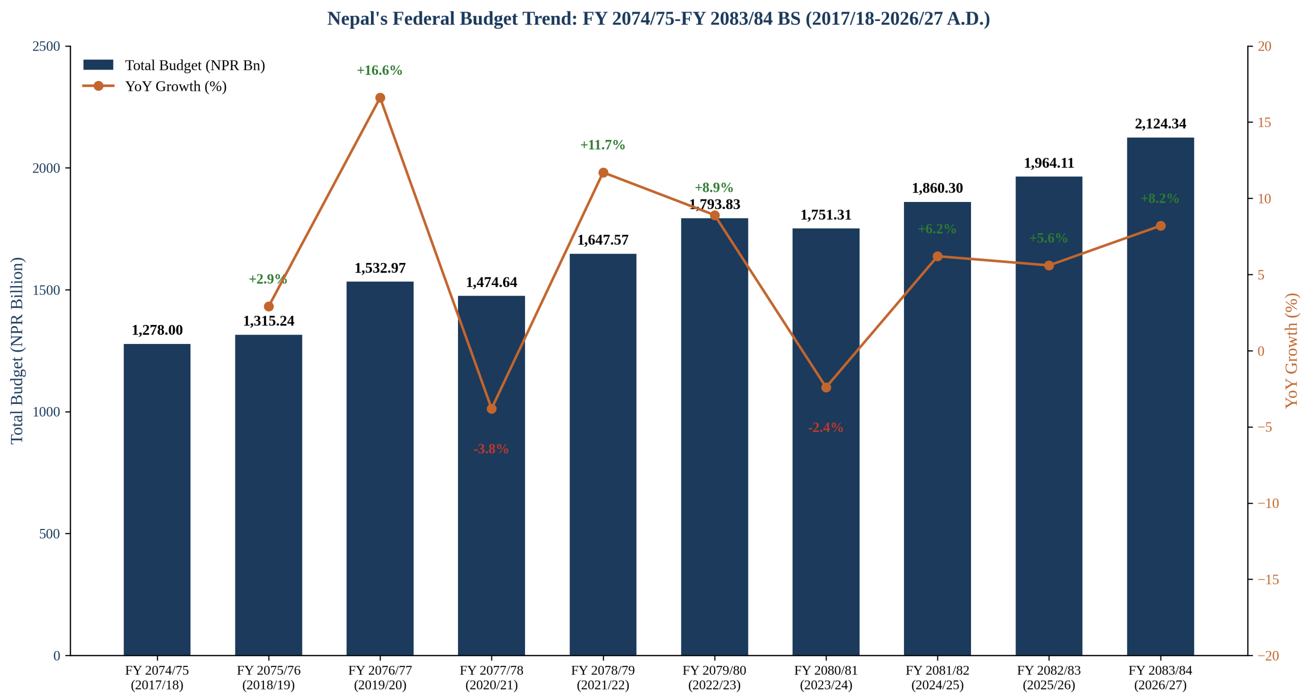

Figure 9: Nepal's Federal Budget Trends

Source: Government of Nepal, Ministry of Finance, annual budget documents, FY 2074/75–2083/84.

Nepal's national budget has grown substantially over the past ten years, increasing from NPR 1,278.00 billion in FY 2074/75 B.S. (2017/18 A.D.) to NPR 2,124.34 billion in FY 2083/84 B.S. (2026/27 A.D.) (Figure 9). This represents a cumulative nominal increase of 66.2 percent over the decade and a compound annual growth rate of approximately 5.8 percent. However, this growth has not been consistent across the period.

Before the COVID-19 pandemic, Nepal experienced rapid growth in its national budget, with the FY 2076/77 B.S. (2019/20 A.D.) budget increasing by 16.6 percent from the previous fiscal year. This trend changed in FY 2077/78 B.S. (2020/21 A.D.), when the COVID-19 pandemic led to a 3.8 percent reduction in the total budget, the largest single-year decline during the decade. The budget fell again in FY 2080/81 B.S. (2023/24 A.D.), declining by 2.4 percent from the previous fiscal year (Figure 9).

The FY 2083/84 B.S. (2026/27 A.D.) budget of NPR 2,124.34 billion is the largest nominal budget in Nepal's fiscal history. It also coincides with a major restructuring of the Federal Government, reducing the number of ministries from 22 to 18 and abolishing or merging 37 government bodies as part of a broader reform affecting 61 public entities in total (see Section 5.1) (Government of Nepal, Ministry of Finance, 2026).

Although the national budget has expanded substantially over the past decade, its growth has varied from year to year, reflecting changes in economic conditions and government policy. The current budget therefore represents both a continuation of long-term budget growth and an important period of institutional change. The following section examines how the FY 2083/84 B.S. (2026/27 A.D.) budget is distributed across the major expenditure categories, providing further insight into the Government's spending priorities.

3 Fiscal Overview and Budget Architecture

3.1 Three-Year Budget Trajectory

Building on the decade-long trends discussed in the previous section, this chapter examines the composition of Nepal's budget over the past three fiscal years. While the total budget increased from NPR 1,860.30 billion in FY 2081/82 B.S. (2024/25 A.D.) to NPR 2,124.34 billion in FY 2083/84 B.S. (2026/27 A.D.) (Table 1), it is equally important to examine how this increase has been distributed across different areas of government spending. During this period, allocations increased across all three major expenditure categories: recurrent expenditure, capital expenditure, and financial management. However, these categories have not grown at the same pace, highlighting important changes in the Government's spending patterns and priorities (Government of Nepal, Ministry of Finance, 2024, 2025, 2026).

Table 1: Expenditure Trends by Pillar, FY 2081/82–2083/84 B.S. (2024/25–2026/27 A.D.)

Expenditure Pillar	FY 2081/82	FY 2082/83	FY 2083/84	3-Year Absolute Growth	3-Year Growth (%)
Recurrent Expenditure	1140.66	1180.98	1270.58	+129.92	+11.39%
Capital Expenditure	352.35*	407.89	431.10	+78.75	+22.35%
Financial Management	367.28	375.24	422.64	+55.36	+15.07%
Total Stated Allocation	**1860.30**	**1964.11**	**2124.34****	**+264.04**	**+14.19%**

Notes:
* *Capital expenditure has been corrected from the original summary ledger figure of NPR 353.35 billion to NPR 352.35 billion to match the official baseline budget ceiling reported by the Financial Comptroller General Office (FCGO, 2026a).*
** *The stated total of NPR 2,124.34 billion matches the official Budget Speech delivered by Finance Minister Dr. Swarnim Wagle. A minor statistical variance of NPR 0.02 billion exists between the sum of the expenditure subcategories (NPR 2,124.32 billion) and the official total because of rounding at the ministry level (FCGO, 2026c; MoF, 2026)*
Source: Government of Nepal, Ministry of Finance (2024, 2025, 2026); NBSM & Associates, 2025).

Among the three major expenditure categories, capital expenditure recorded the largest increase, rising by 22.35 percent from NPR 352.35 billion to NPR 431.10 billion (Government of Nepal, Ministry of Finance, 2024, 2025, 2026). This suggests a stronger emphasis on public investment. However, capital budget allocations in Nepal have consistently exceeded actual expenditure, indicating persistent challenges in translating approved allocations into completed investment (Nepal Rastra Bank, 2025). For this reason, larger capital allocations should not be interpreted as evidence that more development projects will necessarily be implemented, as a significant gap continues to exist between approved budgets and actual expenditure.

Recurrent expenditure remains the largest component of the national budget. It increased by 11.39 percent to NPR 1,270.58 billion and accounted for nearly 60 percent of total expenditure in FY 2083/84 B.S. (2026/27 A.D.) (Government of Nepal, Ministry of Finance, 2026). Much of this spending is committed to salaries, pensions, social security payments, and administrative costs (Government of Nepal, Ministry of Finance, 2026), leaving relatively limited room for the Government to redirect resources during the fiscal year. As recurrent expenditure continues to account for a large share of the budget, increasing spending on development priorities or responding to new financial pressures becomes more difficult.

Financial management expenditure also rose by 15.07 percent, reaching NPR 422.64 billion, only 0.4 percent lower than capital expenditure (Government of Nepal, Ministry of Finance, 2024, 2025, 2026; NBSM & Associates, 2025). In other words, the Government is now allocating almost as much to financial obligations as it plans to invest in new infrastructure and other capital projects. This narrowing gap highlights an important shift in the composition of government spending, with a growing share of public resources being committed to existing financial obligations. If this trend continues, it could reduce the resources available for future development investment and make it more difficult to support long-term economic growth.

Overall, the budget trends over the past three years show that although government spending has continued to increase, growth has not been evenly distributed across the three major expenditure categories. Recurrent and financial management expenditure have grown steadily, while increases in capital expenditure will contribute to development only if allocated funds are effectively utilized and projects are implemented efficiently and on time.

3.2 Expenditure Composition: FY 2083/84 B.S. (2026/27 A.D.)

Nepal's FY 2083/84 B.S. (2026/27 A.D.) budget is largely made up of recurrent expenditure, which accounts for 59.8 percent of total spending, or NPR 1,270.58 billion (Government of Nepal, Ministry of Finance, 2026). This reflects the Government's ongoing commitments to salaries, pensions, social security transfers, grants, and routine administrative costs (Government of Nepal, Ministry of Finance, 2026). While these expenditures are essential for maintaining public services, they also reduce the share of the budget available for development activities and leave less room to respond to new spending needs.

Capital expenditure accounts for 20.3 percent of the total budget, amounting to NPR 431.10 billion (Government of Nepal, Ministry of Finance, 2026). This remains below the National Planning Commission's (NPC) target of increasing capital expenditure to 29 percent of total public spending by FY 2085/86 B.S. (2028/29 A.D.) under the Sixteenth Plan (National Planning Commission, 2024). At the same time, Nepal has consistently struggled to fully execute its capital budget, with capital expenditure reaching only 46.8 percent of the original annual allocation in FY 2082/83 B.S. (2025/26 A.D.) (FCGO, 2026a). As a result, the amount invested in development projects is likely to remain well below the amount approved in the budget.

Financial management expenditure accounts for a further 19.9 percent of the budget, or NPR 422.64 billion (Government of Nepal, Ministry of Finance, 2026), making it almost equal to capital expenditure. This close alignment is one of the most notable features of the FY 2083/84 B.S. (2026/27 A.D.) budget and is examined in greater detail in Section 3.3.

Overall, the FY 2083/84 B.S. (2026/27 A.D.) budget highlights the difficult choices the Government faces in balancing its spending priorities. While the budget continues to fund essential public services and provides a modest increase in capital investment, a large share of public resources is still committed to recurrent expenditure and financial management obligations. As a result, the Government's ability to invest more in development will remain limited unless it can increase revenue, make better use of public spending, and better prioritize government expenditure. This spending pattern provides important context for the sectoral allocation and fiscal sustainability analysis presented in the following sections.

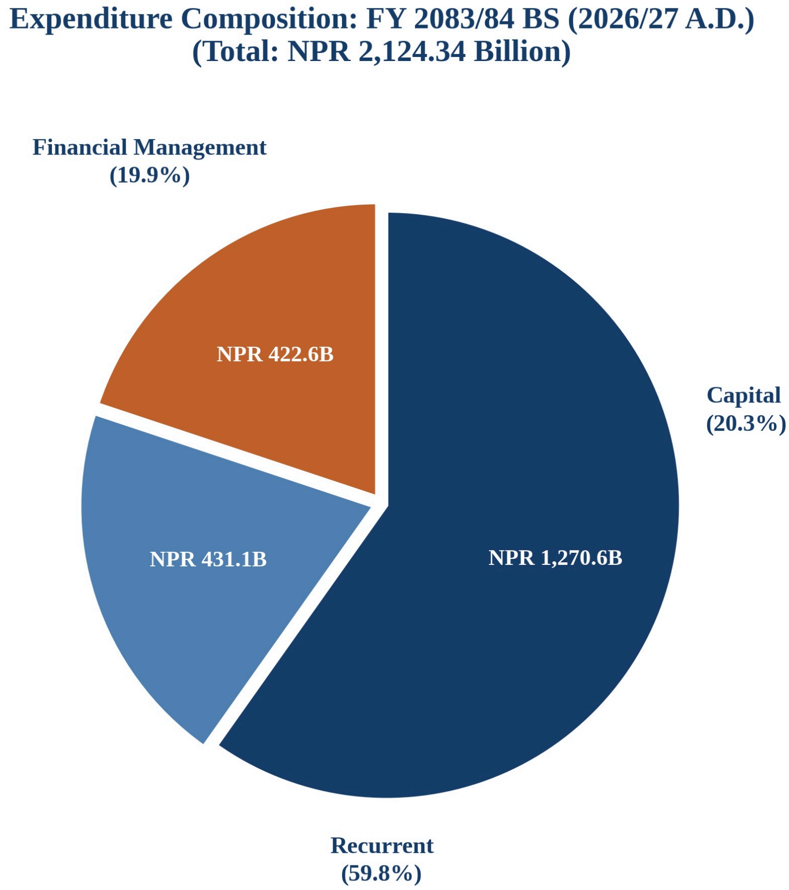

Figure 10: Budget Expenditure Composition

*Note:*Individual percentages are calculated directly against each sub-category's own figure and the official total outlay of NPR 2,124.34 billion announced by the Ministry of Finance. Because these shares are derived from the actual reported total rather than the pre-rounded sub-category sum (NPR 2,124.32 billion, see Section 2), the individual percentages sum cleanly to 100.00 percent despite the 0.02 billion rounding variance noted earlier (Government of Nepal, Ministry of Finance, 2026).
Source: Government of Nepal, Ministry of Finance, 2026)

3.3 Financial Management and Capital Expenditure: A Narrowing Gap

One structurally significant feature of Nepal's FY 2083/84 B.S. (2026/27 A.D.) budget, introduced in Section 3.2, is the near equivalence between financial management and capital expenditure, with the two categories differing by less than 0.4 percent of the total budget (Government of Nepal, Ministry of Finance, 2026). In practical terms, the Government is allocating almost as many resources to meeting past financial obligations as it is to financing new capital investment.

This pattern has evolved over time rather than emerging in a single fiscal year. As the ten-year historical data presented in Section 2 demonstrate, financial management expenditure has increased by 201.2 percent since FY 2074/75 B.S. (2017/18 A.D.), compared with capital expenditure growth of 28.6 percent over the same period (Government of Nepal, Ministry of Finance, 2023; NBSM & Associates, 2021, 2025). If this trend persists, the gap between these two expenditure categories will continue to narrow, increasing the likelihood that financial management expenditure could eventually exceed capital investment in nominal terms.

