



Delhi Policy Group

Advancing India's Rise as a Leading Power

INDIA STRATEGIC REVIEW JUNE 2025

Author

Deependra Singh Hooda

Volume VI, Issue 6



Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

www.delhipolicygroup.org



Delhi Policy Group

Advancing India's Rise as a Leading Power

India Strategic Review

Vol. VI, Issue 6

June 2025

ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and is independently funded by a non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

Author

Lt. Gen. Deependra Singh Hooda (Retd.), PVSM, UYSM, AVSM, VSM & Bar, Distinguished Fellow for Military Strategy, Delhi Policy Group

The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.

INDIA STRATEGIC REVIEW

The ISR features an assessment of key developments, trends, and policies pertaining to India's immediate and continental neighbourhood, and is authored by Lt. Gen. Deependra Singh Hooda (Retd.), Distinguished Fellow for Military Strategy. The research team includes Shreyas Deshmukh, Research Associate. Your comments and feedback may be addressed to Shreyas Deshmukh at shreyas@dpg.org.in. To subscribe, please [click here](#).

Cover Images:

On June 10, Pakistan's Finance Minister, Muhammad Aurangzeb, presented the 2025-2026 federal budget in National Assembly of Pakistan. Source: [X/ @NAofPakistan](#)

On June 19, 2025, the inaugural trilateral meeting of the Vice Foreign Ministers/Foreign Secretaries of China, Bangladesh, and Pakistan was held in Kunming. Source: [MOFA PRC](#)

Lieutenant General BKGM Lasantha Rodrigo, Commander of the Sri Lanka Army, called on India's Army Chief General Upendra Dwivedi on June 14, 2025. Source: [X/@adgpi](#)

© 2025 by the Delhi Policy Group

Delhi Policy Group

Core 5A, 1st Floor,
India Habitat Centre,
Lodhi Road, New Delhi- 110003.
www.delhipolicygroup.org

India Strategic Review

Vol. VI, Issue 6

June 2025

Contents

PAKISTAN	1
Post-Op Sindoor Developments	1
Field Marshal Asim Munir's US Visit	2
Pakistan's Defence Budget	4
AFGHANISTAN	5
Foreign Relations	5
Human Rights and the Humanitarian Situation	6
DEVELOPMENTS ON THE INDIA-CHINA LINE OF ACTUAL CONTROL (LAC)	7
Situation at the LAC	7
BANGLADESH	8
Politics on Election Timeline	8
Bangladesh-China-Pakistan Ties	9
SRI LANKA	10
India-Sri Lanka Relations	10
NEPAL	11
2025 Budget	11

India Strategic Review

by

Lt. Gen. Deependra Singh Hooda (Retd.)

PAKISTAN

Post-Op Sindoor Developments

The ceasefire following India's launch of Operation Sindoor is holding, but there are no signs of a thaw between New Delhi and Islamabad. At the Shangri-La Dialogue held in Singapore on May 31, senior military officials from both sides presented sharply divergent views. India's Chief of Defence Staff, General Anil Chauhan, said, "What India has done, politically, they have drawn a new red line of intolerance against terror. I hope this particular operation, it is basically lying in the military domain, that should bring about some lessons for our adversary also, and hopefully, they learn that this is a limit of India's tolerance."¹

Pakistan's Chairman of the Joint Chiefs of Staff Committee, General Sahir Shamshad Mirza, emphasised that an early resolution of the Kashmir issue is essential for enduring peace in South Asia. He also stated that the threshold of an escalatory war has come dangerously low, implying greater risk on both sides, not just in Kashmir but all of India and all of Pakistan.²

India's suspension of the Indus Water Treaty (IWT) has sparked significant concern in Pakistan. Pakistan has written four letters requesting India to reconsider its decision regarding the IWT. The letters were sent by Pakistan's Minister of Water Resources, Secretary Syed Ali Murtaza, to the Jal Shakti Ministry.³

For now, there is no change in India's stance on the IWT. At a press conference, Jal Shakti Minister CR Patil stated that India has no plans to review its decision despite several requests from Pakistan. He also dismissed Pakistani politician Bilawal Bhutto's remarks warning India over the treaty as "empty threats."⁴

Prime Minister Narendra Modi has responded strongly to US President Donald Trump's repeated remarks claiming credit for the India-Pakistan ceasefire. During a telephone call with President Trump, Prime Minister Modi made it clear that there was no discussion on issues such as the India-US trade deal or US mediation to broker peace between India and Pakistan. Talks on halting

military action were held directly between India and Pakistan through the existing channels of both armies and at the request of Pakistan. India has never accepted mediation and will never do so.⁵

