

# WEEKLY GOVERNANCE

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## A Closer Look at Key Initiatives in the Fiscal Year 2025-26 Budget.

On 29 May 2025, the Government of Nepal unveiled an ambitious budget of NPR 1.964 trillion for the upcoming fiscal year 2025–26, which begins in mid-July. This marks a 5.6 percent increase compared to the current budget of NPR 1.86 trillion. A significant portion of the new budget—NPR 1.180 trillion (60.1 percent)—has been allocated for recurrent expenditure. Similarly, NPR 407.69 billion (20.8 percent) has been allocated for capital expenditure, and NPR 375.24 billion (19.1 percent) for financial management.

To fund the proposed budget, the government expects to generate NPR 1.315 trillion through revenue collection. The remaining gap will be bridged through internal borrowing of NPR 362 billion, external loans amounting NPR 233 billion, and foreign grants of NPR 53 billion. Moreover, the government aims to grow the economy by 6 percent and limit inflation to 5.5 percent.

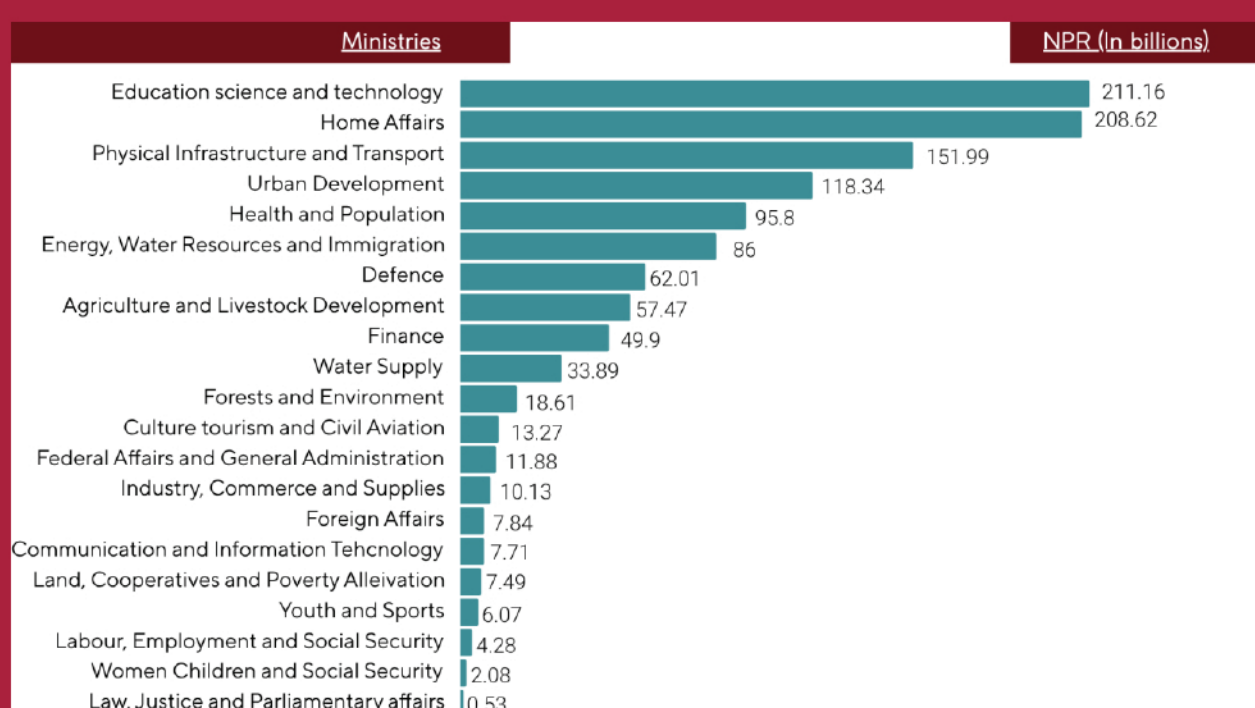


Fig: Distribution of the FY 2025–26 budget across ministries

Despite its large size, the budget is perceived as relatively ordinary, especially when compared to previous years that often featured more overtly populist agendas. Still, it includes several targeted social investments and structural measures aimed at long-term reform.