Meeting these commitments is unlikely to be in doubt, given that debt servicing is a legal requirement—the more relevant question is whether the borrowing that created them has generated productive public investment. As discussed in Section 3.1, capital expenditure execution has consistently lagged budgeted allocations, indicating that a significant share of budgeted investment has not been converted into completed capital spending within the fiscal year. This raises important questions about the efficiency of Nepal's debt-to-investment cycle and its implications for long-term fiscal sustainability.

From a fiscal sustainability perspective, the growing convergence between financial management expenditure and capital expenditure reflects an increasingly constrained fiscal environment. As a growing share of public resources is absorbed by debt servicing, fewer resources remain available for financing new infrastructure and other development priorities without additional borrowing or stronger domestic revenue mobilization. This does not imply an immediate fiscal imbalance. Rather, it highlights the importance of ensuring that public borrowing is consistently directed towards investments capable of generating the long-term economic and fiscal returns needed to sustain future debt service.

Addressing this challenge requires strengthening both debt management and public investment management. This includes ensuring that new liabilities are incurred within a credible medium-term framework while improving the execution and effectiveness of the capital budget.

4 Financing Strategy and Revenue Architecture

4.1 Financing Sources: FY 2083/84 B.S. (2026/27 A.D.)

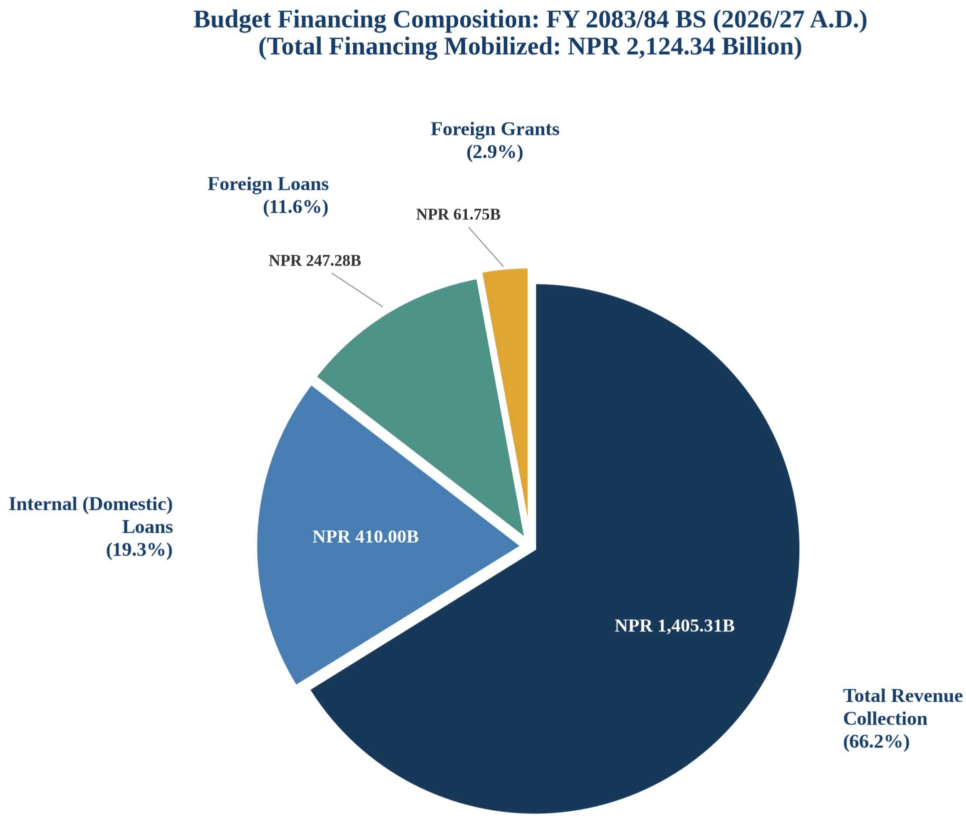

Figure 11: Budget Financing Sources Composition

Source: Government of Nepal, Ministry of Finance, 2026)

The FY 2083/84 B.S. (2026/27 A.D.) budget is financed primarily through domestic revenue, which is projected to reach NPR 1,405.31 billion and account for 66.2 percent of total budget financing (Figure 11) (Government of Nepal, Ministry of Finance, 2026). This highlights the importance of tax and non-tax revenue as the Government's main source of funding. However, as discussed in Section 4.2, meeting this target will require stronger revenue collection than has been achieved in recent fiscal years. To finance the remaining budget, the Government plans to borrow NPR 657.28 billion, including NPR 410.00 billion from domestic borrowing and NPR 247.28 billion from foreign borrowing (Government of Nepal, Ministry of Finance, 2026).Foreign grants are expected to contribute NPR 61.75 billion, accounting for 2.9 percent of total budget financing (Government of Nepal, Ministry of Finance, 2026). This reflects Nepal's broader economic transition and growing reliance on domestic resources.

Overall, the budget shows that Nepal is increasingly relying on domestic revenue and borrowing, while foreign grants continue to account for a relatively small share of government financing. This shift is consistent with the country's economic transition, but it also means that the Government must strengthen revenue collection and manage public debt carefully. As discussed in Section 3.3, borrowing can support economic development when it is used to finance productive investments that generate long-term benefits. Ensuring that borrowed funds are invested effectively, alongside continued improvements in debt management and project implementation, will be important for maintaining sustainable public finances over the medium term (Nepal Rastra Bank, 2026b). That said, the success of this financing strategy will depend on whether the Government can achieve its ambitious domestic revenue targets, which are examined in the following section.

4.2 Revenue Target vs. Actual Performance

A recurring challenge in Nepal's public finances is the persistent gap between revenue targets and actual collections. In FY 2081/82 B.S. (2024/25 A.D.), the Government collected NPR 1,178.82 billion in revenue. Against the original target of NPR 1,419.00 billion, this left a shortfall of NPR 240.18 billion, with only 83.07 percent of the target achieved (Government of Nepal, Ministry of Finance, 2024; FCGO, 2026a). However, when measured against the Government's revised mid-year estimate of NPR 1,267.39 billion, the achievement rate rises to 93.01 percent. This illustrates how assessments of revenue performance can differ depending on whether the original or revised target is used.

Revenue performance improved in FY 2082/83 B.S. (2025/26 A.D.). According to the revised estimates, the Government collected NPR 1,294.08 billion in revenue. Compared with the official target of NPR 1,315.00 billion, this resulted in a relatively small shortfall and an achievement rate of 98.41 percent (Government of Nepal, Ministry of Finance, 2025; FCGO, 2026a). The narrower gap between the target and actual collections suggests an improvement in revenue performance compared with the previous fiscal year, although the Government still fell short of meeting its original target.

Table 2: Revenue Target Performance by Source, FY 2081/82–2083/84 B.S. (2024/25–2026/27 A.D.)

Fiscal Year	Revenue Target (NPR Bn)	Actual/Revised (NPR Bn)	Achievement (%)	Status
FY 2081/82 B.S. (2024/25 A.D.)	1,419.00	1,178.82	83.07%	Final (Actual)
FY 2082/83 B.S. (2025/26 A.D.)	1,315.00	1,294.08	98.41%	Final (Revised)
FY 2083/84 B.S. (2026/27 A.D.)	1,405.31	–	–	In Progress

Notes: Revenue targets and collections for FY 2081/82 B.S. (2024/25 A.D.) and FY 2082/83 B.S. (2025/26 A.D.) refer to total national revenue. The FY 2083/84 B.S. (2026/27 A.D.) target of NPR 1,405.31 billion refers to the net revenue expected to be deposited into the Federal Consolidated Fund after revenue has been shared with provincial and local governments.

Source: Government of Nepal, Ministry of Finance (2024, 2025, 2026); FCGO, 2026c.

Against this backdrop, the FY 2083/84 B.S. (2026/27 A.D.) revenue target of NPR 1,405.31 billion (net to the Federal Consolidated Fund) requires an 8.59 percent increase over the amount estimated to have been collected in the previous fiscal year (Table 2). While revenue performance has improved in recent years, comparisons across fiscal years should be interpreted with caution because changes in revenue targets and accounting methods affect their comparability. Achieving this year's target will depend on stronger tax administration, including the Government's planned transition to a "paperless, contactless, and faceless" tax system, higher voluntary tax compliance through simpler tax laws, and economic growth reaching the projected rate of 7 percent (Government of Nepal, Ministry of Finance, 2026).

4.3 Tax Revenue Composition and Growth Burden Analysis

The FY 2083/84 B.S. (2026/27 A.D.) revenue framework places greater emphasis on improving tax administration and encouraging compliance through the use of digital systems.The Government has set a target of collecting NPR 1,403.32 billion in federal tax revenue (Figure 12) (Government of Nepal, Ministry of Finance, 2026). Achieving this target requires federal tax revenue to increase by 19.78 percent over the revised FY 2082/83 B.S. (2025/26 A.D.) estimate of NPR 1,171.59 billion.

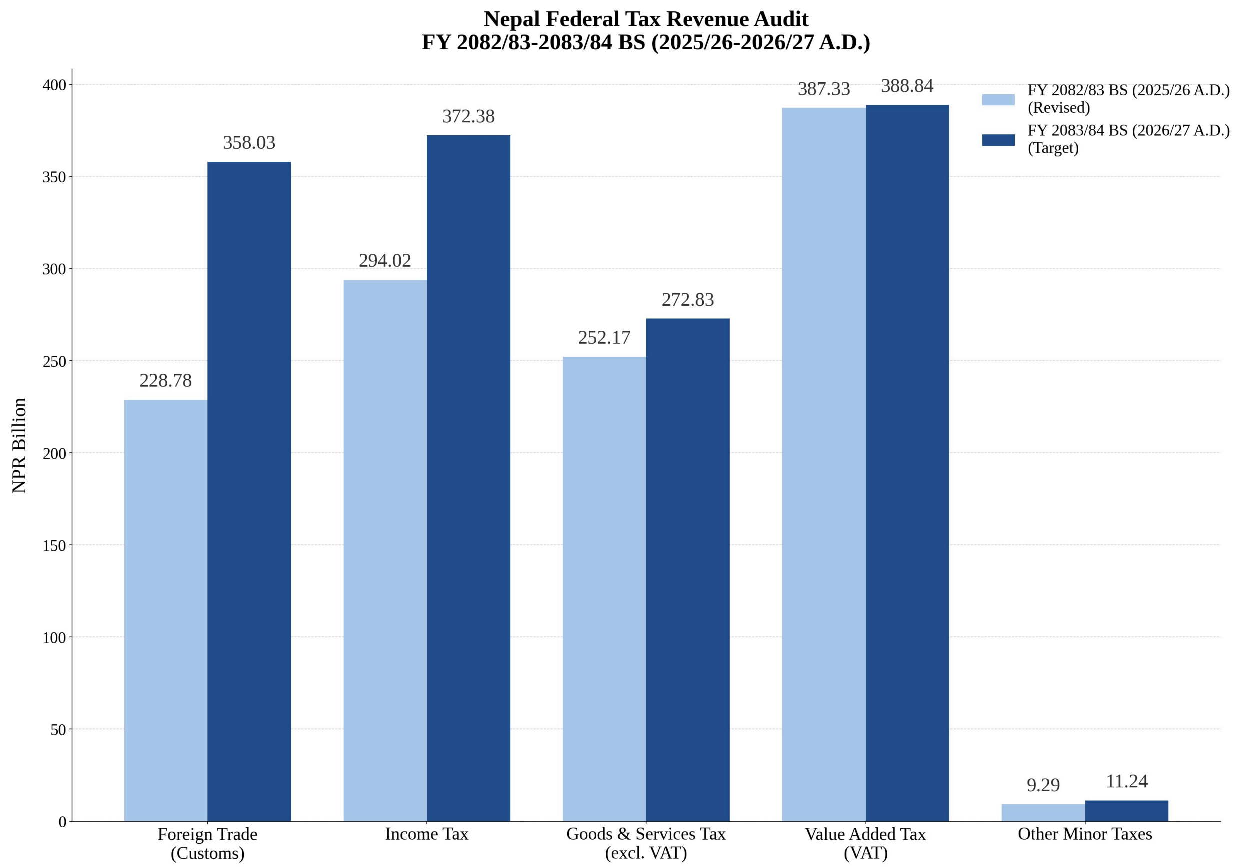

Figure 12: Federal Tax Revenue by Major Tax Category

Note: Figures derived from Source 2, Annex 2."Other Minor Taxes" represents the sum of the Property Tax and Social Security Tax. *Source:* Government of Nepal, Ministry of Finance (2025, 2026).

Given the revenue shortfalls discussed in the previous sections, this is an ambitious target. Meeting it will depend heavily on the successful implementation of the Government's planned "paperless, contactless, and faceless" tax administration system, which aims to improve tax collection and reduce revenue leakage (Figure 12) (Government of Nepal, Ministry of Finance, 2026). The target also assumes that new intelligence-based tax investigations are implemented effectively and that the economy grows by the projected 7 percent during the fiscal year (Government of Nepal, Ministry of Finance, 2026).

4.4 Analysis of the Revenue Growth Burden

Customs Duties: The Main Driver of Revenue Growth (56.50% YoY growth; 55.78% of total growth): Customs duties are expected to increase by 56.50 percent compared with the previous fiscal year and account for 55.78 percent of the projected increase in federal tax revenue (Table 6) (Government of Nepal, Ministry of Finance, 2026). Much of this increase reflects the introduction of the Green Tax, which combines the Infrastructure Development Tax and the Road Maintenance Fee into a single customs-administered levy (Government of Nepal, Ministry of Finance, 2026). While this simplifies tax administration, it also makes revenue performance more dependent on import demand and external trade conditions (Nepal Rastra Bank, 2026b).

Income Tax: A Second Major Source of Growth (26.65% YoY growth; 33.82% of total growth): Together, Customs duties and Income Tax account for about 89.6 percent of the projected increase in federal tax revenue (Table 6) (Government of Nepal, Ministry of Finance, 2026). The FY 2083/84 B.S. (2026/27 A.D.) budget introduces major changes to the personal income tax system, including raising the tax-free threshold to NPR 1 million and reducing the highest marginal tax rate by 10 percentage points (Government of Nepal, Ministry of Finance, 2026). To offset part of the resulting revenue loss, the Government has reduced the tax exemption available for IT export earnings to 50 percent and introduced a one-time tax dispute settlement facility with a 1 percent settlement charge to encourage the resolution of outstanding tax liabilities (Government of Nepal, Ministry of Finance, 2026).