On June 28, at least 16 Pakistani security officials were killed in a suicide bombing in Pakistan's Khyber Pakhtunkhwa province. Hafiz Gul Bahadur's armed group, a faction of the Tehrik-e Taliban Pakistan (TTP), has claimed the attack. The Inter-Services Public Relations (ISPR) sought to blame India, issuing a statement that "in their desperation, an explosive-laden vehicle was rammed by the Indian sponsored kharijis into one of the vehicles of the leading group."⁶

In a strongly worded response, Indian Foreign Ministry spokesperson Randhir Jaiswal said in a statement on X, "We have seen an official statement by the Pakistan Army seeking to blame India for the attack on Waziristan on 28 June. We reject this statement with the contempt it deserves."

Meanwhile, the Pakistani government has announced its plans to nominate President Trump for a Nobel Peace Prize, citing the role that Islamabad says he played in helping to negotiate a ceasefire last month between India and Pakistan. On X, the Pakistani government said Trump deserved the award "in recognition of his decisive diplomatic intervention and pivotal leadership during the recent India-Pakistan crisis".⁷

However, the government's decision has not found widespread acceptance in Pakistan. Following the US strikes on Iran, Opposition leaders, activists, and civil society members have denounced the nomination of the American president for the Nobel Peace Prize as an act of "crass flattery" and national humiliation.⁸

Field Marshal Asim Munir's US Visit

The Chief of the Pakistan Army, Field Marshal Asim Munir, embarked on a five-day official visit to the US from June 17 to 22. During his visit, Munir interacted with the diaspora and think tanks, and held meetings with officials from the State Department, the Pentagon, and the Central Command headquarters in Florida.

Earlier, testifying before the House Armed Services Committee, General Michael Kurilla, head of the US Central Command, had called Pakistan a "phenomenal partner in the counterterrorism world" as he underscored Islamabad's role in the operations against ISIS-Khorasan. He had stated, "Through a relationship we have with them, providing intelligence, they have captured at least five ISIS-Khorasan high-value individuals." These individuals

included Mohammad Sharifullah alias Jafar, allegedly involved in the 2021 Kabul airport suicide bombing that killed 13 American military personnel and over 160 civilians.⁹

The highlight of Munir's visit was an invitation to White House for a lunch with US President Donald Trump. Speaking to reporters after the meeting, President Trump said, "I stopped the war between India and Pakistan. I love Pakistan, and Modi is a fantastic man. I spoke to him last night, and we will make a trade deal with Modi of India. This man (Asim Munir) was extremely influential in stopping it from the Pakistani side and PM Modi from the Indian side. They (India and Pakistan) were going at it, and both are nuclear countries. I stopped a war between two major nations."¹⁰

Pakistan's military said in a statement that President Trump expressed keen interest in forging a mutually beneficial trade partnership with Pakistan based on long-term strategic convergence and shared interests. Discussions were held on trade, economic development, and cryptocurrency, and views were exchanged on tensions between Israel and Iran.¹¹

This meeting—marking the first time a US president has hosted a Pakistani military chief who is not also the country's head of state—carries significant symbolic and strategic implications. First, it reinforces the perception that Pakistan's military, rather than its civilian government, is the primary power centre. By hosting Field Marshal Munir without any parallel engagement with Pakistan's elected leadership, the US effectively signalled who it considers the real interlocutor on matters of security and diplomacy.

Second, the move risks further weakening Pakistan's fragile democratic institutions, as it publicly legitimises the military's dominant role in foreign policy. Third, it sets a precedent in US diplomacy—bypassing democratic norms to engage directly with unelected power brokers, potentially undermining Washington's broader narrative of supporting democratic governance. Finally, it reflects Washington's evolving approach to geopolitics—one that prioritises functional relationships and security interests over traditional norms of diplomatic protocol.

Pakistan's political leadership also has accepted the dominant role of the military. Pakistan's Defence Minister Khawaja has admitted that the country is being governed under a "hybrid model" in which the military enjoys a major share of power. In an interview with Arab News, Khawaja said, "This is a hybrid model. It's not an ideal democratic government. So, this hybrid arrangement, I think, is doing wonders. This system is a practical necessity until Pakistan is

out of the woods as far as economic and governance problems are concerned.”¹²

Pakistan's Defence Budget

On June 10, Pakistan's Finance Minister, Muhammad Aurangzeb, presented the 2025-2026 federal budget. With a PKR 17.573 trillion budget, the government aimed to maintain momentum under the IMF's Extended Fund Facility, offering modest public sector salary hikes, targeted tax relief for salaried classes and capital markets while expanding levies to broaden the tax base and raising PKR 1.16 trillion in additional revenues through the Federal Board of Revenue.

