

2. Public Finance

Outline of Government Finance

2.1 The financial transaction statistics of the government of Nepal shows that total expenditure in the fiscal year 2008/09 was Rs. 219.66 billion, of which 58.2 percent was recurrent, 33.3 percent capital, and 8.6 percent repayment of principal. Expenditure trend of the past years shows share of recurrent expenditure in total expenditure is close to 60 to 62 percent between fiscal years 2001/02 and 2005/06. Such ratio has declined in subsequent years as expected. The share of capital expenditure in the total expenditure was about 26 percent between fiscal years 2002/03 and 2005/06 while it showed increasing trend in the subsequent years. Similarly, revenue mobilization covered about 63 to 70 percent of the total expenditure between fiscal years 2001/02 and 2008/09. During this period, total average revenue grew by 17.3 percent, while average growth rate of total expenditure remained at 17.8 percent.

Table 2 (a): Ratio of Fiscal Heads to Total Government Expenditure

<i>Descriptions</i>	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Expenditure</i>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Recurrent Expenditure</i>	61.0	62.0	62.1	60.1	60.4	57.7	56.7	58.2
<i>Capital Expenditure</i>	30.9	26.6	25.8	26.7	26.7	29.7	33.2	33.3
<i>Principal Repayment</i>	8.0	11.4	12.1	13.2	12.9	12.6	10.1	8.6
<i>Income</i>	71.4	80.4	82.3	82.4	77.7	77.5	79.3	77.3
<i>Revenue</i>	63.0	66.9	69.7	68.4	65.2	65.7	66.7	65.3
<i>Foreign Grants</i>	8.4	13.5	12.6	14.0	12.5	11.8	12.6	12.0
<i>Saving (+)/Deficit (-)</i>	-28.6	-19.6	-17.7	-17.6	-22.3	-22.5	-20.7	-22.7
<i>Foreign Loan</i>	9.6	5.4	8.5	9.0	7.4	7.5	5.6	4.5
<i>Domestic Borrowings</i>	10.0	10.6	6.3	8.7	10.7	13.4	12.7	8.4
<i>Change in Reserves (-) Surplus</i>	9.0	3.6	2.9	-0.2	4.3	1.6	2.4	9.8

Source: FCGO, and Central Bureau of Statistics

- 2.2 The average fiscal deficit increased by 16 percent from the fiscal year 2002/03 to 2008/09. During the same period, share of fiscal deficit in the total expenditure continued to decline from 28.6 percent in the fiscal year 2001/02 to 17.6 percent in 2004/05. Though, there have been some increases in expenditure after this period, it is still less compared to the base year. Of the resources to finance total fiscal deficit in the fiscal year 2001/02, the share of Domestic Borrowings was 54.0 percent while there have been fluctuations in the share of such borrowing in the subsequent years. The share of Domestic Borrowing stood at 37.0 percent during the fiscal year 2008/09. The Cash balance after repayment of foreign loans is reflected as change in reserve deficit.
- 2.3 The ratio of total expenditure and revenue to GDP has increased in the fiscal year 2008/09 compared to that of 2007/08. The ratio of Government Expenditure increased to 19.8 percent in the fiscal year 2007/08, and 22.2 percent in 2008/09. The revenue ratio in the current fiscal year is 14.5 percent against the 13.2 percent in the previous year. The gap between revenue mobilization and total expenditure has reached 7.7 percent in the fiscal year 2008/09 from 6.6 percent in 2007/08.