Value Added Tax (VAT): Limited Contribution to Revenue Growth (0.39% YoY growth; 0.65% of total growth): Traditionally one of Nepal's most stable sources of tax revenue, VAT is expected to contribute less than 1 percent of the projected increase in federal tax revenue (Table 6) (Government of Nepal, Ministry of Finance, 2026). This reflects the Government's decision to encourage greater use of digital payments and broaden the tax base rather than maximise short-term revenue. The budget introduces a 10 percent VAT refund for eligible digital payments while extending VAT to high-volume electricity consumption (Government of Nepal, Ministry of Finance, 2026). As a result, VAT is expected to play a relatively limited role in supporting overall revenue growth this fiscal year.

Overall Assessment: Around 89.6 percent of the projected increase in federal tax revenue is expected to come from Customs duties and Income Tax (Table 6) (Government of Nepal, Ministry of Finance, 2026). This means that achieving the Government's revenue target will depend heavily on the performance of these two tax categories, both of which are more sensitive to economic conditions, trade activity, and effective implementation than VAT. If either underperforms, there is relatively limited scope for more stable revenue sources to make up the difference. The implications of this concentration for fiscal risk are discussed further in Section 4.5.

4.5 Risk: Revenue Optimism Bias

The FY 2083/84 B.S. (2026/27 A.D.) revenue projections appear ambitious when viewed in light of both recent revenue performance and the sources of the expected increase in tax revenue.

Recent experience highlights this challenge. In both FY 2081/82 B.S. (2024/25 A.D.) and FY 2082/83 B.S. (2025/26 A.D.), the Government collected less revenue than originally projected (FCGO, 2026a), leading to downward revisions of revenue estimates during the fiscal year. Against this backdrop, the FY 2083/84 B.S. (2026/27 A.D.) budget assumes a notable improvement in revenue collection compared with recent years (Government of Nepal, Ministry of Finance, 2026). Achieving this target will depend on stronger tax administration, higher taxpayer compliance, and economic conditions being more favorable than in recent years.

If revenue collections again fall short of the target, the Government will need to either increase borrowing beyond the NPR 410.00 billion already planned (Government of Nepal, Ministry of Finance, 2026) or reduce spending during the fiscal yearGiven Nepal's long-standing difficulties in fully executing its capital budget (FCGO, 2026a), such spending reductions could affect capital expenditure disproportionately. This could reduce public investment and limit the Government's ability to achieve the development goals set out in the budget (Nepal Rastra Bank, 2026b).

4.6 Ministry-Wise Budget Allocation

Top Ministry Allocations

The FY 2083/84 B.S. (2026/27 A.D.) budget is the first to reflect the Federal Government's administrative restructuring, which reduced the number of ministries from 22 to 18 with the aim of creating a more streamlined and efficient government (Government of Nepal, Ministry of Finance, 2026). By bringing together related functions, the restructuring seeks to improve coordination and reduce administrative costs. The resulting distribution of budget allocations provides an early indication of the Government's priorities under this new institutional structure.

The Ministry of Infrastructure Development receives the largest allocation at NPR 302.84 billion (Figure 13), accounting for approximately 14.26 percent of the total federal budget of NPR 2,124.34 billion. This reflects the Government's continued focus on improving physical connectivity, with NPR 286.48 billion allocated to roads and urban infrastructure. The Ministry of Education and Sports receives the second-largest allocation at NPR 218.31 billion, highlighting the Government's emphasis on education reform, skills development, and greater academic autonomy (Government of Nepal, Ministry of Finance, 2026).

The Ministry of Women, Children, Gender and Social Security receives the third-largest allocation at NPR 122.61 billion, of which NPR 120 billion is allocated to social security allowances. Other major allocations include NPR 114.03 billion for the Ministry of Energy, Water Resources and Irrigation and NPR 108.33 billion for the Ministry of Home Affairs (Government of Nepal, Ministry of Finance, 2026).

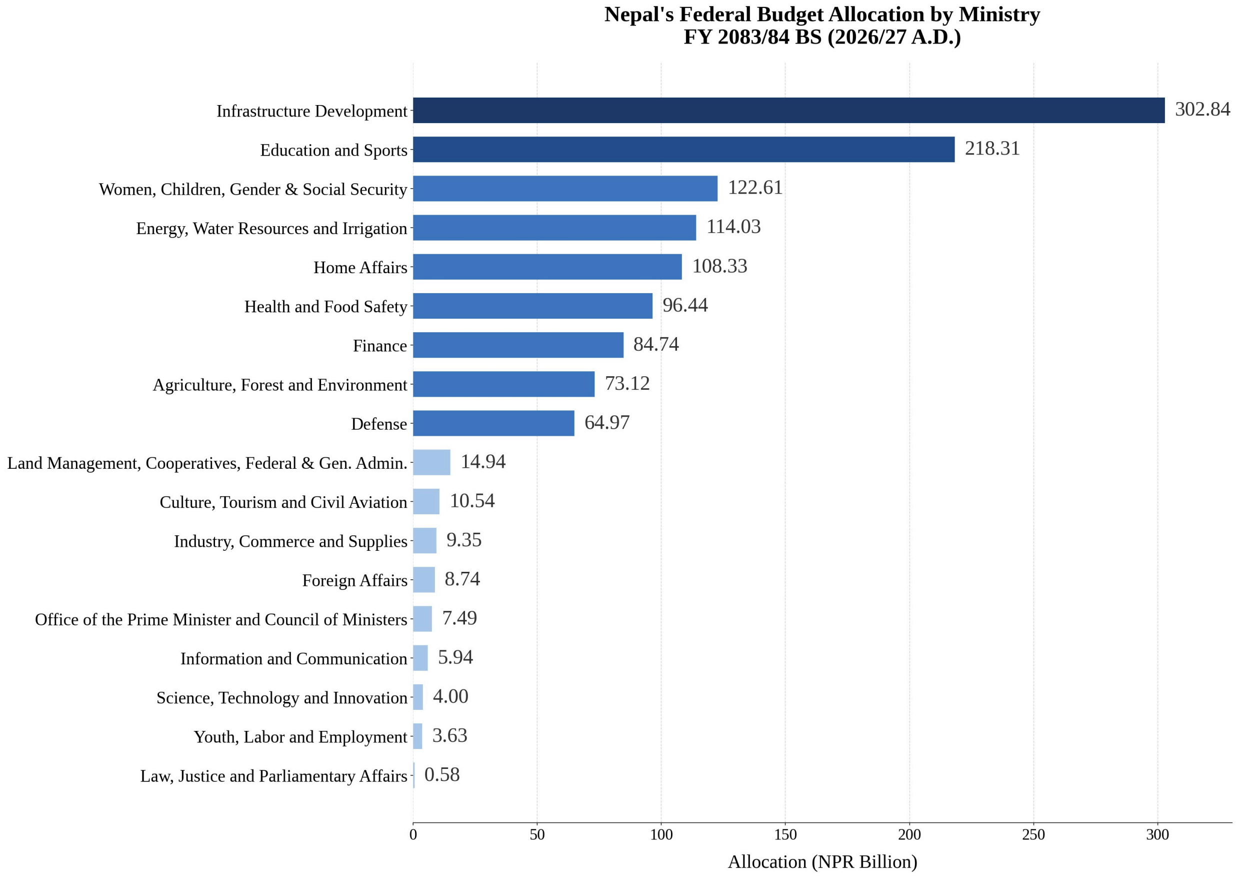

Figure 13: Federal Budget Allocation by Ministry

Note: Allocations are converted from NPR lakh to NPR billion and rounded to two decimal places. The "Health and Food Safety" figure shown reflects the federal ministry allocation only; sector-wide health spending cited elsewhere in this report (NPR 101.95 billion) includes provincial and local government health transfers.
Source: Government of Nepal, Ministry of Finance, Budget Speech 2083/84 (2026/27), Appendix 4.

What the Budget Signals

The distribution of ministry-level allocations highlights three broad priorities in the FY 2083/84 B.S. (2026/27 A.D.) budget (Figure 13). Together, these allocations suggest that the Government is seeking to support economic growth while working towards its stated goals of achieving 7 percent economic growth and keeping inflation below 6 percent (Government of Nepal, Ministry of Finance, 2026).

- **Infrastructure Development:** As discussed in Section 4.6, the Ministry of Infrastructure Development receives the largest share of the budget, reflecting the Government's continued emphasis on expanding physical infrastructure (Government of Nepal, Ministry of Finance, 2026). However, larger allocations alone will not guarantee better outcomes. As discussed in Section 3.1, Nepal has consistently faced challenges in executing its capital budget, and Financial Comptroller General Office data show that capital expenditure reached only 46.8 percent of the original annual allocation in FY 2082/83 B.S. (2025/26 A.D.) (FCGO, 2026a). The impact of this investment will therefore depend on whether projects are implemented efficiently and completed on time.

- **Social Protection:** The allocation to the Ministry of Women, Children, Gender and Social Security (Section 4.6) reflects the Government's continued commitment to strengthening social protection while bringing previously separate programmes under one ministry (Government of Nepal, Ministry of Finance, 2026). The budget also introduces the "Capable Renounce, Vulnerable Connect" campaign to improve the targeting of social security benefits (Government of Nepal, Ministry of Finance, 2026). Its success will depend on whether these changes improve the delivery of benefits to those who need them most.
- **Human Capital:** The combined allocations for the Ministry of Education and Sports and the Ministry of Health and Food Safety indicate continued investment in education and healthcare (Government of Nepal, Ministry of Finance, 2026). The education budget focuses on skills development and greater academic autonomy, while the health budget aims to expand access to health services and strengthen the public healthcare system (Government of Nepal, Ministry of Finance, 2026). As with infrastructure spending, the impact of these allocations will depend on how effectively the funds are used. Recent revenue and expenditure trends underscore the importance of improving public resource management alongside increasing budget allocations (Nepal Rastra Bank, 2026a, 2026b).

5 Administrative Restructuring and Institutional Reform

5.1 Scope of Reform

The FY 2083/84 B.S. (2026/27 A.D.) Budget introduces one of the most significant public sector restructuring initiatives since the introduction of Nepal's federal system. Presented by Finance Minister Dr. Swarnim Wagle, the reform aims to improve the efficiency of government operations, strengthen coordination across ministries, and reduce recurring government costs. A key part of the reform is the reduction in the number of federal ministries from 22 to 18, formalized through the Nepal Government (Allocation of Business) Rules, 2026 (Government of Nepal, Ministry of Finance, 2026).

The restructuring also includes the abolition, merger, restructuring, or transfer of 61 public entities with the aim of reducing overlapping responsibilities and creating a more streamlined federal government (Government of Nepal, Ministry of Finance, 2026). The distribution of these reforms is summarized below (Table 3).

Table 3: Institutional Restructuring Measures, FY 2083/84 B.S. (2026/27 A.D.)

Reform Action	**No. of Bodies**
Abolished	31
Merged	6
Transferred	6
Restructured	18
Total Affected	**61**

Note: The Government of Nepal announced the abolition of 31 bodies, merger of 6 bodies, transfer of 6 bodies, and restructuring of 18 bodies as part of its institutional restructuring measures
Source: Government of Nepal, Ministry of Finance (2026), Budget Speech 2083/84 (2026/27), p. 4.

Of the 61 affected bodies, 31 are being abolished and 6 are being merged, together accounting for the 37 bodies cited in Section 2 as being abolished or merged. The remaining 24 bodies are being restructured (18) or transferred to provincial or local governments (6). These entities will therefore continue to operate in a modified form rather than being eliminated.

The Government estimates that the reforms will reduce recurrent expenditure by approximately NPR 20 billion. The savings are expected to support greater use of technology in public administration and improve the efficiency of government services (Government of Nepal, Ministry of Finance, 2026).

Several of the proposed reforms are particularly significant. In the energy sector, the Government plans to separate the Nepal Electricity Authority into different entities responsible for electricity generation, transmission, and distribution/trading (Government of Nepal, Ministry of Finance, 2026). The consolidation of national statistical functions under the National Statistics Office is intended to improve the coordination and management of official statistics. Similarly, merging Kathmandu Valley's water management institutions is expected to reduce duplication and improve coordination across previously separate agencies. The transfer of the Policy Research Institute to the National Planning Commission is also expected to strengthen the use of research in national planning and policymaking (Government of Nepal, Ministry of Finance, 2026).

5.2 Key Risks and Implementation Challenges

While the restructuring programme has the potential to improve the efficiency of government over the medium term, implementing these reforms will involve significant challenges. Changes affecting 61 public entities could disrupt government operations, delay service delivery, and result in the loss of institutional knowledge during the transition. These risks may be greater because the Government has decided to suspend budget allocations for merged or dissolved entities until their financial liabilities are settled and new staffing arrangements are completed (Government of Nepal, Ministry of Finance, 2026).

Several areas require particular attention.

- **Revenue administration.** The abolition of the Revenue Investigation Department and the transfer of its responsibilities to other agencies will require close coordination to ensure that tax enforcement and compliance activities continue without disruption during the transition (Government of Nepal, Ministry of Finance, 2026).
- **Public expenditure** As noted in Section 5.1, the restructuring is intended to reduce recurrent expenditure and improve the efficiency of government operations. Achieving these goals will be important if the Government is to direct more resources towards development spending, particularly given the growing pressure from recurrent expenditure and financial management obligations discussed earlier in this report.
- **Implementation capacity** The success of the reforms will depend on the Government's ability to manage institutional changes while continuing to deliver existing programmes and services. Nepal has consistently faced difficulties in executing its capital budget (FCGO, 2026a; Nepal Rastra Bank, 2025). This suggests that changes to government structures alone are unlikely to improve results without stronger project planning, procurement, and management of public resources.
- **Expected savings** The Government estimates that the restructuring will reduce recurrent expenditure by approximately NPR 20 billion. This estimate will need to be assessed against actual expenditure after the reforms are implemented. If savings are lower than expected, the restructuring may have a more limited effect on the Government's overall spending pressures.

6 Policy and Fiscal Alignment of the FY 2083/84 B.S. (2026/27 A.D.) Budget

The National Planning Commission (NPC) released the 16th five-year plan for the Nepal Government in FY 2081/82 B.S. (2024/25 A.D.). This is the framework for Government-led national development until FY 2085/86 B.S. (2028/29 A.D.). Succeeding plans, policies and programs are expected to be in harmony with each other through the 16th Plan framework. The latest budget is the third annual budget after the release of the 16th Plan. The budget for FY 2081/82 B.S. (2024/25 A.D.) was released soon after the 16th Plan and was focused on remedying the sluggish economic growth through a new phase of economic reform. The following budget of FY 2082/83 B.S. (2025/26 A.D.) was focused on growth through public and private investment. The most recent budget of FY 2083/84 B.S. (2026/27 A.D.) has aimed for revitalizing the economy through relief for businesses and the middle class, strides in digital infrastructure, and administrative reform.

