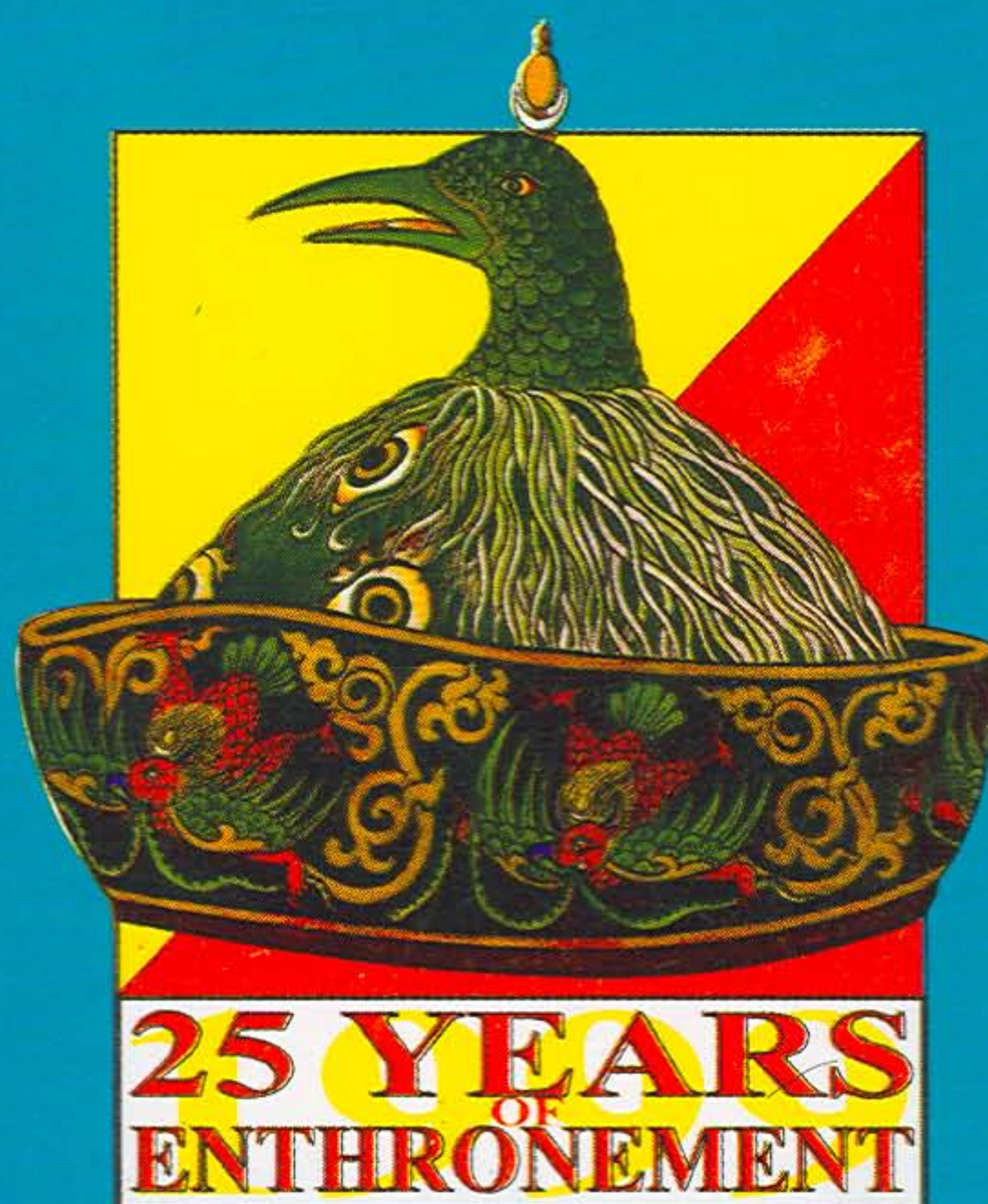


**NATIONAL BUDGET FOR FINANCIAL YEAR
1999 - 2000**

**AND
REPORT ON THE 1998 - 99 BUDGET**



**MINISTRY OF FINANCE
ROYAL GOVERNMENT OF BHUTAN**

JUNE 1999

Felicitations to His Majesty

The Ministry of Finance has the privilege to join the people of Bhutan in expressing our heartfelt gratitude to His Majesty King Jigme Singye Wangchuck, the Fourth Druk Gyalpo, for 25 years of dedication and service to the nation. Under His stewardship and through His personal hard work, the country has, within a short span of time, made a quantum leap.

In the last 25 years, we have been transformed from a largely backward agrarian society using the barter exchange system to a modern and monetised economy. We have enjoyed peace and prosperity, been able to charter our own course of development, kept our culture and tradition alive and achieved and sustained significant growth rates. Today, we enjoy a per capita income that is among the highest in South Asia, boast a literacy rate of 54%, life expectancy of 66 years and a pristine environment. In addition, our people enjoy free or highly subsidised services and pay little or no taxes. Even more significantly, we have made these remarkable strides without disrupting our way of life and all our people enjoy adequate food, clothing and shelter. Bhutan, one of the poorest countries in the world a couple of decades back, is now at the forefront of development in South Asia.

