

REPORT ON THE NATIONAL BUDGET

JULY 1993



**MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN**

REVIEW OF THE 1992-93 BUDGET

The financial year 1992-93, the first year of the 7th Five Year Plan has come to an end. In keeping with the national goal of self reliance, the main priority of the 1992-93 budget was to be able to meet the entire current expenditure out of domestic revenue. The budget also took into account the need to commence the 7th Five Year Plan with the necessary vigour. The latest position of the 1992-93 budget is summarized as follows.

<u>Outlay</u>	Nu. in millions
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Current Expenditure	- 1,306
Capital Expenditure	- 1,423
Others	- 599

Total	: 3,328
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Sources of Finance

Internal Revenue	- 1,472
Other Receipts	- 181
External Grants	- 1,592
Borrowings	- 139

Total	: 3,384
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The final budgetary outlay amounted to Nu. 3,328 million only despite cost escalation, additional works and increased cost of debt servicing. The net budget has been a surplus of Nu.56 million as against a shortfall of Nu.180 million reported to the

October session of the National Assembly in 1992. In order to ensure that the projections for the 1992-93 fiscal year were sound and realistic, His Majesty the King commissioned the Royal Advisory Council and the Royal Audit Authority to carry out a joint review exercise.

The internal revenue projected earlier at Nu.1,325 million increased to Nu.1,472 million. Against the internal revenue of Nu.1,472 million, the current expenditure reached a level of Nu.1,306 million. The Royal Government therefore, achieved the long cherished goal of being able to meet the cost of essential services from domestic revenue. This is an important achievement in our march towards self reliance as maintenance of essential services must be made sustainable over the long run and not perpetuate dependence upon external assistance. This important objective has been achieved by cutting down wasteful expenditure and increasing internal revenue as well as due to general improvement of management in the Government.

The trimming of government expenditure has not been an easy task as the Royal Government remains committed to improving the quality of essential services in the interest of the general public. Increasing the domestic revenue has been an equally difficult task as the government had to ensure that the burden of additional taxes did not fall upon the common people. Hence, additional resources had to be mobilized through increase in tax rates on non-essential or luxury items and through improvements in the collection mechanism. From the 1st of July 1993, sales taxes on essential items have been exempted or reduced for the benefit of the common people. Taxes and royalty on capital equipment and raw materials have also been kept low in order to promote development of industries.

Rural taxes had not been increased, and in fact a royal decree was issued exempting the people of Southern Bhutan from paying the rural taxes to encourage them to remain in Bhutan instead of leaving for Nepal. Payment of cash crop taxes for 1992-93 were also exempted by His Majesty the King as this affected mainly the farmers, specially those in Southern Bhutan.

While the problem in Southern Bhutan continued unabated during the fiscal year, the Royal Government did not divert resources from the development budget for security purposes. The national security forces were able to cope with the Southern Bhutan problem without any additional burden on the national budget.

As the hon'ble members are aware, Bhutan purchased a second aircraft and spares in 1992 at a cost of US\$ 25 million. This entire amount was paid for from our own reserves and no foreign loan was taken for it. In spite of this huge expenditure, the country's external reserves today stand at US\$ 90 million. The Ministry of Finance is pleased to inform the National Assembly that the reserves of US\$ 90 million is in excess of the outstanding foreign debt of US\$ 78 million. This is indeed a remarkable achievement for a small and least-developed country like Bhutan. This has been made possible through cautious approach to international borrowings, careful management of the foreign reserves and promotion of exports.

The 1992-93 budget has on the whole been a success. The twin objectives of containing current expenditures within the limits of domestic resources and the need to trigger off the implementation of the 7th Plan with the needed vigour has both been achieved. The Ministry of Finance would like to take this opportunity to report on the major achievements in the various sectors during the past fiscal

year. We are pleased to report that inspite of the problems in the south, the achievements have been satisfactory. Although much of the time went in preparing for the works to be carried out in the subsequent years, many development works continued according to schedule. To highlight the activities, some of the infrastructural works carried out in different sectors are listed below.

Education : Several construction works were completed during the financial year under consideration.

1. Yebilaptsa junior high school
2. Dormitory and dining hall at the Semtokha Rigzhung Institute.
3. Science block at Jigme Sherubling high school.
4. Dormitory for 150 students at Teachers' Training College (TTC), Paro.