Read together, the three years trace a deliberate two-phase trajectory rather than three isolated annual exercises. The FY 2081/82 B.S. (2024/25 A.D.) and FY 2082/83 B.S. (2025/26 A.D.) National Policies and Programs form a macro-stabilization phase focused on foundation setting: post-pandemic economic stabilization, supply chain recovery and inflation control, followed by structural reforms such as cooperative modernization, land bank establishment and preparation for LDC graduation. The FY 2083/84 B.S. (2026/27 A.D.) National Policies and Programs then pivot toward a consolidation and growth phase centred on accelerating capital mobilization, with deep-seated administrative reform, anti-corruption tracking and digital economy modernization taking precedence, an emphasis the FY 2083/84 B.S. (2026/27 A.D.) budget mirrors through direct funding for the IT decade, clean energy exports and international financial compliance. The sector-by-sector alignment set out below should be read against this arc, since sectors positioned early in the trajectory are naturally further along in implementation than those introduced more recently.

It is necessary to consider to what extent the most recent budget is aligned with previous plans, policies and programs since close alignment of policies leads to predictability, stability, business confidence and an overall encouraging environment.

A quantitative reading of the 16th Plan's mid-term targets against the FY 2083/84 B.S. (2026/27 A.D.) budget's implementation levels illustrates the scale of the alignment challenge that remains. Against the 16th Plan's goal of 7.3 percent average GDP growth, actual growth performance during the Plan's first two years (FY 2081/82–2082/83) has averaged approximately 4.2 percent. Electricity generation funded through the FY 2083/84 B.S. (2026/27 A.D.) budget stands at 4,500 MW, against the plan's eventual target of 11,700 MW by FY 2085/86 B.S. (2028/29 A.D.). Absolute poverty, which stood at a baseline of 20.3 percent in 2081 B.S. (2024/25 A.D.), is targeted to fall to 12.0 percent, while enrolment in the Social Security Fund is budgeted to reach 1.0 million workers in FY 2083/84 B.S. (2026/27 A.D.) against the plan's eventual target of 2.0 million workers. These gaps do not necessarily indicate policy misalignment so much as they highlight the scale of acceleration required in the plan's remaining years.

6.1 Green Energy and Clean Energy Transition

In some sectors, the current budget is strongly aligned with previous plans, policies, and programs. It is the case that multi-year projects mentioned in previous policies and programs are funded by the most recent budget. In the green energy sector, the FY 2081/82 B.S. (2024/25 A.D.) National Policies and Programs (Government of Nepal, 2024, Clause 66) and the following budget (Government of Nepal, Ministry of Finance, 2024, Clause 55) have emphasized the goal of Net Zero Carbon Emission by 2045 A.D. This has been given continuity in the current National Policies and Programs (Government of Nepal, 2026, Clause 28). More importantly, the FY 2083/84 B.S. (2026/27 A.D.) budget plans to fund this in the form of clean energy bonds and diaspora bonds. For the same goal, alternative sources like solar and hydropower are promoted in the current budget and there are plans to explore green hydrogen (Government of Nepal, Ministry of Finance, 2026, Clause 43(i)). The FY 2082/83 B.S. (2025/26 A.D.) National Policies and Programs planned to construct national and international high-capacity transmission lines with private partnership (Government of Nepal, 2025, Clause 40). This is also seen in the FY 2083/84 B.S. (2026/27 A.D.) annual budget in the form of allowing private sector to trade electricity in the international market by constructing transmission lines (Government of Nepal, Ministry of Finance, 2026, Clause 20).

Beyond bond financing, the FY 2083/84 B.S. (2026/27 A.D.) budget and its accompanying National Policies and Programs give further shape to Nepal's positioning as a regional clean energy hub. Transmission system upgrades funded under the current budget are specifically directed at facilitating cross-border electricity exports to India and Bangladesh, while foundational regulatory guidelines for commercial green hydrogen are being laid down for the first time. Remittance capitalization is also being pursued as a financing channel, with structured hydro bonds designed to channel non-resident Nepali capital into mega hydropower projects.

6.2 Agriculture

In the case of agriculture, the National Policies and Programs of FY 2081/82 B.S. (2024/25 A.D.) planned to implement 'Investment Decade in Agriculture 2081/82 to 2091/92' (Government of Nepal, 2024, Clause 33). While this specific wording does not appear in the current budget, it has funded some provisions previously planned. The FY 2081/82 B.S. (2024/25 A.D.) National Policies and Programs advanced farmer registration and farmer ID card system for services and concessions (Government of Nepal, 2024, Clause 45). In this context, the current budget has committed to completing the farmer registration and distributing the farmer ID cards (Government of Nepal, Ministry of Finance, 2026, Clause 50(c)). Despite 'Investment Decade in Agriculture' not being mentioned in the current budget, there is significant investment in agriculture, regardless, through the National Agricultural Modernization Programme (Government of Nepal, Ministry of Finance, 2026, Clause 50(b)), procurement and distribution of chemical fertilizer during peak season (Government of Nepal, Ministry of Finance, 2026, Clause 50(a)) and subsidies for agricultural insurance premiums (Government of Nepal, Ministry of Finance, 2026, Clause 50(h)) which were also included in the FY 2082/83 B.S. (2025/26 A.D.) budget (Government of Nepal, Ministry of Finance, 2025, Clause 35).

The current budget also carries forward the land-bank and minimum support pricing groundwork established in the FY 2081/82 B.S. (2024/25 A.D.) and FY 2082/83 B.S. (2025/26 A.D.) National

Policies and Programs through a broader commercialization push. This includes efforts to unify agricultural insurance, credit and input access through digital farmer ID registries, a transition of public-private investment toward specialized zones for competitive commercial crops along regional highways, and contract farming arrangements that allow youth cooperatives to secure buy-back guarantees for large-scale production.

6.3 Land Reform and Cooperative Regulation

There is also considerable overlap between National Policies and Programs and the budget in the area of land reforms. National Policies and Programs FY 2081/82 B.S. (2024/25 A.D.) planned to utilize arable and barren land by land-pooling for collective, contract and cooperative farming (Government of Nepal, 2024, Clause 34). National Policies and Programs FY 2082/83 B.S. (2025/26 A.D.) brought the concept of land banks to guarantee availability of land (Government of Nepal, 2025, Clause 14). The current budget blends these two policies and aims to establish land banks at the local level and encourage agro-pooling to utilize uncultivated land (Government of Nepal, Ministry of Finance, 2026, Clause 50(c)).

Alongside land reform, the FY 2083/84 B.S. (2026/27 A.D.) budget addresses systemic risk in the informal financial and cooperative sector, a concern emphasized progressively from the FY 2082/83 B.S. (2025/26 A.D.) National Policies and Programs onward. It establishes a National Cooperative Regulatory Authority to enforce stringent audits and compliance and launches a dedicated Saver Rescue Fund to provide a savings guarantee for small savers affected by distressed cooperatives.

6.4 IT and Digital Economy

In the IT and digital sector, the FY 2081/82 B.S. (2024/25 A.D.) National Policies and Programs declared the next decade as the IT decade (Government of Nepal, 2024, Clause 124). The current budget has placed a similar importance in the IT sector by listing it as one of the drivers of economic prosperity (Government of Nepal, Ministry of Finance, 2026, Clause 75). It has planned to develop Nepal as a 'tech-hub' (Government of Nepal, Ministry of Finance, 2026, Clause 17) and establish the nation's first AI Compute Center (Government of Nepal, Ministry of Finance, 2026, Clause 18) to be competitive in the AI era. Regarding startups, the FY 2082/83 B.S. (2025/26 A.D.) National Policies and Programs planned a provision for innovation-based startup loan (Government of Nepal, 2025, Clause 45). The current budget takes after this and has committed to a minimum of 1% of capital expenditure in the science, technology and innovation sector (Government of Nepal, Ministry of Finance, 2026, Clause 28).

The FY 2083/84 B.S. (2026/27 A.D.) budget also provides specific fiscal allocations to build out the digital capacity envisioned since the IT decade was first declared in the FY 2081/82 B.S. (2024/25 A.D.) National Policies and Programs and reaffirmed in the current National Policies and Programs. Provincial digital workstations are being constructed under a Global IT Hub initiative expected to generate 5,000 direct technology service jobs, e-governance functions are being expanded through a Citizen App Platform intended to reduce reliance on physical paperwork, and unified data centres together with ethical guidelines for AI use are being activated as part of a National Cybersecurity programme.

6.5 Social Security and Human Capital

In the social security sector, both the National Policies and Programs FY 2081/82 B.S. (2024/25 A.D.) and FY 2082/83 B.S. (2025/26 A.D.) have planned to expand the scope of the contribution based social security program by including temporary workers, contract workers and also workers in the informal sector (Government of Nepal, 2024, Clause 61; Government of Nepal, 2025, Clause 172). To achieve this, the FY 2083/84 B.S. (2026/27 A.D.) budget has committed to launch a special campaign to enroll workers in the informal and unorganized sectors into the social security system (Government of Nepal, Ministry of Finance, 2026, Clause 35) and has also pledged to include gig workers in the formal social security system (Government of Nepal, Ministry of Finance, 2026, Clause 49(f)).

These enrolment commitments are reinforced by a shift toward mandatory participation: FY 2083/84 B.S. (2026/27 A.D.) budget provisions make Social Security Fund enrolment a strict prerequisite for company and licence renewals for corporate, contract and daily wage workers, in service of the 16th Plan's goal of two million enrolled workers. The budget also moves to integrate previously distinct health funds into a unified National Health Insurance system, and pairs this with education priorities centred on technical skills, an 'Earn and Learn' vocational model and expanded digital classrooms.

6.6 Tourism, Governance and Fiscal Reforms

Beyond these sectors, the current budget is aligned with plans, policies, and programs in other sectors like tourism and good governance as well. In the tourism sector, the budget has committed to fund and develop previously planned projects such as Gautam Buddha International Airport, Pokhara International Airport and the Great Himalayan Trail among others. Similar strides have been made in the sector of good governance and fiscal reforms as well. However, there is a policy discord that has recently arisen. The 16th Plan, National Policies and Programs FY 2081/82 B.S. (2024/25 A.D.), FY 2082/83 B.S. (2025/26 A.D.) and the corresponding annual budgets all included plans for Nepal to graduate from LDC status in 2026 A.D. The Smooth Transition Strategy (STS) for Nepal's LDC graduation was mentioned in the National Policies and Programs FY 2082/83 B.S. (2025/26 A.D.) (Government of Nepal, 2025, Clause 7). However, the newly formed Government has recently decided to defer Nepal's graduation until 2029 A.D. (Post Report, 2026). This represents a policy misalignment in the current budget.

These commitments are supported by tailored aviation fee waivers designed to fully activate the Pokhara and Bhairahawa (Gautam Buddha) international airports, continued build-out of the trail network, and dedicated religious tourism circuits spanning Buddhist, Shiva and Ramayan heritage sites, alongside channels for diaspora investment into community-managed homestay eco-zones. On the governance side, the budget operationalizes reform pillars carried over from the National Policies and Programs through a full transition to the e-GP 2.0 procurement system for digital audits and tracking, the digitization of taxpayer systems alongside structural tax bracket revisions following the establishment of a High-Level Tax Reform Commission, a push toward full compliance with international anti-money laundering standards (FATF/APG) within FY 2083/84 B.S. (2026/27 A.D.), and stricter enforcement of Project Bank guidelines that impose firm allocation limits and cancel low-performing, slow-moving capital projects.

6.7 MSME and Private Sector Development

Enhancing Production, Productivity and Competitiveness is one of the priorities of the 16th Plan. Under this priority, the 16th plan has planned a program for development and promotion of MSMEs (National Planning Commission, 2024, p. 63). Other goals such as promoting model MSME entrepreneurs from among minorities (National Planning Commission, 2024, p. 148), launching targeted MSMEs based on potential of concerned province and local level (National Planning Commission, 2024, p. 163), and mobilizing cooperative sector for MSME development (National Planning Commission, 2024, p. 173) fall under gender equality and social inclusion, balanced provincial and local development, and poverty reduction respectively.

Successive National Plans and Policies for FY 2081/82 B.S. (2024/25 A.D.), FY 2082/83 B.S. (2025/26 A.D.) and FY 2083/84 B.S. (2026/27 A.D.) place similar importance in MSMEs. National Plan and Policies FY 2081/82 B.S. (2024/25 A.D.) has provisions for improving the industrial environment through timely administrative reforms (Government of Nepal, 2024, Clause 70). The current budget has seemed to take after this to some extent by committing to amend the Insolvency Act, 2006 to address financial problems of MSMEs (Government of Nepal, Ministry of Finance, 2026, Clause 10(a)) and by planning to integrate MSMEs into the national enterprise ecosystem through Nepal Enterprise Facility (Government of Nepal, Ministry of Finance, 2026, Clause 57(a)). Similarly, National Plan and Policies FY 2082/83 B.S. (2025/26 A.D.) has given priority to industrial zones and special economic zones (Government of Nepal, 2025, Clause 47). In line with this, the current budget has committed to making arrangements of 'Special Economic Administrative Area' to assist with the administrative duties in 'Special Economic Zones' (Government of Nepal, Ministry of Finance, 2026, Clause 27). The budget has planned for the private sector to develop industrial zones in Motipur and Mayurdhap (Government of Nepal, Ministry of Finance, 2026, Clause 27) which supports both MSMEs and private sector development. It has also committed to promoting women entrepreneurs in Panchkhal Special Economic Zone in the spirit of the 16th Plan (Government of Nepal, Ministry of Finance, 2026, Clause 27).

The Government has aimed to reinstate the confidence of the private sector and foster a new economic system based on entrepreneurship through this budget (Government of Nepal, Ministry of Finance, 2026, Clause 76).

6.8 Health & Education

The current budget has some alignment with the plan. It has allocated NPR 15 billion to comprehensively restructure the health insurance program and bring 90 percent of people under the coverage (Government of Nepal, Ministry of Finance, 2026, Clause 32, Clause 48(a)). The budget has committed to arranging free treatment of childhood cancer in government hospitals (Government of Nepal, Ministry of Finance, 2026, Clause 48(i)). Regarding new technology, it has also allocated NPR 320 million to procure and install PET Scan and Cyclotron machine at the BP Koirala Memorial Cancer Hospital (Government of Nepal, Ministry of Finance, 2026, Clause 48(o)). It has committed to connect Ayurveda and alternative medicine sector to health tourism (Government of Nepal, Ministry of Finance, 2026, Clause 48(p)). Additionally, the National Plans and Policies FY 2081/82 B.S. (2024/25 A.D.) had planned to bring Sahid Dasharath Chand Health Sciences University into operation (Government of Nepal, 2024, Clause 154). The current budget has committed to implementing programs in four faculty of medical education including MBBS at the university (Government of Nepal, Ministry of Finance, 2026, Clause 47(a)).