Table 2 (b): Ratio of Government Expenditure and Revenue to GDP
(GDP at current producer's price)

(Percentage)

<i>Description</i>	<i>Fiscal Years</i>							
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Recurrent Expenditure</i>	10.6	10.6	10.3	10.5	10.2	10.6	11.2	12.9
<i>Capital Expenditure</i>	5.4	4.5	4.3	4.6	4.5	5.5	6.5	7.4
<i>Principal repayment Expenditure</i>	1.4	1.9	2.0	2.3	2.2	2.3	2.0	1.9
<i>Net Expenditure</i>	17.4	17.1	16.7	17.4	17.0	18.3	19.7	22.2
<i>Revenue Mobilization</i>	11.0	11.4	11.6	11.9	11.1	12.0	13.2	14.5
Difference between Expenditure and Revenue	6.4	5.6	5.1	5.5	5.9	6.3	6.6	7.7

Source: FCGO, and Central Bureau of Statistics

- 2.4 The revenue surplus is considered as a sustainable source to finance the capital expenditure and principal repayments. The ratio of revenue surplus

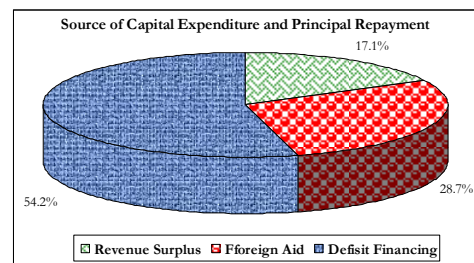
to the capital expenditure and principal repayments in the fiscal year 2008/09 was 17.1 percent while this ratio was 23.1 percent in 2007/08. Of the sources to finance capital and principal repayments, the share of foreign grants in the fiscal year 2008/09 has decreased by 0.4 percentage point and remained at 28.7 percent.. Similarly, such ratio of deficit financing in the fiscal year 2008/09 increased by 6.3 percentage point and reached 54.2 percent as compared to the previous fiscal year.

Table 2 (c) Capital and Principal Repayment and Sources

<i>Headings</i>	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
<i>Capital Expenditure & Principal Repayment (Rs. million)</i>	31,915.6	33,890.5	40,874.0	43,871.4	56,482.2	69,903.0	91,923.0
<i>a. Capital Expenditure</i>	22,356.1	23,095.6	27,340.7	29,606.6	39,729.9	53,516.1	73,088.9
<i>b. Principal Repayment</i>	955.95	1079.49	1353.33	1426.48	1675.23	1638.69	18,834.1
<i>Sources (percent)</i>							
<i>a. Revenue Surplus</i>	13.0	20.0	20.6	12.0	18.7	23.1	17.1
<i>b. Foreign Grant</i>	35.5	33.3	35.2	31.5	28.0	29.1	28.7
<i>c. Deficit Financing</i>	51.5	46.7	44.2	56.5	53.3	47.8	54.2
<i>c1) Foreign Loan</i>	(14.3)	(22.5)	(22.7)	(18.8)	(17.8)	(12.9)	(10.8)
<i>c2) Domestic Loan</i>	(27.8)	(16.5)	(21.9)	(26.9)	(31.7)	(29.3)	(20.0)
<i>c3) Change in Reserve</i>	(9.3)	(7.7)	(0.4)	(10.8)	(3.8)	(5.6)	(23.3)

Source: FCGO

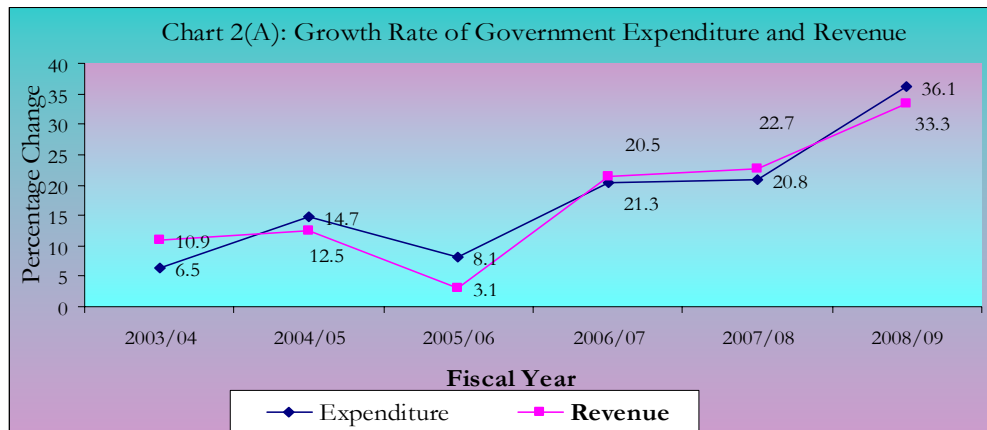
- 2.5 Of the sources of deficit financing, the share of foreign loan stood at 10.8 percent, share of domestic borrowings at 20.0 percent and the share of change in reserves 23.3 percent in the fiscal year 2008/9. The share of foreign loan was notable from the fiscal year 2004/05 up to 2006/07. In the fiscal year 2008/09, of the sources to finance capital and principal repayments, the share of revenue surplus stood at 17.1 percent, share of foreign grants 28.7 percent, and the share of deficit