The budget allocated Rs 2.55 trillion (about \$9 billion) to defence, which is roughly 14.5% of the total budget. In other words, about one out of every seven rupees in the federal budget is earmarked for the military. This represents a 20% increase over the defence budget for FY2024. This double-digit surge – the largest hike in at least a decade pushed defence spending from about 1.7% of GDP last year to 1.97% of GDP this year.¹³

In addition, there are substantial defence-related expenditures outside the main defence budget. Military pensions for retired personnel are funded separately at PKR 742 billion. There is also an Armed Forces Development Programme (for strategic procurements and modernisation) with an allocation of PKR 300 billion. These two items are not counted within the official defence budget of Rs 2.55 trillion. Combining these, Pakistan's total defence-associated spending reaches roughly PKR 3.59 trillion, which is about 3% of GDP.¹⁴

The Pakistan Army continues to receive the lion's share of the defence budget (46%). The Pakistan Air Force gets just over 20%, and the Navy around 10%. Interestingly, inter-services organisations such as the Inter-Services Intelligence (ISI) and the ISPR receive almost the same budget as the Pakistan Air Force.¹⁵

Out of the \$9 billion defence budget, \$3 billion will be spent on salaries, \$2.5 billion on operating expenses (up 25%), \$1.2 billion on civil works and infrastructure (up 11.5%), and \$2.4 billion on military procurement (up 21%).¹⁶

The defence allocation is dwarfed only by the country's debt obligations. Interest payments on debt amount to PKR 8,207 billion, which is more than three times the defence budget. Together, debt servicing and defence consume the bulk of federal resources. By contrast, civilian development and social services receive much smaller shares. Federal funding for education is

approximately PKR 112.6 billion, and health spending is around PKR 31.9 billion – figures that are mere fractions of the military budget.

The 2025 budget's skew towards military and debt expenditures has significant implications for Pakistan's broader economic and fiscal health. The combination of high debt and high defence spending leaves little fiscal breathing room. Pakistan's public debt accounts for approximately 74% of its GDP, and servicing this debt now consumes over 80% of the federal government's net revenue.

In this context, ramping up defence outlays – however justified by security needs – forces the government to either cut other expenditures or increase borrowing (or both). To accommodate the defence hike and still meet IMF-imposed deficit targets, the government slashed overall spending by about 7% from last year's level. Development projects were deferred or cancelled, and subsidies were reduced, reflecting austerity measures. While these cuts helped achieve a targeted fiscal deficit of 3.9% of GDP, they also represent lost opportunities in terms of infrastructure and social improvements.

AFGHANISTAN

Foreign Relations

The Taliban government is slowly gaining legitimacy as more nations show willingness to engage with it diplomatically. Pakistan's chargé d'affaires in Kabul, Ubaidur Rehman Nizamani, has been designated as ambassador to Afghanistan. Pakistan now joins China, the United Arab Emirates, and Uzbekistan as the fourth country to appoint an ambassador to Kabul.

Central Asian countries have developed a practical relationship with Kabul based on security and economic interests. Taliban envoys occupy embassies in every Central Asian country, barring Tajikistan. Uzbekistan is pushing for the implementation of the Trans-Afghan transport corridor, a new rail centre in northern Afghanistan, and energy interlinkages—aiming for a \$3 billion trade target.¹⁷ Tajikistan has also begun expanding trade and transit relations with Kabul, opening joint border markets in the Badakhshan provinces of both countries, as well as utilising Sher Khan Port in Kunduz province.

The extension of electricity exports to Afghanistan and the recent CASA-1000 meeting in Dushanbe—attended by a Taliban delegation—signal a growing interest in fostering mutual economic ties between Kabul and Central Asia. The participation of Taliban officials in multilateral forums, such as the Shanghai Cooperation Organisation (SCO) dialogue formats and the Termez Dialogue in

Uzbekistan, signals a growing desire among regional powers to integrate Afghanistan into new security architectures.¹⁸

Most countries appear to have taken a pragmatic view that the Taliban are here to stay and that engagement with them is a better strategy. There is also a view that negotiations with the Taliban could result in an improved human rights situation, particularly around the restrictions on women and girls. However, the Taliban continues to issue harsh edicts oppressing the rights of women and appears unwilling to relent on its ideology.