In the education front, the 16th Plan has planned to provide physical and educational infrastructure, make the curriculum contemporary and practical, link education with the market and expand investment for quality and inclusive education (National Planning Commission, 2024, pp. 90–91). The current budget has allocated NPR 1 billion to conduct infrastructure requirement mapping for community schools across the country (Government of Nepal, Ministry of Finance, 2026, Clause 47(a)). The budget has also committed to promoting the study of music, arts and literature nationwide (Government of Nepal, Ministry of Finance, 2026, Clause 47(c)).

While NPR 218.31 billion has been allocated in the education sector, technical and vocational education are notably missing from the budget, which is in contrast to the 16th Plan that lists making technical and vocational training program effective as one of its transformative strategies. It is also in contrast to previous National Plans and Programs that plan for technical and vocational education (Government of Nepal, 2024, Clause 149; Government of Nepal, 2025, Clause 64).

All in all, we can see that while misalignments exist, the current budget takes after many aspects of previous plans, policies and programs. There is no lack of examples of previously introduced plans and policies being realized and funded by the current budget. This harmony fosters optimism and hopes that targets of the 16th Plan are fulfilled through closely aligned policies and programs.

7 Sectoral Analysis

This section presents NDRI's sectoral analysis of the Government of Nepal's FY 2083/84 B.S. (2026/27 A.D.) Federal Budget. The analysis is organized around NDRI's four core thematic areas: Livelihood and Food Security; Health, Education, and Environment; Water and Climate; and Economic Development. As well as the cross-cutting themes of Gender Equality and Social Inclusion (GESI) and Disaster Risk Management, reflecting their importance to the Institute's research priorities.

Rather than providing an extensive review of Nepal's NPR 2.12 trillion federal budget or assessing every area of government expenditure, this section offers an independent, evidence-based evaluation through the lens of NDRI's thematic priorities and the Economic Development Programme (EDP) under which this report is prepared. It examines how fiscal allocations, policy measures, and reform initiatives align with the sectors in which NDRI conducts research and policy engagement, with particular attention to the extent to which the budget advances these priorities. Drawing on NDRI's research, field experience, and policy evidence, it provides sectoral insights into the government's fiscal priorities and policy direction.

Each thematic chapter follows a consistent analytical framework. It examines the scale and composition of relevant budget allocations, compares them with trends from previous fiscal years and the priorities of key policy frameworks, including the Sixteenth Periodic Plan, and assesses whether stated policy objectives are supported by realistic implementation mechanisms and adequate institutional capacity. Where relevant, the analysis draws on NDRI's previous research and policy recommendations to evaluate the extent to which the budget reflects the evidence generated by the Institute.

7.1 Livelihood and Food Security

The Government of Nepal has allocated NPR 73.12 billion to the restructured Ministry of Agriculture, Forests and Environment, representing approximately 3.44 percent of the total national budget of NPR 2.12 trillion. Of this amount, NPR 46.92 billion is allocated specifically to agriculture and livestock development through the federal ministry, equivalent to 2.21 percent of the total national budget. A further NPR 7.73 billion (10.5 percent) is to be transferred to Provincial Governments, while NPR 3.00 billion (4.1 percent) is allocated to Local Governments. Despite the sector's importance to rural livelihoods and food security, the allocation for agriculture and livestock development remains relatively modest and is the lowest recorded over the past nine years.

Figure 14: Agriculture Budget Allocation and Share of the Total Budget

Agriculture remains a major source of livelihoods in Nepal, particularly for rural households, yet its share of public expenditure remains relatively limited compared with its importance to employment and household incomes. The FY 2083/84 B.S. (2026/27 A.D.) budget nevertheless contains some notable shifts within the sector. While the overall allocation remains constrained, projected expenditure on agriculture and livestock development increases from the previous year's revised estimate.

Table 4: Agriculture Budget Allocation, FY 2082/83–2083/84 B.S. (2025/26–2026/27 A.D.)

Category	Revised Estimate FY 2082/83 B.S.	Budget FY 2083/84 B.S.	Change
Total	NPR 50.40 bn	NPR 60.31 bn	+19.7%
Recurrent	NPR 47.58 bn	NPR 54.51 bn	+14.6%
Capital	NPR 2.81 bn	NPR 5.80 bn	+106.3%

Note: Figures in this table reflect the core federal programme budget for agriculture and livestock development plus forest & environment (recurrent and capital), and differ from the NPR 73.12 billion full ministry envelope cited in Section 7.1 and Figure 13, which additionally includes provincial and local government transfers.

One of the more notable changes is the increase in capital expenditure. Capital spending rises from NPR 2.81 billion in FY 2082/83 B.S. (2025/26 A.D.) to NPR 5.80 billion in FY 2083/84 B.S. (2026/27 A.D.), an increase of 106.3 percent. As a share of total ministry expenditure, capital expenditure rises from 5.58 percent to 9.62 percent. This shift suggests a stronger emphasis on productive investment, including infrastructure and other assets that can support agricultural productivity. However, the capital component remains relatively small compared with recurrent expenditure, meaning that the sector's capacity to undertake transformative investments remains limited.

Key Budget Features and Assessment

Commercial Agriculture Incentive Grants: The budget introduces a pilot incentive-grant programme providing support of up to 40 percent for farmers investing at least NPR 20 million in agricultural or livestock enterprises, with reimbursement spread over four years once production begins. The measure is intended to encourage larger-scale commercial investment and may help address some of the weaknesses associated with fragmented agricultural support programmes. However, the relatively high minimum investment threshold raises questions about accessibility. Given the predominance of smallholder farming in Nepal, many farmers are unlikely to qualify directly for the programme. Its contribution to inclusive agricultural transformation will therefore depend on whether smaller producers can participate through cooperatives, producer groups, or other forms of collective investment.

Continued emphasis on chemical fertilizers: Fertilizer procurement remains one of the largest components of the agriculture and livestock development budget, with NPR 32.46 billion allocated for chemical fertilizer. This represents approximately 69.2 percent of the agriculture and livestock development allocation and is accompanied by a proposed supply calendar intended to improve seasonal availability. The continued concentration of resources on fertilizer subsidies can support short-term productivity and address a persistent constraint faced by farmers. However, the scale of this allocation also raises questions about the balance between recurrent agricultural support and longer-term investments in irrigation, mechanization, storage, research, market infrastructure, and sustainable soil management.

Table 5: Agriculture and Chemical Fertilizer Budget Trends, FY 2079/80–2083/84 B.S.(2022/23–2026/27 A.D.)

Category	2022/23	2023/24	2024/25	2025/26	2026/27
Agriculture budget (NPR bn)	59.9	59.0	57.3	57.5	46.92
Chemical fertilizer budget (NPR bn)	15	30	27.95	28.82	32.46
Share of agriculture budget (%)	25.0	50.9	48.8	50.1	69.2

The budget also provides NPR 360 million in conditional grants to Local Governments for the promotion of organic and green manure. Although relatively small compared with chemical fertilizer spending, this allocation provides an opportunity to strengthen more sustainable approaches to soil management. The effectiveness of this measure will depend on whether it is integrated with broader efforts to improve soil health and reduce excessive dependence on imported agricultural inputs.

Agricultural and Livestock Insurance: The budget continues premium subsidies for agricultural and livestock insurance and allocates NPR 2.19 billion to support insurance coverage, including subsidies of up to 80 percent of premiums. This is relevant to strengthening resilience against climate-related and production risks. However, historically low insurance uptake suggests that premium subsidies alone may not be sufficient to expand coverage. Greater awareness among farmers, simpler claims procedures, improved access to insurance services, and stronger trust in the claims process will also be necessary if the allocation is to translate into broader protection for farming households.

Reduction in National Agricultural Modernization Programme Funding: Despite the continued emphasis on agricultural commercialization, funding for the National Agricultural Modernization Programme (NAMP) falls from NPR 3.50 billion to NPR 2.07 billion, a reduction of 40.8 percent. Given the programme's role in supporting production zones, value-chain development, and commercialization, this reduction appears difficult to reconcile with the broader emphasis on agricultural modernization. The decline therefore warrants attention, particularly if the Government intends to expand commercial production and strengthen agricultural value chains.

Irrigation and Agricultural Productivity: Irrigation remains one of the stronger areas of investment within the agriculture and food-security agenda. The Government plans to expand irrigation coverage by an additional 15,800 hectares while continuing work on major projects, including the Sunkoshi-Marin Diversion, Sikta Irrigation, and Babai Irrigation schemes. Expanded and reliable irrigation can improve agricultural productivity, increase cropping intensity, and reduce farmers' exposure to rainfall variability. However, the extent to which these investments generate agricultural gains will depend on timely completion, effective operation, and the ability to connect newly irrigated areas with complementary inputs, extension services, markets, and storage facilities.

Labor Migration and Rural Livelihoods: The budget also recognizes the importance of migration and remittances to household incomes and the wider economy. Proposed measures such as the Remittance-Investment Matching Fund and the Returnee Migrant Program seek to encourage productive investment and support the reintegration of returning migrant workers. These initiatives could contribute to rural entrepreneurship and employment if they are effectively linked to local economic opportunities. Stronger connections between returnee migrants and agriculture, agribusiness, and rural enterprises could further reinforce the Government's objectives of agricultural modernization and rural economic development.

Other Budget Measures: Several additional measures complement the broader agriculture and food-security agenda. Proposed local-level land banks and agro-pooling arrangements aim to bring fallow and underutilized land into productive use, although their effectiveness will depend on appropriate governance arrangements and safeguards for smallholders. The proposed Agriculture Bill, including provisions related to farmer-buyer contracts and market pricing, could strengthen farmers' position within agricultural value chains if effectively implemented. The budget also continues investments in irrigation and rural infrastructure, while measures such as the Remittance-Investment Matching Fund seek to channel migration-related resources into productive activities. The increase in monthly child nutrition support for disadvantaged Dalit households from NPR 500 to NPR 1,000 also strengthens the consumption-side dimension of food security. Greater integration between these nutrition measures and agricultural programmes could, however, strengthen their contribution to longer-term food and nutrition security.

Expected Outcomes for Livelihoods and Food Security The FY 2083/84 B.S. (2026/27 A.D.) budget sets several output targets relevant to agriculture, livestock, rural infrastructure, employment, and food security. Table 6 presents selected headline indicators rather than the full range of targets included in the Government's Budget Speech, focusing on indicators that provide a clearer picture of the expected changes across relevant subsectors.

The targets suggest gradual rather than transformative improvements in agricultural and rural outcomes. Paddy production is projected to increase by 2.50 percent, while milk production is expected to rise by 2.32 percent. The target for chemical fertilizer supply is more ambitious, increasing by 30 percent, reflecting the continued importance placed on input availability. At the same time, the expansion of local blacktopped roads, employment through industries, and the Youth Self-Employment Fund indicates an effort to connect agricultural development with broader rural infrastructure and employment outcomes.

Overall, the FY 2083/84 B.S. (2026/27 A.D.) budget provides support for agriculture, food security, and rural livelihoods through a combination of input subsidies, commercialisation incentives, insurance, irrigation, rural infrastructure, and employment measures. The increase in capital expenditure within the agriculture portfolio is a positive shift toward productive investment, but the overall allocation remains constrained and heavily weighted toward recurrent expenditure, particularly fertilizer support. The budget therefore provides some important building blocks for improving agricultural productivity and rural livelihoods, but its broader development impact will depend on implementation, coordination across levels of government, and the extent to which programmes are accessible to smallholder farmers and other vulnerable households. Strengthening the links between agricultural productivity, market access, rural employment, migration, and nutrition will be particularly important if these investments are to contribute to sustained improvements in livelihoods and food security.

Table 6: Agriculture and Food Security Sector: Selected Headline Indicators, FY 2082/83 B.S. (2025/26 A.D.) and FY 2083/84 B.S. (2026/27 A.D.)

S.N.	**Sector**	**Headline Indicator**	**Unit**	**Est. FY 82/83**	**Target FY 83/84**	**% Chg**
1	Agriculture	Paddy production	MT ('000)	5,705.13	5,847.75	2.50%
1a*	Agriculture	Fertilizer supply (chemical)	MT ('000)	500	650	30.00%
2	Livestock & Fisheries	Milk production	MT ('000)	2,724.97	2,788.10	2.32%
6	Local Roads/Bridges	Local blacktopped roads	Km	5,212	5,362	2.88%
21	Industry	Jobs from large/med/small/micro industry	Number ('000)	169	200	18.34%
22	Supply	Food stock in Natl. Security Buffer	MT ('000)	25	25	0.00%
27	Youth	Jobs from Youth Self-Employment Fund	'000	11	12	9.09%

**Sub-item of Agriculture sector, indicator 1.*
Note: Serial numbers (S.N.) correspond to the original indicator numbering in the Government of Nepal's FY 2083/84 B.S. Budget Speech output/target annex. This table presents a selected subset of indicators rather than the full sequence; non-consecutive S.N. values reflect indicators omitted from this table, not errors in transcription.

7.2 Health, Education and Environment

Education

The Government of Nepal has allocated NPR 218.31 billion to the education sector in the FY 2083/84 B.S. (2026/27 A.D.) budget, accounting for 10.3 percent of the total National budget. Among the major social sectors, education receives the largest budget allocation, reflecting the Government's recognition of education as a critical driver of human capital development, economic productivity, innovation, and inclusive growth. Investment in education is also essential for achieving Nepal's long-term development goals, including employment generation, poverty reduction, and improved social mobility. While the budget demonstrates a continued commitment to strengthening the education sector, the effectiveness of these allocations will ultimately depend on timely implementation, institutional capacity, and coordination among the Federal, Provincial, and Local Governments.

The education budget for FY 2083/84 B.S. (2026/27 A.D.) focuses on several strategic priorities designed to strengthen both the accessibility and quality of Nepal's education system. The major areas of focus include infrastructure development, scholarship expansion, inclusive education, higher education reform, expansion of technical and vocational education, and the adoption of digital technologies. These priorities reflect the Government's broader objective of developing a more equitable, competitive, and future-ready education system while addressing longstanding challenges related to educational access, quality, and workforce preparedness. The following points provide a detailed analysis of each of these priority areas, highlighting the key budgetary provisions, their potential contributions, and the implementation challenges that may affect the achievement of the intended policy objectives.