Further, two more schools in the south have been reopened, namely the Chengmari and Norbuling primary schools. The Sarpang and Samtse primary schools have been upgraded to junior high schools.

Other works ongoing are the following:

1. Drugyel high school at Paro which will be completed by December 1993, with a capacity of 420 students;
2. Primary schools at Tangmachhu, Motithang, Thangrong, Uzorong, Wangdichholing, Chapchha, and Damthang;
3. Science block at Punakha high school;
4. Auditorium and dormitories at the National Institute of Education, Samtse;

5. Four training workshops at the Royal Technical Institute, Kharbandi;
6. Introduction of non-formal education in 33 centres;

Health : In the health sector also, there have been commendable achievements. Constructions of ten Basic Health Units (BHUs) have been completed, and three are ongoing. Hospital constructions are continuing at Riserbu, Pemagatshel, Yebilaptsa, and Paro. These are in addition to the already existing 27 hospitals (with a capacity of 954 beds), 74 BHUs, 43 dispensaries, 350 outreach clinics, 17 malaria centres, and 3 training institutes. In the current plan period, other health facilities will also be strengthened and improved.

Agriculture : In this sector, there is already an infrastructure of 180 extension centres, 11 seed production farms, 5 research centres, and various regional centres. During the year 1992-93, 14 extension centres and a laboratory were added. The target for irrigation channel construction for the 7th plan is 177.21 km for new constructions and 508.74 km for rehabilitation. During the past financial year, 54.02 km of channel were rehabilitated, and 26.139 km constructed new. In terms of developing manpower, courses have commenced at the Natural Resources Training Institute with 79 trainees. This institute will provide mid-level professional manpower for the agriculture, forestry and livestock sectors.

The development programme framework for horticulture which will guide the development of cash crops on a systematic basis has been completed. The development of agriculture and forestry in the six eastern Dzongkhags with the assistance of the World Bank and IFAD have been finalised for implementation from the current fiscal year.

Animal Husbandry : Besides the distribution of 46 improved bulls, 6 stallions, 38 rams, 194 piglets, and 1,978 poultry birds for cross-breeding purposes, 1,142.08 acres of pastures have been developed, and 8,564 fodder tree seedlings distributed. Also, 1,496 artificial inseminations were carried out. A semen processing laboratory has been established at Wangchhutaba which will facilitate the processing of Mithun semen for use in artificial insemination in the future.

Forestry : Inventory works for 15,000 hectares of forest and 7 management plans have been completed in the last year. 139,500 seedlings have been distributed under the social forestry programme and at the same time, works on the creation of 73 hectares of forest plantation have been continuing.

Power : The country has a network of 22 power generating stations with a total capacity of 342,160 kw. In addition, 7,209 kw of power is generated by diesel generating sets. During the year, the infrastructure has been strengthened by construction of transmission lines between Gaylegphug and Sarpang, and between Chhumey and Tongsa. The power distribution has been augmented by upgrading the substations and control switchgears under the Chhukha and the Samtse Dzongkhags. The Power Sector Master Plan has been completed under which 31 hydrological gauging stations and 105 meteorological stations have been established. The master plan will facilitate the identification, design and feasibility studies for hydro-power stations. This will lead to the systematic development of hydro-power potentials in the country. As a result of the master plan, 4 pre-feasibility studies were carried out. Out of the four, one feasibility study and detailed project report will be made.

Work on the Rangjung hydro power project (1.1 MW, costing Nu.127 million) has been started, and the Basochhu project (49 MW, costing Nu.1,410 million) will become ready for implementation soon after the completion of the feasibility report. The final agreement has been reached between the Royal Government and the Government of India to start the implementation of the Kurichhu Project (45 to 60 MW, costing Nu.2,550 million). The Detailed Feasibility Report (DPR) for the Chhukha Phases II & III (1,000 and 900 MW) will be ready by the end of this year, while that of the Bunakha Reservoir Scheme (120 MW) would be completed by 1995. Many rural electrification works are also in hand which will boost the socio-economic welfare of the people. Already, 255 villages and 35 towns have been electrified covering a total number of 18,808 households.