Human Rights and the Humanitarian Situation

On June 17, UN Women released the 2024 Afghanistan Gender Index – the most comprehensive assessment of women's empowerment and gender equality in Afghanistan since August 2021. The report reveals that Afghanistan now has the second-widest gender gap in the world, with a 76 per cent disparity between women's and men's achievements in health, education, financial inclusion, and decision-making. On average, Afghan women are realising only 17 per cent of their full potential to make choices and access opportunities.¹⁹

Nearly eight out of ten young Afghan women are now excluded from education, employment, and training - almost four times the rate for young men. Afghanistan has one of the largest gender gaps in labour force participation anywhere in the world. Just 24 per cent of women are participating in the workforce, compared to 89 per cent of men.

Roza Otunbayeva, the Secretary-General's Special Representative and head of the UN Assistance Mission in Afghanistan (UNAMA) said that the airstrikes by Israel on Iran, which started on June 13, impacted Afghanistan by disrupting trade, increasing the prices of basic goods and fuel, and prompting the return of additional Afghans from Iran. More than 600,000 Afghans have returned from Pakistan and Iran this year, and the Israel-Iran conflict has further speeded the return to over 10,000 per day.²⁰

A meeting of European Union (EU) Senior Officials was held in Brussels on June 16–17 to discuss the humanitarian situation in Afghanistan. The EU has committed to providing a humanitarian aid package of €161 million for vulnerable populations in Afghanistan and for the Afghan refugees in Pakistan and Iran. In recent months, international aid flows have slowed considerably. In recent months, international aid flows have slowed considerably. In Afghanistan, this has led to the closure of more than 400 health clinics and 400 acute malnutrition centres, as well as about 300 clinics for survivors of gender-based violence.²¹

President Donald Trump has signed a new proclamation barring entry to the US for citizens of 12 countries, including Afghanistan, citing national security concerns and deficiencies in identity verification systems. According to the proclamation, Afghanistan was included due to the Taliban's control of the country and because the country lacks a competent or cooperative central authority for issuing passports or civil documents, and it does not have appropriate screening and vetting measures. This announcement follows the expiration in May of a separate program granting Afghan nationals temporary protected status in the US, with the final termination scheduled for July 14.²² These policy changes are a setback for thousands of Afghans who had supported American forces in their fight against the Taliban.

DEVELOPMENTS ON THE INDIA-CHINA LINE OF ACTUAL CONTROL (LAC)

Situation at the LAC

The situation at the LAC remains calm, but there has been no reduction in the level of troops deployed by both sides after the 2020 standoff. Satellite imagery from 2024 and early 2025, reviewed by the magazine Jane's Defence Weekly, has revealed that both India and China have "strengthened their relative positions along the border and have continued to maintain troop rotations." The report says that "both parties are committed to a change in posture and will likely maintain a more extensive border presence in what is becoming a new normal."²³

As per the report, the Indian Army has expanded camps, built new shelters, and maintained a significant deployment of tanks, artillery and armoured vehicles at places like Daulat Beg Oldi, Gapshan and Burtse. China has constructed new anti-aircraft artillery sites, expanded defensive positions and improved logistics infrastructure, enabling rapid reinforcement of the LAC. With these infrastructure improvements, future escalation could occur more quickly.

On June 26, Indian Defence Minister Rajnath Singh met his Chinese counterpart, Admiral Dong Jun, on the sidelines of the Shanghai Cooperation Organisation (SCO) Defence Ministers' Meeting in Qingdao. Rajnath called for bridging the "trust deficit" created after the 2020 border standoff and for continuous efforts to de-escalate tensions and avoid any flare-ups along the LAC. He urged fast-tracked negotiations towards finalising the boundary delineation process and the need for a permanent solution to border demarcation by rejuvenating the established mechanism on the issue.²⁴

When asked to comment on Rajnath Singh's remarks, Chinese Foreign Ministry spokesperson Mao Ning stated that the boundary question is complicated and settling it would take time. However, Mao noted that "the positive side is that the two countries have already established mechanisms at various levels for thorough communication."

Mao also said, "China stands ready to maintain communication with India on issues including delimitation negotiation and border management, jointly keep the border areas peaceful and tranquil, and promote cross-border exchange and cooperation."²⁵

The statements from both sides show that while India is pushing for a more concrete outcome on the boundary issue, China is more focused on managing the situation while avoiding any long-term commitment.