1. **Infrastructure Development:** One of the key initiatives proposed in the budget is a nationwide infrastructure mapping of community schools. The initiative aims to establish a comprehensive database on the physical condition and availability of educational facilities across the country. Reliable infrastructure data can support evidence-based planning, prioritize investment according to need, and improve the equitable distribution of educational resources. In the long run, this may help reduce disparities between urban and rural schools and contribute to creating safer and more conducive learning environments. However, the success of this initiative will depend on the quality of data collection, regular updating of information, and the extent to which the findings are integrated into budget planning and infrastructure investment decisions.

2. **Scholarship Expansion:** The Government has allocated NPR 8.6 billion scholarship programs targeting students from economically disadvantaged and marginalized communities. Expanding scholarship coverage has the potential to improve educational access, reduce financial barriers, and increase school enrollment and retention among vulnerable groups. This initiative also supports the Government's broader commitment to promoting equity and social inclusion in education. Nevertheless, the overall effectiveness of scholarship programs will depend on transparent beneficiary selection, efficient fund disbursement mechanisms, and effective monitoring systems to ensure that support reaches the intended recipients and contributes to improved educational outcomes.

3. **Inclusive Education:** The budget places considerable emphasis on expanding residential schools for students from disadvantaged, marginalized, and geographically remote communities. Residential schooling can help overcome barriers related to distance, difficult terrain, and limited access to educational facilities, thereby improving educational participation among historically excluded populations. If adequately resourced and properly managed, these institutions could contribute to reducing educational disparities, improving student retention, and enhancing learning outcomes. However, ensuring quality education within residential schools will require adequate infrastructure, qualified teachers, student welfare services, and continuous monitoring of educational performance.

4. **Higher Education Reform**: A significant policy reform announced in the budget is the decision to allow internationally recognized foreign universities to establish campuses in Nepal. This represents an important shift in higher education policy and has the potential to strengthen Nepal's tertiary education system in several ways. Increased competition among higher education institutions may encourage improvements in academic quality, teaching standards, and research capacity. The policy may also reduce the growing outflow of Nepali students seeking education abroad, thereby retaining financial resources within the country while expanding access to internationally recognized academic programs. In addition, the entry of foreign universities could promote international academic collaboration, technology transfer, and foreign investment in higher education.

   Despite these potential benefits, the successful implementation of this policy will require a robust regulatory framework. Clear accreditation standards, quality assurance mechanisms, tuition fee regulation, faculty qualification requirements, and institutional oversight will be essential to ensure that foreign institutions contribute meaningfully to Nepal's higher education system while maintaining academic integrity and protecting student interests.

5. **Expansion of Technical and Professional Education**: The budget proposes expanding programs in medical education, nursing, information technology, and Technical and Vocational Education and Training (TVET). This reflects growing recognition that Nepal requires a technically skilled workforce to support industrial development, technological advancement, and private sector competitiveness. Strengthening technical education can improve employability, reduce skills shortages, and increase labor productivity, thereby contributing to sustained economic growth. However, expanding enrolment alone will not be sufficient to address labor market challenges. The effectiveness of technical and vocational education depends on the relevance and quality of training programs. Curricula need to be regularly updated in collaboration with industry to reflect changing labor market demands, while stronger partnerships with the private sector are necessary to provide practical training, internships, apprenticeships, and employment opportunities for graduates.

6. **Artificial Intelligence and Educational Technology**: The FY 2083/84 B.S. (2026/27 A.D.) budget introduces a readiness assessment for Artificial Intelligence (AI) and educational technology, reflecting the Government's acknowledgement that digital technologies will play an increasingly important role in the future of education. The initiative signals an important first step towards digital transformation and recognizes the need to prepare Nepal's education system for emerging technological developments.

However, the proposed intervention remains largely exploratory. The budget provides limited information regarding the practical integration of AI into teaching and learning processes, investment in digital infrastructure, teacher training for digital competency, development of smart classrooms, expansion of online learning platforms, or funding for educational research and innovation. Without clearly defined implementation strategies, dedicated financial resources, and institutional capacity-building, the proposed AI initiative is unlikely to produce substantial improvements in educational quality or digital learning outcomes.

The FY 2083/84 B.S. (2026/27 A.D.) education budget demonstrates the government's continued commitment to expanding educational access, promoting inclusion, strengthening higher education, and supporting skills development. Several policy measures, particularly the expansion of scholarships, investment in technical education, and reforms in higher education, have the potential to contribute to long-term human capital development and economic growth.

Nevertheless, many of the announced initiatives remain policy intentions rather than fully developed implementation programs. The budget provides limited information on implementation timelines, measurable performance indicators, financing arrangements, and institutional accountability mechanisms. Furthermore, relatively limited emphasis has been placed on improving learning outcomes, teacher professional development, education governance, research and innovation, digital infrastructure, and systematic monitoring and evaluation. Addressing these gaps will be essential to ensure that increased budgetary allocations translate into meaningful improvements in educational quality, equity, and workforce readiness.

Health

In the recently announced annual budget, the Government of Nepal has allocated NPR 101.95 billion for the health sector across federal, provincial, and local levels — a figure that differs from the NPR 96.44 billion federal Ministry of Health and Food Safety allocation shown in Figure 13, which reflects the ministry's federal-level budget only. Investing in health is crucial since health is an infrastructure of development that unlocks other development potentials of the country through healthy and competent human resources. The allocation for the health sector amounts to 4.8 percent of the total budget. While the total health budget has increased from the past, its share in the National budget remains below the level recommended by the World Health Organization and other international standards.

The FY 2083/84 B.S. (2026/27 A.D.) health budget has included major health programs such as expanding National Health Insurance coverage, developing hospitals for competent human resources, free treatment for childhood cancer and other key administrative reforms. While all these major health programs are welcome, their success is highly contingent on their smooth implementation.

The following are the major health programs in detail:

1. **Expanded Health Insurance:** The Government has allocated NPR 15 billion for the Health Insurance program. It has targeted to bringing 90 percent of the population under universal health insurance coverage and significantly reducing personal medical expenditure within the next three years. If the Government meaningfully follows through on this commitment, it will be a big step in the right direction to ensure access to healthcare for all, especially

those who are economically vulnerable.

2. **Hospital Development:** NPR 5.90 billion has been allocated for the operation and infrastructure development of primary hospitals. The Government has planned to complete construction of 336 currently under construction primary hospitals in the next three years. In addition to the ones under construction, the Government has planned to start construction of new hospitals only after scientific mapping. The Government has also committed to developing the major hospitals in all seven provinces as teaching hospitals in order to develop competent medical professionals.

3. **Focus on children's health:** The Government has made significant strides in children's health, in particular. It has committed to arranging free treatment of childhood cancer in Government hospitals, and it has also allocated budget for upgrading the Kathmandu Institute of Child Health. This is a valuable long-term investment as it helps to create a healthy and competent generation of human resources that will contribute to the country's future development.

4. **Establishment of Food and Drug Administration:** The Government has planned to establish Food and Drug Administration to ensure the quality and regulation of medicines and other health-related food products manufactured or supplied within the country. This is a good regulatory and administrative reform that will raise consumer trust in the food-related products they use.

5. **Doubling night allowance for nurses:** The Government has committed to doubling the night duty allowance of nursing staff which will reduce the drudgery associated with night duty and motivate the workforce. This will allow patients to get emergency and essential care at all times.

Consistent with NDRI's long-standing research on tobacco taxation, health financing, and the prevention of non-communicable diseases, the Institute continues to recommend an inflation-indexed tobacco taxation system with regular excise tax increases aligned with the WHO's "Best Buy" framework. Despite this, the FY 2083/84 B.S. (2026/27 A.D.) Budget does not introduce a significant increase in tobacco excise duties. Continued delays in implementing these reforms are likely to increase the burden of non-communicable diseases, place additional pressure on Nepal's health financing system, and raise future public expenditure on preventable illness.

7.3 Water & Climate Change

The FY 2083/84 B.S. (2026/27 A.D.) budget places continued emphasis on hydropower development, irrigation expansion, drinking water access, climate finance, and disaster risk management. These priorities build on a broader trend of increasing climate-relevant public expenditure, which has risen from roughly 5 percent of the national budget in 2013/14 to more than 44 percent in recent years. At the same time, Nepal continues to face substantial financing needs under its National Adaptation Plan (NAP). The budget also leaves several implementation and financing gaps, including limited clarity around allocations for flood, lightning, fire, and glacial lake outburst flood (GLOF) risks, incomplete post-earthquake reconstruction in Jajarkot and Rukum West, and continued depletion of water sources in the Chure region despite ongoing conservation efforts.

Energy (Hydropower and Other)

The budget places renewed emphasis on accelerating the development of Nepal's energy sector, with a target of approximately 1,040 MW of new generation capacity and a particular focus on reservoir-based hydropower. It also proposes restructuring the Nepal Electricity Authority (NEA) by separating generation, transmission, distribution, and trading functions. In addition, the budget introduces several measures intended to encourage investment, including allowing fully privately financed reservoir projects to issue up to 40 percent of their shares to the public, establishing a single-window "Investment Express" mechanism for project approvals, and developing a legal framework for private-sector participation in cross-border electricity trade.

The Government also plans to mobilize financing through green bonds, diaspora bonds, and climate finance instruments. Other initiatives include the development of 100 MW of battery storage, promotion of green hydrogen production, and the allocation of hydropower for AI and data-centre infrastructure. Together, these measures indicate an effort to expand generation capacity while also diversifying the technological and financing base of the energy sector.

Water Resources and Irrigation

The Government's irrigation priorities are broadly aligned with the Irrigation Master Plan, with a target of increasing irrigation coverage to 64 percent of Nepal's cultivable land. During the fiscal year, the Government plans to add 15,800 hectares through surface irrigation and 3,180 hectares through groundwater irrigation in the Tarai-Madhesh region, along with 2,230 hectares of lift and reservoir-based irrigation in the hill regions.

The budget also provides for river embankment strengthening to reduce flood risks and prioritizes the completion of several long-delayed national irrigation projects, including Babai, Rajapur, Sikta, Sunkoshi–Marin, Bagmati, Mahakali, Dang Valley, and Praganna. The Naumure Multi-Purpose Project is also scheduled to begin. Despite these investments, the Sixteenth Plan target of achieving 50 percent perennial irrigation coverage by FY 2085/86 B.S. remains a considerable distance away, highlighting the continued gap between planned irrigation expansion and longer-term coverage targets.

Drinking Water and Sanitation

The budget allocates approximately NPR 37.16 billion to drinking water supply, sanitation, and wastewater management. The allocation is distributed across several major programmes:

Table 7: Drinking Water and Sanitation Allocations, FY 2083/84 B.S. (2026/27 A.D.)

Programme	NPR billion
Tarai-Madhesh water projects (280 projects)	2.50
Melamchi / Kathmandu Valley distribution	7.26
Urban drinking water, sanitation & sewage treatment	2.34
Water treatment plant construction/upgrades	3.46
Total sectoral allocation	**37.16**

Kathmandu Valley and urban systems together account for roughly a third of this allocation. The Government aims to increase safe drinking water access from 30 to 35 percent of the population during the fiscal year. This would represent progress towards the Sixteenth Plan's target of 45 percent coverage by FY 2085/86 B.S. (2028/29 A.D.) and the longer-term goal of 95 percent coverage. The scale of these targets highlights the continued need to improve both the coverage and reliability of drinking water and sanitation services.

Climate Change Budget Analysis

Nepal's national budget is classified into direct, indirect, and neutral climate expenditure categories. Table 8 presents the FY 2083/84 B.S. (2026/27 A.D.) allocations across these categories and highlights the distribution of climate-related expenditure across key sectors.

Table 8: Climate Budget Tagging by Sector, FY 2083/84 B.S. (2026/27 A.D.)

Category	Direct (NPR bn / %)	Indirect (NPR bn / %)	Neutral (NPR bn / %)
Total Budget	141.91 (6.68%)	803.04 (37.8%)	1,179.03 (55.50%)
Energy, Water Resources & Irrigation	31.63 (74.2%)	10.12 (23.8%)	0.85 (2.0%)
Agriculture, Forest & Environment	9.06 (15.0%)	50.84 (84.3%)	0.40 (0.7%)
Infrastructure Development	44.49 (16.5%)	94.80 (35.2%)	129.99 (48.3%)

Nepal's climate-related public expenditure has increased substantially over the past decade, rising from around 5 percent of total spending in FY 2070/71 B.S. (2013/14 A.D.) to a peak of more than 44 percent in recent years before moderating slightly in the current budget. However, only 6.68 percent of the total budget is classified as direct climate expenditure. Nepal continues to face recurring losses from floods, landslides, and other extreme weather events, a pattern of exposure that long predates the recent growth in climate-related spending. This suggests that the overall growth in climate-related expenditure has not eliminated the need for more targeted investment in adaptation, disaster preparedness, and resilient infrastructure.

Climate Adaptation Financing (National Adaptation Plan)

Funding Sources for Medium- and Long-Term Adaptation. Nepal's National Adaptation Plan relies heavily on external financing. Of the USD 47.4 billion in projected financing requirements through 2050, more than 96 percent, or USD 45.9 billion, is expected to come from external sources. National contributions are projected at only USD 1.5 billion. This financing structure highlights the significant role that international climate finance is expected to play in meeting Nepal's medium- and long-term adaptation needs.

Table 9: Funding Sources for Climate Adaptation Financing, Medium Term (2030) and Long Term (2050)

Contributions	Medium-Term (2030)	Long-Term (2050)	Total Cost
External Support	USD 20.5 billion	USD 25.4 billion	USD 45.9 billion
National Contributions	USD 0.5 billion	USD 1.0 billion	USD 1.5 billion

Priority Adaptation Programmes. All six of the NAP's priority programmes are explicitly linked to agriculture or livestock and together have a projected cost of USD 8.5 billion. This emphasis reflects the central role of agricultural resilience in Nepal's climate adaptation strategy. At the same time, the financing structure indicates that implementation will depend heavily on the availability of external climate finance rather than domestic resources.

Cost-Effectiveness of Adaptation Actions

A benefit-cost ratio (BCR) assessment ranking 24 categories of adaptation actions identifies several areas with particularly strong economic returns. These include national water security and wetlands restoration, integrated water resource management, climate-resilient crops and livestock, sustainable land-use planning, and disaster risk monitoring and early warning systems. The findings suggest that these areas may offer comparatively strong value for investment among the adaptation options available to Nepal, providing useful priorities for future climate adaptation planning and resource allocation.