Trade & Industry : The infrastructure development in this area consists of the development of industrial estates in Thimphu, and the completion of the POL Depot in Dechhenchholing. The Trade & Industry Ministry has also been directed by the Government to demonopolise the supply of essential items and to encourage competition among suppliers for the benefit of the consumers. Other major works initiated in this sector are the construction of another POL depot at Deothang, the establishment of an industrial estate at Gidakom, and the construction of a geology laboratory in Thimphu. The ferro-silicon project with a cost of Nu.600 million is now nearing completion. The largest project in this sector however, is the Indo-Bhutan Dungsum Cement Project with a capacity of one million tonnes per annum, which is now ready for implementation.

Roads : The 42 km Tintibi-Gomphu road is almost completed while the Tala-Raidak road is under construction. New constructions to be taken up are the Bhangtar-Diafam road and the Sibsoo-Tendu road.

Besides these constructions, the maintenance and improvement of 3,100 km of national highways, district roads, major feeder roads, forest roads and 141 bridges are regular activities under the sector.

Works & Housing : In this sector, the targets for the 7th Plan are 325 new and 680 rehabilitations of rural water supply schemes, installation of 6,000 smokeless stoves and construction of 50 suspension bridges. So far, 137 new water supply schemes have been completed along with rehabilitations of 100 schemes. In addition, 1,309 latrines, 1,430 smokeless stoves, and 10 suspension bridges have been completed.

Telecommunications : A significant development in this sector is the Domestic Telecommunication Network which is under implementation. Tongsa and Bumthang Dzongkhags are already connected to Thimphu, and the eastern districts will be connected by the end of this month. By the end of the 7th plan, Bhutan will have one of the latest telecommunication systems in the region with direct dialling facilities with all the Dzongkhags and the outside world.

1993-94 BUDGET

The policies pursued during 1992-93 will basically continue in the fiscal year 1993-94. The objective of meeting the current cost from domestic revenue will continue to be pursued during 1993-94 and all other future years. While retaining tight control over expenditures, efforts will also be made to improve revenue mobilization, and in particular, enhance the ratio of tax-revenue from the current level. In order to maintain fiscal discipline and also to minimize the impact upon economic stability, the budget shall aim at keeping the domestic borrowing at the lowest level possible. This should also make more

domestic resources from the financial institutions available to the private sector. The 1993-94 budget is summarized as follows :

<u>Outlay</u>	Nu. in millions
Current Expenditure	- 1,427
Capital expenditure	- 1,779
Others	- 504

Total	: 3,710

The sources of funding are expected to be as follows :

Domestic revenue	- 1,500
Other receipts	- 99
International assistance	- 1,915
Borrowings	- 196

Total	: 3,710

The budgetary figures, as in the past, may undergo changes during the course of the year. It is however envisaged that the changes would be minimal, as efforts at cost reduction and streamlining of government expenditure will continue.

The domestic revenue for 1993-94 is projected at Nu.1,500 million. This will make it possible for domestic revenue to meet the current expenditure of Nu.1,427 million.

GENERAL REMARKS

The economic development of Bhutan has received a serious setback as a result of the problem in southern Bhutan where most of the large industries are located. This had a negative impact on trade, revenue and development in general. In spite of this serious problem, the Royal Government was able to progress towards the objective of self reliance through having been able to meet the recurrent costs out of the domestic revenue from the first year itself of the 7th Plan. No efforts will be spared to continue this positive trend in the future. Bhutan was also able to keep its foreign debt within limits and accumulate an international reserve exceeding debt. The Royal Government is proud of these achievements and will continue to follow a course of prudent financial management.

We would however like to apprise the National Assembly that these achievements have not been at the cost of heavy burden upon the common citizen. Bhutan is today a welfare state. All essential services such as health and education continue to be free for all citizens. Agriculture, service charges for power, telephone and other transport facilities remain heavily subsidized by the Government. Almost all Government expenditure is geared towards rural development and the improvement in the quality of life of the people all over the country. It is important to note that Bhutan spends more of its budget on health, education and social welfare programmes affecting the lives of the common people than even most of the developed countries.

While the benefits of development enjoyed freely by the people are immense, the cost borne by the public at large is minimal. Out of the total revenue of Nu.1,472 million during 1992-93, the total tax revenue was only Nu.447 million, a major part of which was received

from public sector corporations and by way of indirect taxes. The rest was received from non-tax sources such as profits from corporations, capital receipts etc. Rural taxes in 1992-93 amounted to a little over Nu.4 million, a very insignificant amount. Business income tax paid by the private sector amounted to only Nu.85 million which constitutes 6% of the total revenue. Moreover, the Royal Government, in order to keep the price of essential items within reach of the ordinary people, reduced sales tax on several additional commodities. Thus, the people of Bhutan continue to be among the least taxed in the world.