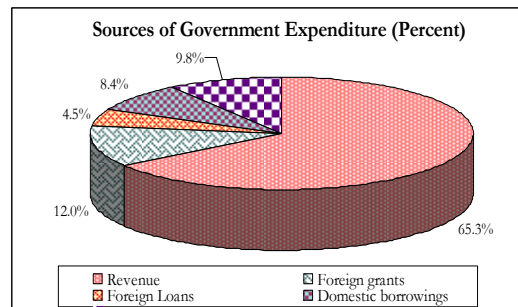
financing remained at 54.2 percent. The share of revenue surplus in the fiscal year 2008/09 is higher with 6.0 percentage point than that of previous year while share of foreign grants slightly increased by 0.4 percentage point.

Government Finance

2.6 The total government expenditure in the fiscal year 2006/07 had increased by 20.8 percent compared to the previous fiscal year, while it increased by 36.1 percent in 2007/08. Of this, recurrent expenditure was 18.6 percent while in the fiscal year 2008/09 it increased by 39.7 percent. The capital expenditure in the fiscal year 2007/08 had increased by 34.7 percent while it has increased by 36.6 percent in fiscal year 2008/09. As compared to the decrease of 2.2 percent in the fiscal year 2007/08, there is an increase of 14.9 percent in 2008/09 on repayment of principal.



2.7 The Government expenditure in the fiscal year 2008/09 totaled Rs.219, 661.9 million. Out of that total expenditure, revenue mobilization financed 65.3 percent, foreign grants 12.0 percent, foreign loan 4.5 percent, domestic borrowing 8.4 percent while change in reserves shared 9.8 percent. Among the sources of financing the total Government expenditure in the fiscal year 2007/08, revenue mobilization contributed 66.7 percent, foreign grants 12.8 percent, foreign loan 5.6 percent, domestic borrowings 12.6 percent and change in reserves shared 2.4 percent.



Recurrent Expenditure

- 2.8 The recurrent expenditure in the fiscal year 2008/09 totaled Rs. 127,738.9 million, which is 39.7 percent higher than that of the previous fiscal year, which was Rs. 91,446.9 million for the previous fiscal year. Of the total recurrent expenditure, the share of constitutional bodies was 1.1 percent, general administration 13.2 percent, revenue and fiscal administration 0.9 percent, fiscal administration and planning 0.3 percent, judicial administration 0.6 percent and the share of foreign services was 0.9 percent. Likewise, share towards defense expenditure was 10.8 percent social service 37.1 percent, economic services 9.4 percent, principal interest payments 6.4 percent and share of miscellaneous expenditure was 19.2 percent.
- 2.9 Of the total recurrent expenditure in the fiscal year 2008/09, major portion of such expenditure (Rs. 47,437.9 million) was on education, health, drinking water, local development, and other social services. Similarly, other major recurrent expenditures were on general administration constituting Rs. 16,680.3 million, defense Rs. 13,748.4 million and economic services Rs. 12,052.6 million. In the same fiscal year, expenditure towards interest repayment of principal was Rs. 8,154.2 billion.
- 2.10 Analyses of major recurrent expenditures show that expenditure on social services grew by 35.2 percent in the fiscal year 2008/09 as compared to the previous fiscal year. During the same period, such expenditures on defense rose by 30.1 percent, general administration by 20.9 percent, judiciary administration by 20.5 percent, foreign services by 12.7 percent, economic services by 31.0 percent, revenue and fiscal administration has declined by 32.2 percent and miscellaneous expenditures by 109.9 percent. Expenses on constitutional bodies, however, declined by 13.7 percent during this period whereas administration and planning expenses have increased by 5.1 percent. Expenditure on interest repayments increased notably by 36.3 percent in the fiscal year 2008/09 as compared to the previous fiscal year.