7.4 Disaster Risk Management

The FY 2083/84 B.S. (2026/27 A.D.) budget places continued emphasis on disaster risk management through investments in highway resilience, post-earthquake reconstruction, and stabilization of the Chure–Tarai watershed, alongside institutional disaster management mechanisms and longer-term preparedness measures. NPR 3.17 billion has been allocated for the immediate clearance of landslide-related highway obstructions and restoration of road connectivity. However, the budget provides limited detail on measures to address the underlying causes of recurring landslides, including preventive slope-failure measures. Similarly, provisions for protecting, rescuing, and providing relief to communities exposed to flood and landslide hazards are not clearly articulated. Although the budget recognizes earthquakes, landslides, floods, fires, and lightning as major risks, the extent of investment in hazard-specific mitigation and preparedness remains less clear, particularly for flood risk, lightning protection, wildfire risk, and glacial lake outburst flood (GLOF) preparedness.

Post-Earthquake Reconstruction (Jajarkot and Rukum West)

The budget provides resources to complete the reconstruction of private homes and Government buildings damaged by the earthquake in Jajarkot and Rukum West districts. However, several implementation gaps and questions remain. These include the extent to which improved building construction technologies will be developed and transferred, and whether reconstruction will consistently incorporate measures to reduce future earthquake damage.

NDRI research indicates that reconstruction is proceeding in some areas without adequately incorporating damage-mitigation measures. Integrated settlements developed following the 2072 (2015) earthquake also remain incomplete in some locations. Similarly, NDRI research on the Guptapakha–Laprak resettlement site, which includes 602 houses, water supply, toilets, and connecting roads, points to outstanding questions regarding completion.

The scale of reconstruction needs also extends beyond housing. Approximately 55,000 damaged classrooms require earthquake-resistant reconstruction of school buildings. Public awareness remains another area of concern. NDRI research found that only about 55% of surveyed participants knew the 'Drop, Cover, and Hold On' technique as well as their nearest emergency exit route and assembly point during an earthquake. This indicates a continued gap between physical reconstruction and community-level preparedness.

Chure-Tarai Water Cycle and Landslide Control

Approximately NPR 1 billion has been allocated for water source conservation, pond construction, landslide control, and embankment works intended to sustain the water cycle of the Chure and Tarai-Madhesh region. These investments address important aspects of watershed management and disaster risk reduction. However, the extent to which current allocations address landslide control and water source conservation in the mid-hill region remains unclear.

NDRI research in Sindhuli district, including Kamalamai and Sunkoshi municipalities, found that water quantity at spring sources has declined by 57–88%. This indicates the scale of watershed degradation and highlights the challenge of matching current conservation investments with the magnitude of water-resource pressures affecting the region.

NDRRMA Disaster Fund Breakdown

Total disaster funds across all tiers: NPR 7.56 billion plus USD 84,797.

Table 10: NDRRMA Disaster Fund Allocation by Source, FY 2083/84 B.S. (2026/27 A.D.)

Fund	Amount
PM Disaster Relief Fund (PM Daivi Prakop Udhaar Kosh)	NPR 2.07 billion + USD 84,797
Central Disaster Management Fund (Kendriya Bipad Byabasthapan Kosh)	NPR 4.14 billion
Provincial Disaster Fund (Pradesh Bipad Byabasthapan Kosh)	NPR 0.67 billion
77 Districts – Disaster Management Fund	NPR 0.68 billion

Disaster fund expenditure in the preceding fiscal year exceeded 98 percent, indicating high fund utilization and continued pressure on disaster budgets (FCGO, 2026b).

Sixteenth Periodic Plan – Preparedness Targets

Table 11: Disaster Preparedness Targets under the Sixteenth Periodic Plan

Area	Baseline	Target	Preparedness Relevance
Local Adaptation Plans (LAPAs)	263	753	Strengthens local risk assessment & early action
Municipalities with National Building Code adopted	–	293	Hazard-resilient construction reduces disaster losses
Government buildings retrofitted / rebuilt	209	500	Ensures emergency response continuity
Resilient housing (disaster-displaced households)	3,553	50,000	Accelerates safe post-disaster resettlement
Rural roads with safety measures	–	1,750 km	Safer evacuation & emergency logistics
Satellite installation (communications)	–	1	Nationwide early-warning-system communications redundancy

Key Sectoral Budget Targets, FY 2083/84 B.S. (2026/27 A.D.)

Table 12: Key Sectoral Disaster Resilience Budget Targets, FY 2082/83 B.S. (2025/26 A.D.) and FY 2083/84 B.S. (2026/27 A.D.)

Programme	FY 2082/83 B.S. (2025/26 A.D.)	FY 2083/84 B.S. (2026/27 A.D.)	Change
Highway resilience (landslide clearance & restoration)	–	NPR 3.17 billion	New allocation
Chure-Tarai water & landslide control	–	∼NPR 1 billion	New allocation
Search & rescue capacity (security forces & volunteers)	9,508 persons	9,600 persons	+92 persons
Housing for disaster-displaced households	25,000 units	26,000 units	+1,000 units

The budget demonstrates a growing institutional commitment to disaster risk management through sizeable disaster funds, targeted resilience investments, and longer-term preparedness targets under the Sixteenth Periodic Plan. However, the effectiveness of these commitments will depend on whether resources are translated into hazard-specific prevention and preparedness measures. In particular, gaps remain in planning for flood, fire, lightning, and GLOF risks, while outstanding earthquake reconstruction and community preparedness needs continue to require attention. Progress should therefore be assessed not only through the level of budget allocations, but also through implementation of the preparedness targets and the extent to which investments reduce exposure and vulnerability to recurring hazards.

7.5 Gender Equality, and Social Inclusion (GESI) / Agriculture, Structural Transformation and Local Development

The FY 2083/84 B.S. (2026/27 A.D.) budget places increasing emphasis on gender equality and social inclusion (GESI) through measures related to agricultural formalization, women's economic participation, social protection, and sub-national resource distribution. These measures are particularly relevant in the context of Nepal's changing rural labour structure, where male out-migration has increased women's participation in agricultural production while many women and marginalized communities continue to face limited access to formal employment, social protection, finance, and productive assets.

At the same time, the assessment identifies an important limitation in evaluating GESI outcomes. While the budget introduces measures that may benefit women and marginalized groups, the extent to which these provisions translate into measurable improvements in inclusion and economic security will depend on implementation, targeting, and the availability of disaggregated monitoring data.

Evolution of GESI Tracking & Social Equity Measures

Table 13: Evolution of GESI and Social Equity Budget Allocations, FY 2080/81–2083/84 B.S. (2023/24–2026/27 A.D.)

Fiscal Year	Budget Size	GESI/Social Budget	Key Structural Shift & Policy Focus
FY 2080/81 B.S. (2023/24 A.D.)	1,751.31 bn	∼NPR 1.57 bn	Passive tracking utilizing general MoF baseline indicators; social security focus confined to untargeted distribution.
FY 2081/82 B.S. (2024/25 A.D.)	1,860.30 bn	∼NPR 1.60 bn	Initial sub-national rollout of federal GESI/GRB field implementation manuals; minor localized women's entrepreneurship grants.
FY 2082/83 B.S. (2025/26 A.D.)	1,964.11 bn	∼NPR 1.85 bn	Expansion of municipal gender budgeting tracking tools; broad regional balancing targets without ring-fenced lines.
FY 2083/84 B.S. (2026/27 A.D.)	2,124.34 bn	NPR 2.27 bn	Identity-segregated lines: NPR 3 billion for Dalit under-5 nutrition; formal agro-labor SSF lines; universal accessibility laws.

Note: This column tracks the specific "women, children, gender, and sexual minorities" budget line as announced in each year's Budget Speech, and should not be read as a total of all gender- or identity-relevant spending in the national budget. Other ring-fenced, identity-specific allocations introduced in FY 2083/84 B.S. — including the NPR 3 billion Dalit under-five nutrition programme — are separate line items and are not included in this figure.

Source: Government of Nepal, Ministry of Finance, Budget Speech 2083/84 (2026/27).

The integration of Gender Equality and Social Inclusion (GESI) within federal budget processes has developed over time from broader tracking mechanisms towards more targeted allocations and programmes. The evolution of these allocations provides an indication of how social equity considerations have increasingly been incorporated into budget planning.

The trend suggests a gradual shift towards more targeted approaches to social equity. However, the presence of targeted budget lines does not by itself establish whether these measures will improve outcomes for women or other marginalized groups. Their effectiveness will depend on implementation, accessibility, targeting, and monitoring.

Formalization of Agriculture and the Female Labor Force

Nepal's agrarian economy faces an important institutional challenge as male out-migration has contributed to the increasing participation of women in agricultural labour. Despite their role in sustaining rural production, many women and marginalized communities continue to face constraints related to formal employment, land ownership, social protection, and access to finance. The FY 2083/84 B.S. (2026/27 A.D.) budget responds to these challenges through several formalization mechanisms.

- **Social Security Fund (SSF) Integration:** The integration of informal agricultural labourers, tenant farmers, and home-based workers from marginalized backgrounds into the formal Social Security Fund (SSF) is intended to extend social protection to groups traditionally outside formal employment arrangements. For women workers, the proposed coverage includes accident insurance, occupational disability benefits, and maternity-related cash support.
- **Remittance-Investment Matching Fund:**The proposed matching of saved remittance capital with low-interest loans is intended to reduce some of the financing constraints faced by rural entrepreneurs. This may be particularly relevant for women who have limited access to formal collateral and productive assets and could support a transition from subsistence-oriented activities towards commercial enterprises.
- **Production-Linked Capital Grants:**A capital grant framework covering up to 40% of initial investments, with a minimum NPR 20 million threshold, is intended to support agro-processing, cold storage, and livestock-related investments. Such measures could benefit marginalized and female-led agricultural cooperatives involved in higher-value commodities such as large cardamom, ginger, and orthodox tea.

Related Fiscal Measures

The budget also introduces broader fiscal measures that may affect small-scale producers and women-led enterprises. These include the abolition of excise duties on 360 cottage and small-scale processing items, tariff structures that allow industrial raw materials to enter at lower rates than finished imports, and changes to personal income tax and export-profit tax provisions.

Sub-National Fiscal Transfers and Regional Equity

The distribution of resources through the National Natural Resources and Fiscal Commission (NNRFC) formula provides an important mechanism for addressing differences in fiscal capacity and development needs across provinces. The total provincial equalization pool stands at NPR 61.50 billion, with Karnali Province receiving the highest allocation of NPR 10.63 billion, reflecting its substantial development and infrastructure needs. Bagmati Province receives NPR 8.43 billion, reflecting its comparatively stronger internal revenue capacity.

The Madhesh context presents a different challenge, with favourable topography and a high population density coexisting with significant multidimensional poverty. The budget addresses some of these challenges through targeted capital programmes rather than relying solely on equalization transfers. These include the NPR 2.5 billion Arsenic-Free Terai Campaign, covering 280 deep community boring systems, and the Middle-Madhesh Quadrangle Development Program linked to the Sunkoshi-Marin Diversion project.

A Related Institutional Concern.*The discussion below shifts from analysis of the FY 2083/84 B.S. (2026/27 A.D.) budget's GESI provisions to a separate, related concern identified through NDRI's field research: the safety of researchers and enumerators conducting fieldwork in remote and low-HDI districts. This is not an assessment of budget allocations. Rather, it presents an internal institutional recommendation developed by NDRI in response to risks identified through its field experience.*

Strategic Analysis

Field Research in Zones Without Institutional Safety

The budget analysis also highlights a related institutional concern arising from NDRI's field research: the operational and safety risks faced by researchers working in remote and institutionally underserved areas. Field teams conducting surveys, focus group discussions (FGDs), and localized data collection may operate in environments where emergency communication, medical services, transport infrastructure, and local institutional support are limited.

NDRI's field assessments and deployment experience identify three broad categories of risk that can affect researchers working in such environments:

- **Environmental and Topographical Risks:** During the monsoon period, remote field corridors may be affected by landslides, flash floods, road blockages, and other hazards. Where communication and transport infrastructure are limited, research teams may face difficulties accessing emergency assistance or evacuating from high-risk areas.
- **Socio-Political Risks and Backlash against GESI Surveys:** Research involving sensitive issues such as intra-household resource allocation, gender-responsive budgeting, and caste-based discrimination may generate local resistance. Without appropriate coordination with local authorities and communities, field staff may face harassment, verbal threats, or other forms of insecurity. These risks may be particularly significant for female researchers working in settings with strong social and gender hierarchies.

- **Medical and Emergency Response Gaps:** Limited health infrastructure in remote locations can increase the consequences of illness, injury, or other emergencies. Where institutional arrangements for emergency evacuation or medical support are absent, relatively minor incidents may become more serious operational and safety concerns.

NDRI's Proposed Field Research Safety Protocol

In response to these vulnerabilities, NDRI proposes a Field Research Safety Protocol (FRSP) for research projects operating in low-HDI or institutionally isolated areas. The proposed framework is intended to establish minimum safety standards for field deployment and could also inform future discussions around sub-national conditional grant and research contracting frameworks.

The proposed protocol consists of three core requirements:

- **Mandatory Pre-Deployment Security Mapping:**Before entering a field environment designated as low-HDI or institutionally isolated, research teams would formalize a trilateral safety clearance involving the local municipal office, the district police headquarters, and the host institution. Fieldwork would proceed only after establishing an emergency evacuation route and identifying designated local administrative contacts.
- **Dedicated Field Safety and Risk Budgets:** Under the proposed protocol, research projects operating through federal ADP or local government consulting frameworks would allocate a minimum of 5% of their core budget to field safety and risk mitigation. The proposed allocation would cover satellite-based emergency communication devices, short-term medical insurance for field enumerators, and emergency transport contingencies.
- **Peer-Supported Double-Enumerator Mandate:** The proposed protocol would discourage the deployment of individual researchers into areas lacking institutional safety networks. Field deployments would instead use double-enumerator pairing so that no team member is isolated while collecting sensitive information or navigating potentially hazardous environments.

As a whole, these measures would shift field research safety from an ad hoc operational consideration towards a structured risk-management approach. The proposal also reflects a broader principle relevant to GESI research: collecting evidence on vulnerable and marginalized communities requires safeguards for both the communities being studied and the researchers responsible for documenting their experiences.

Sectoral Analysis Conclusion

Livelihood and Food Security The FY 2083/84 B.S. (2026/27 A.D.) Budget allocates NPR 73.12 billion to the restructured Ministry of Agriculture, Forests, and Environment. Within the ministry's core programme budget (Table 4), capital expenditure has more than doubled to NPR 5.8 billion, representing a modest but meaningful shift toward productive investment rather than recurrent spending alone. At the same time, the budget introduces several flagship reforms intended to modernize the sector. However, these measures also raise important questions about who they are ultimately designed to benefit.