BANGLADESH

Politics on Election Timeline

Addressing the nation on the occasion of Eid on June 6, Bangladesh's interim government Chief Advisor, Dr Muhammad Yunus, announced that the forthcoming parliamentary election will be held in early April 2026 and that the Election Commission will publish the electoral timetable accordingly. Yunus said Bangladesh is in a "state of war" and accused the "domestic and international supporters of the defeated fascist government" of attempting to destabilise the interim government.²⁶

The announcement refutes the calls from multiple political parties, including the Bangladesh Nationalist Party (BNP) and the Communist Party of Bangladesh, for the polls to be conducted in December 2025. The National Citizens Party (NCP), a student-led organisation, expressed acceptance of an April election date, provided that the July Charter, July Declaration, and other reforms were implemented beforehand.²⁷

Professor Yunus and the acting Chairman of BNP, Tarique Rahman, met in London on June 13, and the two leaders agreed to hold the Parliamentary Elections in February 2026.²⁸ Following this announcement, Bangladesh Jamaat-e-Islami did not participate in the second round of discussions between political parties and the National Consensus Commission on June 17, citing its dissatisfaction with the joint statement of Professor Yunus and Tarique Rahman.²⁹

Parties such as the Jamaat and the NCP argue that the joint statement issued by the government and the BNP conveyed the impression that the BNP is the primary political force in the country. By presenting the BNP and the government as equal stakeholders, the statement marginalised other political actors. As a result, there are growing concerns that these sidelined parties may face administrative bias and unequal treatment by state institutions in the lead-up to the elections.

The Bangladesh Nationalist Party (BNP) has filed a complaint against 24 individuals, including three former Chief Election Commissioners (CECs), on allegations of conducting farcical elections. The three former CECs who have been named in the complaint are Kazi Rakibuddin Ahmad, who oversaw the 2014 election; AKM Nurul Huda, who was in charge during the 2018 election; and Kazi Habibul Awal, the CEC for the 2024 election.³⁰

Meanwhile, the in-absentia trial of Sheikh Hasina, who fled to India in August 2024, has commenced in the International Crimes Tribunal (ICT) in Dhaka. On June 1, the ICT formally accepted charges against Sheikh Hasina for “crimes against humanity” stemming from the nearly 1,400 deaths during the July–August 2024 protests. On June 17, the ICT published a summons in national newspapers, requiring Hasina to physically surrender by June 24.³¹ In absentia, trials are permitted under the ICT Act, 1973, but critics argue the Act lacks explicit due process protections found in international standards—such as the right to appeal a conviction rendered in absentia.

Bangladesh-China-Pakistan Ties

On June 19, the first trilateral summit between China, Pakistan, and Bangladesh was held in Kunming on the sidelines of the 6th China-South Asia Cooperation Forum. The summit was attended by Chinese Vice Minister of Foreign Affairs Sun Weidong, Pakistani Additional Secretary Imran Ahmed Siddiqui, and Bangladeshi Foreign Secretary Ruhul Alam Siddique, with Pakistani Foreign Secretary Amna Baloch participating virtually.

In a statement, Sun Weidong highlighted that Bangladesh and Pakistan are both good neighbours, good friends, and good partners of China, and important partners in high-quality Belt and Road cooperation. The three sides agreed to explore cooperative ventures and form a working group to monitor and implement the meeting's outcomes.³²

Bangladesh's Foreign Affairs Adviser, Touhid Hossain, sought to downplay the trilateral summit, stating that it was not intended to build any alliances or target

any third country. He said, "We are not forming any alliance. It was a meeting at the official level, not at the political level."³³

However, even as Dhaka's relations with New Delhi remain strained, it is drawing closer to China and Pakistan. While speaking at the China-Bangladesh Conference on Investment and Trade at the Bangladesh Investment Development Authority (BIDA) on June 1, Professor Yunus urged Chinese companies to invest in Bangladesh, stating that robust Chinese investment could be a game changer for the Bangladeshi economy. A high-level delegation led by Chinese Commerce Minister Wang visited Dhaka to attend the conference and discuss trade and investment opportunities with Bangladesh, aiming to elevate the 'Comprehensive Strategic Cooperative Partnership' between the two countries.³⁴

SRI LANKA

India-Sri Lanka Relations

The 8th India-Sri Lanka Defence Dialogue was held in Colombo on June 5. The Indian delegation was headed by Defence Secretary Rajesh Kumar Singh and the Sri Lankan delegation by Defence Secretary Air Vice Marshal Sampath Thuyacontha (Retd). The high-level dialogue focused on strengthening bilateral defence cooperation, enhancing maritime security, and exploring new avenues for collaboration in training and strategic engagement. On April 5, India and Sri Lanka signed the first-ever defence partnership agreement, which was finalised during talks between visiting Prime Minister Narendra Modi and Sri Lankan President Anura Kumara Dissanayake, signalling a major boost in bilateral defence ties.³⁵