The contribution of the general population to the national exchequer is very minimal and cannot cover even a fraction of the cost of essential services provided free of cost to all citizens. The provision of essential services on cost-free basis, however still remains an important consideration in view of the Government's objective of promoting universal primary education and health care coverage.

The Royal Government is committed to the expansion and improvement in the provision of essential services to the people. The Government is also committed to the overall development of the country, improvement in the infrastructure, increase in the income level and in general to the improvement in the quality of the lives of the people. This can be done only through increased support and participation of the people in the developmental efforts and through the continued support of the donors.

Finally, the Ministry of Finance would like to take this opportunity to express the sincere gratitude of the Royal Government and the people of Bhutan to our development partners for their generous technical and financial support towards the development of

our country. The Royal Government is particularly grateful to our close friend and largest donor India for the generous support in numerous projects and for the annual budgetary grant of Nu.500 million.

MINISTRY OF AGRICULTURE

Department: Agriculture	Quantity
1. Extension Centres	120
2. Agriculture Research Centres	5
3. Agriculture Seed Production Farms	11
4. Regional Plant Production Centres	3
5. Farm Mechanisation Centres	3
6. National Mushroom Lab.	1
7. Soil & Plant Analysis Laboratory	1
8. Natural Resources Centre	1
9. BNPP Service Centres	2

LIST OF EXISTING INFRASTRUCTURAL FACILITIES

IN KEY SECTORS

Department: Animal Husbandry	
1. Veterinary Centres	11
2. Veterinary Hospitals	10
3. Government Farms and Ranches	20
4. Veterinary Laboratories	20
Department: Forestry	
1. Forest Road	470 333 Km
2. Forestry Institute	1

MINISTRY OF AGRICULTURE

Department : Agriculture	Quantity
1. Extension Centres	180
2. Agriculture Research Centres	5
3. Agriculture Seed Production Farms	11
4. Regional Plant Protection Centres	3
5. Farm Mechanisation Centres	3
6. National Mushroom Centre	1
7. Soil & Plant Analysis Laboratory	1
8. Natural Resources Training Institute	1
9. BNPP Service Centres	4
Total :	209
Department : Animal Husbandry	
1. Veterinary Centres	113
2. Veterinary Hospitals	18
3. Government Farms and Institutions	20
Total :	151
Department : Forestry	
1. Forest Road	470.533 Km
2. Forestry Institute	1

MINISTRY OF COMMUNICATIONS

Department : Works & Housing		Quantity
1. Rural Water Supply Schemes		1,459
2. Suspension Bridges		249
3. Smokeless Stoves		12,283
4. Rural Sanitary Latrines		1,756
Department : Telecommunications		
1. Telephone Exchanges		13
Department : P & T		
1. WT Stations		43
2. Telegraphs		7
3. Post Offices		82
4. Hydromet Stations		12
Department : Roads		
1. Roads(excluding forest & other minor roads)	2,732.125Kms	
2. Bridges		141

MINISTRY OF SOCIAL SERVICES

Department : Education	Quantity
1. High Schools	8
2. Junior High Schools	17
3. Primary Schools	144
4. Community Schools	93
5. Other Institutions	7
Total :	269
Department : Health	
1. Hospitals	27
2. Training Institutes	3
3. Basic Health Units	74
4. Dispensaries	49
5. Malaria Centres	17
6. Outreach Clinics	350
Total :	520

MINISTRY OF TRADE & INDUSTRY

Department : Power	
1. Hydro Electric Stations	22 (342160 KW)
2. Diesel Generators	12 (7209 KW)
3. High Voltage Transformers	24 (228 MVA)
4. High Voltage Transmission Lines	458 Km
5. 11 & 6.6 KV lines	799.585 Km
6. Low Voltage Lines	802.163 Km
7. Step up Transformers	21030 KVA + 420 MVA
8. Distribution Sub-Stations	344
9. Villages Electrified	255
10. Towns Electrified	35
11. Households Electrified	18,808
Department : Trade & Industry	
1. Industrial Estates	3
2. POL Depot	1