Access to commercial agriculture grants is now restricted to farmers capable of investing at least NPR 20 million, while agricultural insurance continues to attract only limited participation despite years of policy support. Together, these conditions risk excluding the smallholder farmers who constitute the backbone of Nepal's agricultural economy and whom the budget seeks to support. At the same time, chemical fertilizer subsidies now account for 69.2 percent of the agriculture budget, while funding for value chain modernization has declined by 40.8 percent. Collectively, these shifts suggest that, despite increased investment and a stronger emphasis on commercialization, the sector's underlying expenditure priorities continue to favour input subsidies over structural transformation, potentially limiting progress toward a more productive, resilient, and inclusive agricultural system.

Health, Education and Environment Education receives the largest social sector allocation this year, at NPR 218.31 billion. Health receives NPR 101.95 billion (sector-wide figure; differs from the NPR 96.44 billion federal ministry allocation shown in Figure 13), though that still falls short of the 8 to 10 percent of the national budget recommended under WHO guidance. In education, scholarship expansion, inclusive residential schooling, and new partnerships with foreign universities signal meaningful progress toward improving access and quality. Similarly, in health, expanded insurance coverage and continued investment in hospital infrastructure represent important advances in service delivery.

However, despite these positive developments, both sectors reveal a common underlying pattern. Strong, visible headline initiatives are accompanied by comparatively limited investment in the institutional foundations required to sustain them over the long term. Critical areas such as teacher professional development, education governance, equitable deployment of specialist health personnel, and sustainable financing mechanisms, including tobacco taxation, receive relatively limited attention. As a result, while the budget strengthens programmes and infrastructure, it places less emphasis on the governance systems, institutional capacity, and financing reforms needed to ensure these investments translate into lasting improvements in education and health outcomes.

Water and Climate Nepal's climate-relevant budget has expanded significantly over the past decade, increasing from roughly 5 percent of total government expenditure to more than 44 percent, and this year's allocations for energy, irrigation, and drinking water continue that trajectory. However, only 6.68 percent of the total budget qualifies as direct climate expenditure, while implementation of the National Adaptation Plan remains overwhelmingly dependent on external financing. This reveals a persistent structural challenge: although climate considerations are increasingly integrated across the national budget, dedicated domestic financing for climate adaptation remains limited. As a result, Nepal's long-term climate resilience continues to depend heavily on external resources, raising questions about the sustainability and predictability of financing for adaptation priorities in the years ahead.

Disaster Risk Management Post-disaster response and reconstruction continue to receive significant attention in this year's budget, and the disaster fund achieved a 98.35 percent utilization rate in the previous fiscal year (FCGO, 2026b), demonstrating strong capacity to execute recovery expenditures once disasters occur. However, the budget continues to place greater emphasis on responding to disasters than on reducing the risks that create them. Investment remains concentrated on clearing obstructions and financing reconstruction after disasters, while comparatively limited attention is given to identifying the underlying drivers of recurring hazards or investing in hazard-specific prevention and resilience measures.

NDRI's own field of research reinforces the importance of this gap. From incomplete earthquake reconstruction in affected communities to the significant decline in spring water sources documented in Sindhuli, the evidence demonstrates that insufficient investment in prevention carries tangible economic, social, and environmental costs. Collectively, these findings suggest that strengthening disaster risk governance requires a more balanced approach, one that complements effective post-disaster response with greater investment in risk identification, prevention, preparedness, and long-term resilience.

Gender Equality and Social Inclusion For the first time, this year's budget moves beyond passive tracking by introducing ring-fenced, identity-segregated allocations and extending formal social protection to informal agricultural labourers and home-based workers who have historically remained outside the formal protection system. These represent important structural shifts and should be recognized as meaningful progress toward more targeted and inclusive public policy.

At the same time, the same NPR 20 million investment threshold that limits access to commercial agriculture support reappears as an eligibility condition for female-led cooperatives. This reinforces a broader finding that emerges across the sectoral analysis: the effectiveness of public programmes depends not only on the scale of budget allocations but also on how eligibility criteria are designed. Without inclusive targeting mechanisms, even well-funded initiatives risk excluding the smallholder farmers, women, and informal sector workers they are intended to benefit.

NDRI's own field research further highlights that barriers to inclusion extend beyond programme design alone. Research conducted in remote, low Human Development Index districts such as Jumla, Siraha, and Surkhet has identified significant institutional and operational challenges, including monsoon-related landslide and flood risks, as well as harassment faced by female researchers administering sensitive questionnaires. These constraints affect the safety of research teams and the continuity of fieldwork, ultimately limiting the quality, consistency, and depth of the evidence needed to inform effective and inclusive policymaking. Collectively, these findings suggest that strengthening gender equality and social inclusion requires not only more targeted public investment, but also stronger institutional systems that enable safe, inclusive, and evidence-based policy design and implementation.

8 Cross-Sectoral Recommendations:Integrating NDRI's Research Perspectives

NDRI's analysis of the FY 2083/84 B.S. (2026/27 A.D.) Budget, together with more than two decades of research across public finance, food security, climate resilience, disaster risk management, health, education, and social inclusion, suggests that Nepal's principal development challenges are increasingly systemic rather than sector specific. While the budget introduces several important policy initiatives, the evidence consistently points to a common set of factors that will determine whether public expenditure translates into sustainable development outcomes. NDRI therefore recommends focusing on the following cross-sectoral priorities.

8.1 Strengthen Institutional Capacity and Improve Delivery

Across nearly every sector examined, implementation remains the principal constraints on achieving policy objectives. Ambitious reforms in agriculture, social protection, energy, health, and education are unlikely to realize their intended outcomes without stronger institutions capable of delivering them effectively.

NDRI recommends prioritizing implementation reform as a central development agenda. This includes strengthening coordination across ministries and tiers of government, improving capital expenditure execution, enhancing performance monitoring systems, and investing in administrative capacity at provincial and local levels. Government performance should be assessed not only by the scale of allocations but by the quality, accessibility, and consistency of services delivered to citizens. Institutional reforms should further be adapted to the distinct development realities of Nepal's Terai, Hills, and Mountain regions.

8.2 Promote Fiscal Sustainability Through Strategic Resource Mobilization

The budget highlights growing pressure on Nepal's fiscal framework, with increasing demands in health, climate adaptation, disaster management, infrastructure, and social protection. NDRI maintains that sustainable development requires both stronger domestic resource mobilization and more strategic expenditure choices.

The Institute continues to advocate for gradually increasing health spending toward internationally recommended benchmarks and introducing inflation-indexed taxation on tobacco, alcohol, and sugar-sweetened beverages as both revenue-generation and public-health measures. Similarly, agricultural expenditure should gradually shift from a heavy reliance on fertilizer subsidies toward investments in irrigation, storage facilities, agricultural research, and climate-resilient production systems. Fiscal sustainability should be viewed not simply as a question of raising revenue, but as a question of what the state chooses to tax, subsidize, and invest in over the long term.

8.3 Integrate Climate and Water Resilience into Development Planning

NDRI's research consistently demonstrates that climate resilience is fundamentally a development and economic governance challenge. Given Nepal's significant dependence on external financing for adaptation, priority should be given to investments that generate the highest long-term returns within available fiscal space.

The Institute recommends strengthening domestic climate-finance mechanisms, expanding investments in watershed and river-basin management, improving early warning systems, and integrating climate-risk assessments into public investment planning. Nature-based solutions, ecosystem-based adaptation, and climate-informed land-use planning should become standard components of infrastructure and development decision-making. Climate resilience must be embedded across sectors rather than treated solely as an environmental objective.

8.4 Improve Inclusion Through Better Eligibility Design

A recurring finding across agriculture, social protection, and GESI programmes is that access to conditions often prevent intended beneficiaries from participating. High investment thresholds and complex eligibility requirements disproportionately favor better-resourced households, limiting opportunities for smallholders, women, informal workers, and marginalized groups.

NDRI therefore recommends a systematic review of eligibility criteria across government programmes. Support mechanisms should be structured according to the capacities and needs of different beneficiary groups, with specific provisions for smallholder farmers, landless households, women-led enterprises, persons with disabilities, and other vulnerable populations. Inclusion should be treated as a core design principle embedded within programme architecture, rather than as an objective addressed after implementation begins.

8.5 Invest in Human Capital and Public Sector Capability

The effectiveness of public expenditure ultimately depends on the quality and availability of human resources. Across health, education, agriculture, climate governance, and disaster management, workforce limitations continue to constrain implementation.

NDRI recommends addressing the unequal distribution of specialist healthcare providers, strengthening teacher professional development, expanding technical expertise within local governments, and investing in public-sector capability more broadly. Expanding access to services without simultaneously addressing workforce and governance constraints is likely to perpetuate regional inequalities and variable service quality. Human capital should therefore be viewed as a whole-of-government priority that underpins performance across all sectors.

8.6 Shift Disaster Governance from Response to Prevention

Research undertaken through NDRI's disaster risk management and post-disaster recovery programmes indicates that Nepal continues to devote greater attention to disaster response than to risk reduction. Hazard-specific prevention measures remain uneven, despite growing exposure to floods, landslides, lightning, wildfires, droughts, and glacial lake outburst floods.

NDRI recommends expanding investments in prevention, preparedness, risk mapping, monitoring systems, and resilient infrastructure. Disaster financing mechanisms should be strengthened and aligned with long-term resilience objectives. High utilization rates of disaster management funds should be interpreted as evidence of sustained demand relative to need, rather than as proof that existing allocations are sufficient. Reducing risk before disasters occur remains the most cost-effective approach to disaster governance.

8.7 Embed Gender Equality, Social Inclusion, and Evidence-Based Governance Across Sectors

NDRI's research consistently finds that social inclusion generates the greatest impact when incorporated into the design of mainstream programmes rather than treated as a standalone policy objective. The expansion of social protection coverage and collateral-free financing initiatives are positive developments, but broader reforms remain necessary to address structural barriers that limit access to opportunities for women and marginalized communities.

At the same time, effective policymaking depends on reliable evidence. NDRI therefore recommends strengthening research systems, monitoring frameworks, and collaboration between policymakers and research institutions across all levels of government. Investments in field research capacity, data quality, and institutional learning will improve the evidence base available for policy design, implementation, monitoring, and evaluation.

9 Limitations

This assessment focuses on areas aligned with NDRI's thematic priorities and is based on information available at the time of publication. It provides an independent perspective on the budget that complements the formal review undertaken by Parliament and relevant government institutions.

The analysis draws primarily on official budget documents, government data, and publicly available policy information. It does not include implementation data, as sufficient evidence on actual performance is not yet available. The findings therefore focus on the design and stated intent of budget measures rather than their observed results.

Many of the reforms examined are institutional and structural in nature and may require several budget cycles before their effects become measurable. The assessment therefore considers their direction, alignment with broader policy objectives, and readiness for implementation rather than outcomes that have yet to emerge.

As implementation progresses, subsequent policy decisions, supplementary budgets, administrative directives, and changes in economic conditions may affect outcomes in ways that cannot yet be anticipated. The findings should therefore be understood as an assessment of the FY 2083/84 B.S. (2026/27 A.D.) Federal Budget at the beginning of its implementation period and as a baseline against which future developments can be assessed.

10 Way Forward

The FY 2083/84 B.S. (2026/27 A.D.) Federal Budget introduces significant changes in public spending and government institutions. The next stage will be to assess how these commitments are put into practice and whether they lead to improvements in public services and development outcomes. Several areas will require particular attention as implementation progresses.

- **Institutional transition** The restructuring of ministries and public entities will need to be managed without disrupting public services or weakening institutional capacity. How effectively responsibilities are transferred, staff are managed, and coordination is maintained under the new arrangements will be important to the success of the reforms.
- **Capital expenditure.** Nepal's continued difficulty in spending its capital budget remains a key concern. Attention should extend beyond the size of capital allocations to whether projects are properly prepared, procurement is completed on time, projects are implemented as planned, and allocated funds are actually spent.
- **Implementation of key reforms** Several reforms introduced through the budget, including those related to agriculture, social protection, and disaster financing, will require time to show results. Their progress should be assessed based on how effectively they are implemented and whether they reach the people and communities they are intended to support.
- **Revenue and spending pressures**The Government's ability to meet its revenue targets while managing recurrent expenditure, public debt, and capital investment will remain important to the budget's overall performance. Changes in these areas over the coming year will help indicate whether the Government's spending plans remain achievable.
- **Monitoring results over time** Many of the reforms introduced through the budget will take several years to produce measurable results. Continued assessment across successive budget cycles will be important for understanding what is working, where implementation remains weak, and where adjustments may be needed.

The way forward is therefore not simply about the size of the budget, but about whether public resources are translated into effective programmes, services, and development outcomes. Sustained attention to implementation, institutional performance, revenue and spending trends, and evidence from the ground will be important as Nepal moves through this period of fiscal and institutional change.

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National Budget Analysis of Nepal FY 2083/84 B.S. (2026/27 A.D.) Event by NDRI

On 5 June 2026, NDRI organized a National Budget Analysis of Nepal (FY 2083/84 B.S.) programme at The Square, Pulchowk, attended by more than 40 participants. The event was chaired by Dr. Jaya Kumar Gurung, President of NDRI, and brought together NDRI researchers to present an evidence-based analysis of the Government of Nepal's FY 2083/84 budget.

The programme commenced with Dr. Shankar Shrestha, Senior Research Specialist, who provided an overview of NDRI's history of conducting national budget analyses, followed by Dr. Punya Prasad Regmi, Senior Research Specialist, who set the context for the discussion. Ms. Nirmita Shrestha, Research Associate, presented an overview of the FY 2083/84 National Budget, while Ms. Sarya Thapa Magar, Research Assistant, examined Nepal's current macroeconomic situation. Dr. Shikha Thapa Magar, Executive Director of NDRI, analyzed the alignment between multi-year policy priorities and budget allocations from FY 2081 to FY 2083/84.

The programme also featured thematic sectoral analyses by NDRI experts, including Dr. Krishna Pahari (Livelihood and Food Security), Dr. Nawa Raj Khatiwada (Health, Education and Environment), Dr. Divas B. Basnyat (Water and Climate), Prof. Dr. Tara Nidhi Bhattarai (Disaster Management), and Dr. Shikha Thapa Magar, who additionally presented the analysis on Gender Equality and Social Inclusion (GESI).

The event culminated in a presentation of key findings and policy recommendations, followed by an interactive question-and-answer session that allowed participants to engage directly with NDRI's researchers. Through this programme, NDRI aimed to foster informed public discourse on national budget priorities and to offer actionable, evidence-based recommendations to strengthen the alignment between government spending and Nepal's development goals.

Figure 15: National Budget Analysis of Nepal event organized by NDRI













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