Lt Gen BKGM Lasantha Rodrigo, Commander of the Sri Lanka Army, visited India from June 11 to 14. The visit aimed to enhance bilateral military cooperation and explore new avenues for collaboration, particularly in the areas of training and capability enhancement. During the visit, he held meetings with Lieutenant General NS Raja Subramani, Vice Chief of the Army Staff of the Indian Army; Admiral Dinesh K Tripathi, Chief of the Naval Staff; Air Chief Marshal Amar Preet Singh, Chief of Air Staff; and Rajesh Kumar Singh, Defence Secretary. The General Officer also reviewed the Passing Out Parade at the Indian Military Academy, Dehradun, from where he was commissioned in December 1990.³⁶

Sri Lanka's Foreign Minister Vijitha Herath has thanked the Indian Government for its assistance in evacuating Sri Lankan nationals from Iran alongside Indian

citizens. Calling it a "thoughtful act," Herath said the gesture reflects the deep bonds and enduring partnership between Sri Lanka and India.³⁷

India's Mazagon Dock Shipbuilders Ltd (MDL) is acquiring a 51% controlling stake in Sri Lanka's Colombo Dockyard PLC (CDPLC) for about US \$53 million.³⁸ This strategic investment is far more than a business decision. This acquisition places India directly at the Port of Colombo—a major transshipment hub—giving New Delhi greater strategic oversight in a region where Chinese influence has been growing through projects like Hambantota and container terminals.

NEPAL

2025 Budget

On June 24, Nepal's House of Representatives endorsed the government's annual budget for the fiscal year 2025-26, clearing the way for the execution of the NPR 1.964 trillion (\$14.5 billion) budget plan. The budget signals a renewed ambition to drive growth through infrastructure, energy, and green innovation.³⁹

There is a significant capital allocation to hydropower, with plans to increase power generation by 942 MW and construct 732 km of new transmission lines. The budget focuses on building modern infrastructure to help economic and social development. \$26.12 million has been allocated for the completion of the Postal Highway within two years. The project is also seen as a means to strengthen ties between the government and the people of the Terai region, particularly in light of past social and political unrest.⁴⁰

Green incentives are a highlight. Tax exemptions for electric vehicles, green hydrogen production, and IT service exports place Nepal in line with global sustainability trends. Startups also benefit from income tax holidays and subsidised loans, indicating a bid to stimulate entrepreneurship.

However, the structural challenges persist. Over 60% of the budget is allocated to recurrent expenditure, leaving limited fiscal space for transformative investments. A substantial NPR 595.7 billion deficit, financed through domestic and foreign borrowing, raises concerns about sustainability. With debt servicing consuming nearly one-fifth of the budget, Nepal risks increasing its vulnerability to external shocks.

Execution remains a critical bottleneck. In past years, capital expenditure has suffered from bureaucratic delays and absorptive capacity issues. Without civil

service reform and effective decentralisation, the ambitious targets may remain underdelivered.

The 2025–26 budget offers a promising roadmap for inclusive growth and green transition. Yet its success depends on moving beyond populist announcements to disciplined implementation, efficiency, and accountability. Unless deeper institutional reforms accompany budgetary ambition, Nepal risks repeating a familiar cycle: lofty plans undermined by systemic inertia.

ENDNOTES

¹ Dhar, Aniruddha. "India, Pakistan Generals Exchange Warnings amid Tensions at Shangri-La Dialogue as CDS Chauhan Cites 'Red Line.'" Hindustan Times, June 2, 2025.

<https://www.hindustantimes.com/india-news/india-pakistan-generals-exchange-warnings-amid-tensions-at-shangri-la-dialogue-cds-anil-chauhan-red-line-101748837631977.html>.

² Ibid

³ www.ndtv.com. "Staring At Crisis, Pak Wrote 4 Letters To India On Indus Treaty: Sources." Accessed June 29, 2025. <https://www.ndtv.com/india-news/staring-at-crisis-pakistan-wrote-4-letters-to-india-on-indus-waters-treaty-say-sources-8605014>.

⁴ Desk, HT News. "Pakistan's Letters Won't Change India's Stand on Indus Waters Treaty: Jal Shakti Minister." Hindustan Times, June 26, 2025. <https://www.hindustantimes.com/india-news/pakistans-letters-won-t-change-india-s-stand-on-indus-waters-treaty-jal-shakti-minister-101750952405493.html>.

⁵ www.ndtv.com. "5 Things PM Modi Told Donald Trump In 35-Minute Phone Call." Accessed June 29, 2025. <https://www.ndtv.com/india-news/5-things-pm-narendra-modi-told-us-president-donald-trump-in-35-minute-phone-call-terrorism-pahalgam-attack-pakistan-8696425>.

⁶ NDTV. "Taliban Claims Waziristan Suicide Bombing As Pakistan Blames India." Accessed June 30, 2025. <https://www.ndtv.com/world-news/taliban-claims-waziristan-suicide-bombing-as-pakistan-blames-india-8789671>.