Capital Expenditure

- 2.11 Capital expenditure in the fiscal year 2008/09 rose by 36.6 percent compared to the previous fiscal year totaling Rs. 73,089.0 million. Such expenditure in its preceding year was Rs. 53,516.2 million. Among the major components of capital expenditure, economic services expenditure remained at Rs. 31,999.9 million, social services at Rs. 34,056.8 million and defense at Rs.712.5 million. Likewise, capital expenditure on general administration stood at Rs. 1,781.7

million, judicial administration Rs.301.7 million, loan and investment Rs. 934.7 million, constitutional organs Rs. 84.7 million, revenue and fiscal administration Rs.131.8 million, fiscal administration and planning Rs. 41.2 million, foreign services Rs. 35.1 million, and miscellaneous expenditure Rs 3,002.7 million. On the total capital expenditure, economic services shared 43.8 percent, social services 46.6 percent, defense 1.0 percent, general administration 2.4 percent, judicial administration 0.4 percent, loan and investment 1.3 percent, constitutional bodies 0.1 percent, revenue and fiscal administration 0.4 percent, fiscal administration and planning 0.2 percent, foreign services and miscellaneous expenditures 4.1 percent. When compared to the capital expenditure of the fiscal year 2008/09 to that of 2007/08, such expenses on social service rose by 69.9 percent, economic service rose by 44.5 percent, defense rose by 11.9 percent whereas expenses on revenue and economic administration has declined by 31.1 percent. Similarly, expenditure on general administration and Judiciary has increased by 0.5 percent and 8.9 percent, respectively, against the decline of 40.8 percent on the expenses on economic administration and planning.

Principal Repayment

2.12 In the fiscal year 2008/09, interest repayment on principal stood at Rs. 18,834.1 million. Such expenditure was Rs. 16,386.9 million in the previous fiscal year. Of the total principal repayment expenditures, the share of principal repayment against domestic borrowing remained at 46.3 percent and that of foreign loan 53.7 percent in the fiscal year 2008/09. When compared to the previous fiscal year, principal repayment in the fiscal year 2008/09 against domestic borrowings has increased by 2.3 percent while that of foreign loan has decreased by 34.9 percent.

Expenditure Status of the First Eight Months of FY 2009/10

2.13 Based on disbursement and operation of current accounts, total expenditure increased by 27.4 percent totaling Rs.146,240.4 million in the first eight months of the current fiscal year 2009/10 as compared to the same period of the last year. In the same period of the fiscal year 2008/09, such expenditure was Rs. 114,799.1 million. Of the total expenditure in the review period of the current fiscal year 2009/10, recurrent expenditure accounted for Rs. 101,076.2 million, capital expenditure Rs. 34,099.1 million and principal repayment Rs. 110,650.0 million. Recurrent expenditure for the first eight months of the current fiscal year 2009/10 totaled Rs. 77,327.8 million, capital expenditure

Rs. 25,912.7 million, and principal repayment Rs.11,558.6 million. When compared to the first eight months of the previous fiscal year, recurrent expenditure has gone up by 30.7 percent and capital expenditure by 31.6 percent while expenditure incurred on principal repayment has decreased by 4.3 percent.