- A teacher bank will be created in collaboration with universities to mobilize graduate-level students as volunteer teachers in schools to tackle the shortage of teachers especially for English, Science and Mathematics.
- One school in each of the 77 districts will receive a grant of up to NPR 2.5 million to develop as a model school and support 100 other schools in improving education quality.
- A nationwide ban on the production, import, and use of plastic bags thinner than 40 microns will come into effect from November 17, 2025.
- A 75 percent income tax waiver that will apply on revenue earned through the export of IT services, while a flat 5 percent tax will apply to exporters operating from Nepal.
- Start-up enterprises with an annual turnover of up to NPR 100 million will receive full income tax exemption for the first five years.
- NPR 730 million will be allocated as subsidised loans at a concessional 3 percent interest rate to promote innovation and entrepreneurship among Gen Z.
- The assets of cooperative fund embezzlers will be auctioned and distributed to victims, and the passports and properties of implicated cooperative officials will be frozen; a revolving fund and seed capital will be established for relief.
- All taxes on machinery for green hydrogen production will be waived, and producers will receive a five-year income tax holiday.

While the new budget includes several forward-looking initiatives, it continues the long-standing trend of allocating a large portion—over 60 percent—to recurrent expenditures. This spending pattern is likely to limit long-term developmental impact. At the same time, it's important to recognize that the size of the budget alone does not guarantee progress. In Nepal, we have consistently witnessed a pattern where the government struggles with timely and effective budget spending, often leading to last-minute downsizing and underutilization of allocated resources. Going forward, the effectiveness of this year's budget will depend on how well the government is able to plan and execute projects, ensure close oversight, improve revenue collection, and foster coordination across all three levels of government—federal, provincial, and local.

Read more: [Ministry of Finance](#)

## Governance issues of the week

- 1 High Court acquits Aftab Alam in 2008 Murder Case:** Mohammad Aftab Alam, a former Nepali Congress leader, who was previously sentenced to life imprisonment for the 2008 Rautahat bomb blast and subsequent murders, has been acquitted by the Janakpur High Court. The verdict was issued by a division bench of Justices Khushi Prasad Tharu and Arjun Manandhar at the court's temporary bench in Birgunj. Tharu, also known for acquitting Bijay Kumar Gachhadhar in the Lalita Niwas land grab case, has raised concerns of potential political interference in judicial decisions.  
Read more: [The Kathmandu Post](#)
- 2 Thousands await COVID-19 Insurance Payouts:** Over 95,000 people in Nepal are still awaiting compensation under government-backed COVID-19 insurance schemes, with unpaid claims totaling NPR 11.34 billion. Out of 165,059 total claims filed, only 69,765 have received payments amounting to NPR 6.58 billion. Despite COVID insurance being labeled a priority, officials cite fund availability as a hurdle. Unlike global practices with defined guidelines and capped liabilities, Nepal's scheme lacked clear rules, and poor risk assessment has delayed payouts for thousands of citizens.  
Read More: [Annapurna Post](#)
- 3 Govt approves Loan to Clear DDC's Dues to Milk Farmers:** The government has approved a conditional loan of NPR 600 million to the Dairy Development Committee (DDC) to clear long-pending payments to milk farmers. While only NPR 10 million was initially allocated for this purpose in the current fiscal year, an additional NPR 590 million will be reallocated from the Ministry's existing budget. Many farmers have reportedly gone unpaid for nearly a year, prompting urgent calls for financial relief and accountability.  
Read More: [Kantipur](#)
- 4 Top Private Schools face action for arbitrary fee hikes:** Over two dozen private schools, including Modern English School, Premier School, and Galaxy Public School, have been found charging fees up to five times the approved limit without mandatory approval. Some also falsely claimed international affiliations. The authorities plan to fine non-compliant institutions up to NPR 300,000 and publicly name them. However, the inspection drive has sparked backlash from political groups and the National Private and Boarding Schools Organization Nepal, which accused officials of overlooking the sector's sensitivities.  
Read More: [Kantipur](#)
- 5 Govt projects nearly 2 million to be affected by monsoon:** The government has projected that this year's monsoon will affect over 1.99 million people across 457,145 households, with Lumbini Province expected to bear the greatest impact. In response, it has approved a National Monsoon Preparedness and Response Action Plan, which includes flood and landslide awareness campaigns, early warning SMS alerts, deployment of mobile BTS units in case of telecom tower damage, and helicopter standby arrangements in Surkhet and Kathmandu.  
Read more: [Online khabar](#)
- 6 Parliament obstructed amid Visit Visa scandal:** With the ongoing discussion on the alleged involvement of Home Minister Ramesh Lekhak in the visit visa corruption scandal, the opposition, led by the Maoist Centre, obstructed the parliament on May 27th, 2025. Though the parliament resumed on the 29th for unveiling the budget, the opposition has again decided to halt the parliament until the Minister resigns. The government officials implicated in the case are already under investigation by the CIAA.  
Read More: [The Kathmandu Post](#), [myRepublica](#)

## Reading: Nepal Country Inequality Report 2025 (CIR 2025)

Nepal Governance Weekly is an analytical update of Nepal's current affairs based on media and real sources mining, to sensitize the communities on hot news on various governance issues from the perspective of accountability.

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