⁷ "Pakistan Plans to Nominate Trump for Nobel Peace Prize," June 21, 2025. <https://www.bbc.com/news/articles/cwyx5yw8y28o>.

⁸ The Independent. "Growing Calls for Pakistan to Rescind Trump's Nobel Peace Prize Nomination," June 26, 2025. <https://www.independent.co.uk/asia/south-asia/trump-nobel-peace-prize-pakistan-iran-strike-b2777260.html>.

⁹ Business Today. "'Officers' Ties Are Strong': Analyst after US General's Praise of Asim Munir, Invitation for Field Marshal to Military Parade - BusinessToday," June 12, 2025. <https://www.businesstoday.in/india/story/officers-ties-are-strong-analyst-after-us-generals-praise-of-asim-munir-invitation-for-field-marshal-to-military-parade-480085-2025-06-12>.

¹⁰ Desk, India Today World. "Trump Hosted Pak's Asim Munir after He Backed Nobel Peace Prize Bid: White House." India Today, June 18, 2025. <https://www.indiatoday.in/world/story/trump-to-host-paks-asim-munir-after-he-backed-nobel-peace-prize-nomination-says-white-house-2742790-2025-06-18>.

¹¹ Mason, Jeff, Saeed Shah, Shivam Patel, and Jeff Mason. "Trump Hosts Pakistani Army Chief, Disagrees with India over India-Pakistan War Mediation." Reuters, June 19, 2025, sec. Asia Pacific. <https://www.reuters.com/world/asia-pacific/india-will-not-accept-third-party-mediation-relations-with-pakistan-modi-tells-2025-06-18/>.

¹² India, Press Trust of. "Not an Ideal Democratic Government: Khawaja Asif Praises Pak's Hybrid Model." India Today, June 21, 2025. <https://www.indiatoday.in/world/story/not-an-ideal-democratic-government-khawaja-asif-praises-pak-hybrid-model-2744312-2025-06-21>.

¹³ Hussain, Abid. "How Is Pakistan Raising Money for a 20 Percent Hike in Defence Spending?" Al Jazeera. Accessed June 30, 2025. <https://www.aljazeera.com/news/2025/6/12/how-is-pakistan-raising-money-for-a-20-percent-hike-in-defence-spending>.

¹⁴ FOUNDATION, OBSERVER RESEARCH. "Pakistan's Defence Budget: Not Too Much of an Outlier." orfonline.org. Accessed June 30, 2025. <https://www.orfonline.org/expert-speak/pakistan-s-defence-budget-not-too-much-of-an-outlier>.

¹⁵ Ibid

¹⁶ Ibid

¹⁷ "Uzbekistan's Evolving Northern Afghanistan Strategy." Accessed June 30, 2025.

<https://thediplomat.com/2025/03/uzbekistans-evolving-northern-afghanistan-strategy/>.

¹⁸ "From Foe to Partner? Russia's Rapprochement with the Taliban and Its Regional Implications." Accessed June 30, 2025. <https://www.cacianalyst.org/publications/analytical-articles/item/13872-from-foe-to-partner-russias-rapprochement-with-the-taliban-and-its-regional-implications.html>.

¹⁹ UN Women – Headquarters. "Press Briefing by UN Women on the 2024 Afghanistan Gender Index Launch," June 17, 2025. <https://www.unwomen.org/en/news-stories/press-briefing/2025/06/press-briefing-by-un-women-on-the-2024-afghanistan-gender-index-launch>.

²⁰ "Senior Envoy Warns Iran-Israel Conflict Is Deepening Crisis in Afghanistan | UN News," June 23, 2025. <https://news.un.org/en/story/2025/06/1164771>.

²¹ Nations, United. "Afghanistan in Crisis: The Role of the International Community." United Nations Western Europe (blog), June 23, 2025. <https://unric.org/en/afghanistan-in-crisis-the-role-of-the-international-community/>.

²² Myre, Greg. "Trump's Travel Ban Includes Afghanistan, Where Thousands Await U.S. Resettlement." NPR, June 5, 2025, sec. National Security. <https://www.npr.org/2025/06/05/nx-s1-5424606/trump-travel-ban-afghanistan-veterans-special-immigrant-visa>.

²³ The Wire. "Extensive Border Presence in Eastern Ladakh by Indian and Chinese Military 'New Normal': Report." Accessed July 1, 2025. <https://thewire.in/security/eastern-ladakh-border-presence-china-military-new-normal>.

²⁴ www.ndtv.com. "Demarcation, Delimitation At Borders: India Shares 4-Point Plan With China." Accessed July 1, 2025. <https://www.ndtv.com/india-news/india-china-operation-sindoor-the-4-point-roadmap-rainath-singh-shared-with-china-to-avoid-disputes-8773992>.