Revenue

- 2.14 Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserves are used as fiscal instruments for financing government expenditures. When compared to the fiscal year 2007/08, revenue mobilization in 2008/09 grew by 33.3 percent to Rs. 143,474.5 million. In the fiscal year 2007/08, revenue collection had increased by 22.7 percent as compared to its preceding fiscal year. The Government revenue had financed 66.7 percent of the total government expenditure in the fiscal year 2007/08 while this source contributed to 65.3 percent of the total expenditure in the fiscal year 2008/09.
- 2.15 Of the total revenue, shares of tax revenue and non-tax revenue in the fiscal year 2008/09 stood at 81.6 percent and 18.4 percent respectively. Such shares in the previous year were 79.1 percent and 20.9 percent respectively.
- 2.16 Tax revenue grew by 37.5 percent in the fiscal year 2008/09 compared to that of the previous fiscal year. Such revenue had increased by 19.7 percent in the fiscal year 2007/08 compared to its preceding fiscal year. Of the total tax revenue in the fiscal year 2008/09, the share of customs duty was 22.9 percent while the share of tax on production and consumption of goods and services was 47.8 percent. Likewise, the share of land revenue and registration was 4.5 percent and that of the total of income, profit, and property tax was 24.8 percent.
- 2.17 Customs revenue grew by 27.2 percent on the tax revenue front in the fiscal year 2008/09 as compared to its preceding fiscal year while tax levied on production and consumption of goods and services rose by 36.4 percent. The total of income, profit, and property taxes increased by 44.4 percent and land revenue and registration fees by 77.6 percent. Of the customs revenue, revenue from imports increased by 28.8 percent while that from exports rose notably by 78.7 percent, and Indian excise refund increased by 7.1 percent in the fiscal year 2008/09. Excise duty levied on the production and consumption of goods and services has grown by 45.0 percent and Value Added Tax (VAT) grew by 33.2 percent.

2.18 Non-tax revenue increased by 17.9 percent to Rs. 26,422.6 million in the fiscal year 2008/09 compared to that of the fiscal year 2007/08. Of the total non-tax revenue, the share of fees, fines, forfeitures was 23.4 percent; income from government service and sales of goods 19.9 percent; dividend 27.2 percent; sales of royalty and government's properties 9.6 percent; principal and interest 17.5 percent; and miscellaneous non-tax revenue 2.4 percent. On the non-tax revenue front, the firm registration fees increased by 33.5 percent and the total of administrative fees, penalties, fines and forfeitures by 374.6 percent in the fiscal year 2008/09 as compared to the previous fiscal year. Dividend of service-oriented organizations rose by 128.1 percent and income of other government sectors by 4.5 percent. On non-tax revenue side, principal repayments from companies and enterprises rose by 31.8 percent while payments of interest rose by 43.7 percent in the fiscal year 2008/09 compared to the previous fiscal year.

Revenue Status as of Mid-March of FY 2009/10

2.19 A total Revenue of Rs. 105,464.3 million has been collected by mid-March of the fiscal year 2009/10. Total revenue of Rs. 84,203.2 million was collected in the same period of the previous fiscal year. Thus, the rate of revenue growth has been 25.2 percent till mid-March of the fiscal year 2009/10 as compared to the same period of the previous fiscal year. Of the total revenue collection, Rs. 93,080.5 million came from the tax revenue, and Rs.12,383.8 million from non-tax revenues. The tax revenue growth rate registered 36.7 percent till mid-March of the current fiscal year 2009/10 as compared to the same period of the previous fiscal year, while non-tax revenue grew by 23.2 percent more than in the previous period.

2.20 Customs revenue until mid-March of the fiscal year 2009/10 as compared to the same period of the previous year grew by 40.7 percent totaling Rs. 21,680.9 million. During this period, tax collection on production and consumption of goods and services rose by 48.0 percent to Rs. 48,787.4 million as compared to the same period of the previous fiscal year. Likewise, tax collection from imports rose by 48.4 percent in the review period and the share of import revenue on the total customs revenue of this year stood at 87.4 percent whereas this share was 82.9 percent during the same period of the previous fiscal year. Export tax revenue rose by 50.1 percent and the Indian Excise refund fell by 20.8 percent. Likewise, Registration fees increased by 16.8 percent, income tax (public sector) by 15.5 percent and vehicles tax by 20.0 percent.

Foreign Aid

- 2.21 The foreign aid commitment in the fiscal year 2008/09 registered a dismal growth of 2.5 percent as compared to 32.9 percent in its immediate preceding year. In monetary term, committed foreign aid was limited to Rs. 47,975.3 million in the fiscal year 2008/09 from Rs. 49,186.2 million in FY2007/08. Of the total foreign aid commitment for the fiscal year 2008/09, bilateral assistance constituted Rs. 27,196.5 million, whereas the multilateral assistance totaled to Rs. 20,778.8 million. While classifying the foreign aid into grant and loan components for the year, grants amounted to Rs. 43,095.7 million and loans to Rs. 4,879.5 million. Foreign grants during the fiscal year increased by 4.9 percent and loans decreased by 39.9 percent as compared to the previous year.
- 2.22 The sector-wise classification of foreign aid commitment for fiscal year 2008/09 shows the share of agriculture, irrigation and forestry as 3.6 percent, electricity 7.4 percent, local development 26.1 percent, education 2.7 percent, transport and communication sector 12.5 percent and others 33.9 percent.

Grants and Loan

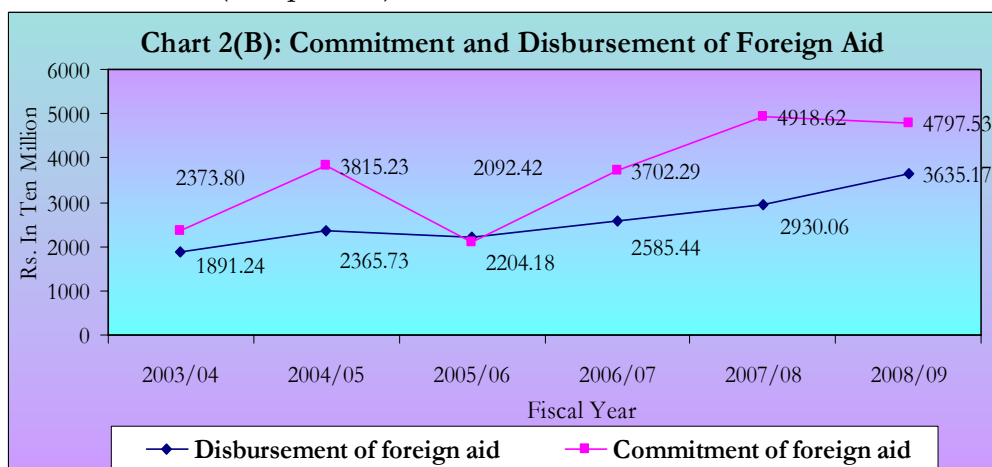
- 2.23 The sector-wise classification of foreign aid commitment for the first eight months of the current fiscal year 2009/10 stood at 76,737.6 million with a growth of 77.9 percent as compared to the previous fiscal year. Out of the total committed foreign aid, foreign grant constituted Rs 58,344.5 million (76.0 percent of the total aid) while foreign loan stood at Rs. 18,388.9 million (24 percent of the total aid) in the review period. Out of the total foreign aid of Rs. 43,139.5 million committed during the first eight months of the fiscal year 2008/09, loan constituted Rs 4,879.5 million (11.3 percent) and grant Rs. 38.2548 million (87.7 percent).

Commitment and Utilization

- 2.24 In the first eight months of the fiscal year 2009/10, the share of bilateral assistance among the total commitment was 41.0 percent while that of multilateral assistance was 59.0 percent. In the same period of the previous year, shares of bilateral and multilateral assistance were 51.8 percent and 48.2 percent respectively. While analyzing sector-wise foreign aid commitment in the first eight months of the current fiscal year 2009/10, the share of electricity sector was Rs. 11,570.0 million (15.6 percent), education 22,414.6 million (29.2 percent), and rural development Rs. 12,466.8 million (16.2 percent). Similarly, drinking water and sewerage shared Rs. 5,828.1 million

(7.6 percent) agriculture, irrigation and forestry Rs 2,953.5 million (3.8 percent), transport and communication Rs. 199.9 million (0.3 percent), health Rs. 292.3 million (0.4 percent) and other sectors Rs. 20,606.2 million (26.9 percent).