²⁵ Desk, India Today News. "China Says Border Dispute with India Complicated, Ready to Discuss Delimitation." India Today, June 30, 2025. <https://www.indiatoday.in/world/story/china-says-sino-india-border-dispute-complicated-ready-to-discuss-delimitation-2748574-2025-06-30>.

²⁶ Bhattacharjee, Kallol. "Yunus Announces Election in April 2026, Says 'Bangladesh Is in a State of War.'" The Hindu, June 6, 2025, sec. World. <https://www.thehindu.com/news/international/bangladesh-yunus-announces-elections-in-first-half-of-april-2026/article69665522.ece>.

²⁷ Correspondent, Staff. "No Objection to Announced Election Date If July Charter-Declaration Is Done: NCP." Prothomalo, June 6, 2025. <https://en.prothomalo.com/bangladesh/politics/84bxw9wtr8>.

²⁸ Correspondent, Special. "Election in First Half of February: Yunus, Tarique Agree." Prothomalo, June 14, 2025. <https://en.prothomalo.com/bangladesh/government/z9xk8o6txj>.

²⁹ Correspondent, Staff. "Jamaat Skips Meeting for Dissatisfaction over Yunus-Tarique Meeting." Prothomalo, June 17, 2025. <https://en.prothomalo.com/bangladesh/politics/wyk4o3wfr7>.

³⁰ Correspondent, Staff. "BNP Files Complaint against 24 Including 3 CECs." Prothomalo, June 22, 2025. <https://en.prothomalo.com/bangladesh/politics/utkx56jp39>.

³¹ "Bangladesh Court Sets 1-Week Deadline for Former Premier Hasina to Surrender." Accessed July 2, 2025. https://www.aa.com.tr/en/asia-pacific/bangladesh-court-sets-1-week-deadline-for-former-premier-hasina-to-surrender/3601975?utm_source=chatgpt.com.

³² "Vice Foreign Minister Sun Weidong Attends China-Bangladesh-Pakistan Vice Foreign Minister/Foreign Secretary Meeting_Ministry of Foreign Affairs of the People's Republic of China." Accessed July 2, 2025. https://www.fmprc.gov.cn/mfa_eng/xw/wjbxw/202506/t20250620_11653906.html.

³³ Correspondent, Diplomatic. "Meeting with China, Pak Not for Alliance Building." The Daily Star, June 27, 2025. <https://www.thedailystar.net/news/bangladesh/diplomacy/news/meeting-china-pak-not-alliance-building-3926456>.

³⁴ UNB. "Professor Yunus for China-Backed Boost for Jute in Economy." Prothomalo, June 1, 2025. <https://en.prothomalo.com/business/local/wi5knijhgn>.

³⁵ Standard, Business. "India-Sri Lanka Defence Dialogue Discusses Enhancing Maritime Security," June 6, 2025. https://www.business-standard.com/india-news/india-sri-lanka-defence-dialogue-discusses-enhancing-maritime-security-125060600740_1.html.

³⁶ "Lieutenant General Bkgm Lasantha Rodrigo, Commander of the Sri Lanka army arrives on a visit to India." Accessed July 2, 2025. <https://www.pib.gov.in/www.pib.gov.in/Pressreleaseshare.aspx?PRID=2135712>.

³⁷ "Sri Lanka Thanks India for Evacuating Its Nationals from Iran under Operation Sindhu -," June 22, 2025. <https://www.newsonair.gov.in/sri-lanka-thanks-india-for-evacuating-its-nationals-from-iran-under-operation-sindhu/>.

³⁸ MIAP. "India's Strategic Stake in Colombo Dockyard Signals Shifting Regional Dynamics." LNW Lanka News Web (blog), July 1, 2025. <https://lankanewsweb.net/archives/95499/indias-strategic-stake-in-colombo-dockyard-signals-shifting-regional-dynamics/>.

³⁹ Nepal News. "Nepal's FY 2025-26 Budget: Between Big Promises and Institutional Bottlenecks." Accessed July 2, 2025. <https://nepalnews.com/s/analysis/nepals-fy-2025-26-budget-between-big-promises-and-institutional-bottlenecks/>.

⁴⁰ World Highways. "Nepal's \$14.4 Billion 2025-2026 Budget," July 1, 2020. <https://www.globalhighways.com/news/nepals-144-billion-2025-2026-budget>.



Delhi Policy Group
Core 5A, 1st Floor,
India Habitat Centre, Lodhi Road
New Delhi - 110003
India

www.delhipolicygroup.org