- 2.25 Utilization of foreign aid in the fiscal year 2008/09, as compared to 2007/08 increased by 24.1 percent to Rs. 36,351.7 million. Of the total foreign aid utilized in the fiscal year, Rs. 26,382.8 million (72.6 percent) was grants and Rs. 9,978.9 million (27.4 percent) as loans. In the fiscal year 2007/08, foreign aid utilization totaled Rs. 29,300.6 million, of which Rs. 20,320.7 million (6.4 percent) was received as grant and Rs. 8,979.9 million (30.6 percent) as loan. Of the total foreign aid utilized in the fiscal year 2008/09, Rs. 27,018.6 million (74.3 percent) was through multilateral assistance and Rs. 9,333.1 million (25.7 percent) as bilateral assistance. In the fiscal year 2007/8, multilateral aid utilized amounted to Rs. 19,092.9 million (65.2 percent) and bilateral Rs. 10,207.7 million (34.8 percent).



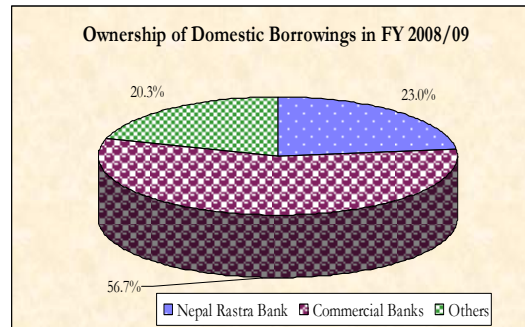
- 2.26 Foreign aid disbursement in the fiscal year 2008/09 on sector basis shows that the social sector received Rs. 24,695.7 million (67.9 percent of the total), transport, electricity and communication Rs. 6,297.7 billion (17.3 percent), agriculture, irrigation and forestry Rs. 2,291.2 billion (6.3 billion), industry and commerce Rs. 167.0 million (0.4 percent) and others Rs. 2,906.4 million (8.0 percent). Comparing foreign aid utilization on sector basis between fiscal years 2007/08 and 2008/09 reveals that utilization of aid in the social sector increased by 35.7 percent, transport, electricity and communication sector by 6.1 percent between these two periods. The sector successful in making highest proportion of foreign aid utilization is the industry and commerce with 104.1 percent. Increase in utilization of aid in other sectors put together totaled 531.8 percent, while agriculture is the only sector with a 40.0 percent decrease in aid utilization during the period.

Net Foreign Loans

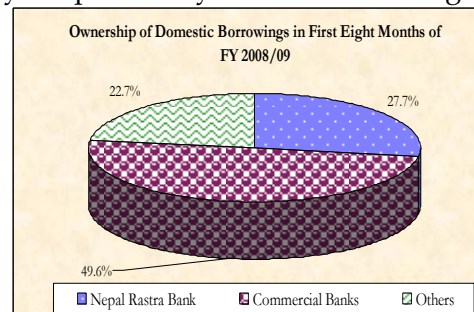
- 2.27 Foreign loan has been playing vital role in the Nepalese economy. The net outstanding foreign loan totaled Rs. 249,965.4 million in the fiscal year 2007/08, which further increased by 10.8 percent reaching Rs. 277,040.4 million in 2008/09.
- 2.28 Net outstanding foreign debt by the end of first eight months of the fiscal year 2008/09 (adjusting gross borrowing and principal repayment) totaled Rs. 273,607.3 million, which decreased by 7.5 percent totaling Rs. 253,125.2 million by the same period of 2009/10.
- 2.29 As per the available data for the first eight months of the current fiscal year, the ratio of net outstanding debt to GDP stood at 23.4 percent. This ratio was 27.9 percent in fiscal years 2008/09.

Net Domestic Borrowings

- 2.30 Outstanding domestic debt increased by 8.3 percent to Rs. 125,674.1 million in mid-July 2009 from Rs. 116,039.5 million by mid-July of 2008. Of the total outstanding debt by mid-July 2009, the share of Nepal Rastra Bank was Rs. 28,883.3 million (3.0 percent), with Rs. 71,292.0 million (56.7 percent) that of commercial banks and other non-bank institutions, and the private sector shared Rs. 25,498.8 million (20.3 percent). On analyzing domestic borrowing by instruments, 68.8 percent was Treasury Bills, 23.5 percent Development Bonds, 0.2 percent National Savings Certificate, 3.5 percent Citizens Savings Certificates, and 4.0 percent Special Bonds.



- 2.31 Outstanding domestic debt increased by 3.7 percent by the end of first eight months of the current fiscal year 2009/10 from 119,983.3 million to Rs124,451.2 million as compared to the same period of the previous fiscal year. Of the total outstanding debt at the end of the first eight months of this fiscal year, Nepal Rastra Bank held 27.7 percent; commercial banks held 49.6 percent; and others held 22.7 percent.



49.6 percent and other non-bank institutions and private sector held 22.7 percent. Analysis of sources of domestic borrowing by first eight months of the fiscal year 2009/10 shows Rs. 82,373.3 million (66.2 percent) in Treasury Bills; Rs. 30,978.5 million (24.9 percent) in Development Bonds; Rs. 213.3 million (0.2 percent) in National Savings Certificates; Rs. 5,033.6 million (4.0 percent) in Citizen Savings Certificates and Special Bonds Rs. 5,852.5 million (4.7 percent). The outstanding domestic debt in the form of development bond rose by 30.6 percent, while National Savings Certificate fell by 80.9 percent and Treasury Bill by 4.7 percent respectively. The share of National Savings Certificate has remarkably declined owing to the non-issuance of any Certificate after issuance of 5-year maturity Certificates on 28 March 2005 and gradual repayment against Certificates in the past. Comparing the ratio of GDP to domestic borrowing liabilities, it was 14.2 percent in the fiscal year 2007/08, 12.4 percent in 2008/09.

Fiscal Deficit

2.32 The persistence of fiscal deficit is due to less receipt of revenue and foreign grants as compared to the level of expenditure. As such, fiscal deficit increased by 49.1 percent to Rs. 49,804.6 million in the fiscal year 2008/09 from Rs. 33,406.7 million by 2007/08. The fiscal deficit that was in a decreasing trend since the fiscal year 2001/02 started showing increasing trend again from 2004/05. The ratio of fiscal deficit to GDP, which was 4.1 percent in the fiscal year 2007/08 stood at 5.0 percent in 2008/09.

Sources of Fiscal Deficit Financing

2.33 Fiscal deficit, the result of imbalance between expenditure and the revenue is being financed through foreign loan, domestic borrowing and cash reserve. Of the fiscal deficit of Rs. 49,804.6 million in the fiscal year 2008/09, Rs. 9,968.9 billion (20.0 percent) was financed through foreign loan, Rs. 18,417.1 million (37.0 percent) through domestic borrowing and remaining Rs. 21,418.6 million (43.0 percent) through the change in cash reserves. Out of the total deficit finance of Rs. 33,406.7 million in the fiscal year 2007/08, Rs. 8,979.9 million was borne through foreign loan, and Rs. 20,496.8 million through the domestic borrowing, leaving a gap of Rs 3,930.4 million in the change in cash reserve.

Table 2(d) : Fiscal Deficit

(Rs. in million)

<i>Fiscal Year</i>	<i>Fiscal Deficits</i>	<i>Fiscal Deficit/GDP Ratio (in Percent)</i>
2000/01	24,188.1	5.5
2001/02	22,940.6	5.0
2002/03	16,437.2	3.3
2003/04	15,828.2	2.9
2004/05	18,046.5	3.1
2005/06	24,779.6	3.8
2006/07	30,091.7	4.1
2007/08	33,406.7	4.1
2008/09	49804.6	5.0

Source: FCGO, and Central Bureau of Statistics