His Majesty has also set us on a development path that clearly distinguishes us from any other developing country. Today, Gross National Happiness, our number one national agenda is widely

acknowledged for its wisdom. The simple but provocative philosophy seems pertinent to these times when unbridled economic pursuit is beginning to endanger the basic life support systems required to sustain humanity, or the erosion of values that is causing untold social damage.

The sound management under the leadership of His Majesty has created a solid foundation for sustained growth. Given the clear direction for development in the future, Bhutan's fortune can only rise.

We would like to take this opportunity to felicitate our great King for 25 years of Golden rule, for His selfless service and for the peace and prosperity that we enjoy today. We pray that our guardian deities will protect and provide His Majesty with a long and healthy life.

Review of the 1998-99 Budget

The Ministry of Finance has the honour to present the 1999-2000 budget and the report on the 1998-99 budget to the honourable members of the National Assembly.

The conclusion of the current fiscal year brings us to the middle of the 8th Plan. This fiscal year, the first after the historic 76th National Assembly wherein His Majesty had entrusted more responsibilities to the people, was yet another successful year. This is largely due to the continuation by the new cabinet of the prudent policies and sound management practice of the past. The objective of covering the recurrent expenditures by domestic revenue, which has been increasing fast due to the Royal Government's strong commitment to the social sector and rural development, has once again been attained. The balanced budget is a reflection and result of the prudent fiscal policy of the Royal Government.

The increased domestic revenues, complemented by the support of our development partners enabled the initiation of many programmes and projects that will lead to the achievement of the 8th Plan objectives.

Notable investments were made in the social sector where the Royal Government continues to devote considerable resources to ensure improved quality of life for the people. Integrated rural development encompassing roads, communication facilities,

availability of electricity, exploitation of horticultural and other potentials to ensure improved opportunities is evident in the major programmes that were initiated or carried out in the current fiscal year. This will be given additional impetus with the urban development focus on several rural towns, which will increase opportunities and bring markets closer to the farmers. Spillover activities continued to dominate public expenditure. This is largely due to the size and scope of some of the programmes in the 8th Plan that are, by necessity of the task, large and thus requiring multi year implementation timeframes.

The Ministry of Finance is also pleased to report that the implementation of the large power projects such as Tala Hydropower Project, Kurichhu Hydropower Project and Basochhu Hydropower Project is picking up momentum. This trend will be on the rise in the coming fiscal year, increasing opportunities for employment and private sector participation. Close attention will be paid to the implementation progress of these projects, as they are essential to the fulfillment of His Majesty's vision of self-reliance and sustainable development.

Budget Abstract for Fiscal Year 1998-99

Nu. in millions

Expenditure Outlay	Approved	Revised
1. Current expenditure	2,849.922	3,016.034
2. Capital expenditure	4,149.355	4,172.879
Sub Total	6,999.277	7,188.913
3. Net Lending	44.708	48.687
4. Repayment	252.206	253.680
Total	7,296.191	7,491.280
Sources of Finance	Approved	Revised
1. Domestic Revenue	3,094.081	3,500.000
2. Grants		
a. GoI Program Grant	800.000	800.000
b. GoI Project Grants	1,471.148	1,292.039
c. Grants from Other Sources	1,479.065	1,484.582
Sub Total	3,750.213	3,576.621
3. Borrowings	451.897	414.659
Total	7,296.191	7,491.280

The revised budget increased by around 3% (Nu. 195.089m). This increase was largely due to a rise in current expenditure caused by inflation and other minor additions. However, this was more than

adequately covered by a substantial upward revision in domestic revenue that also covered lower than anticipated receipt of grants.

The Ministry of Finance is pleased to report to the National Assembly that the economy has once again recorded an excellent performance. The GDP growth rate continues to exceed 6% while average inflation remains below 10%. The balance of payments is once again positive and the nation's foreign reserves stand at a record level of USD 280m which is adequate to meet almost two years import requirements. The currency exchange rate remains stable and interest rates have not fluctuated. In view of the exceptional revenue position the government did not have to resort to deficit financing. The consistent prudent fiscal management and sound monetary policies has enabled the Bhutanese economy to enjoy sustained growth for over a decade.

An important objective of the Royal Government is the coverage of recurrent expenditures by domestic revenue. The Royal Government continues to meet this objective. In fact a review of the past three fiscal years reveal that the Royal Government has been able to cover successfully a current expenditure growth which averaged 10% p.a. This reaffirms our commitment to sustain development investments.

Notwithstanding this achievement, to further boost domestic resource mobilisation, initiatives such as rationalisation of Business Income Tax and Corporate Income Tax, introduction of

user charges and cost recovery etc. are underway. In the near future, our capacity to finance capital works will increase. This is an essential departure from past trends if the country is to truly achieve self-reliance. This will also reassure our development partners that the Royal Government has the political will and support of its people to sustain the impressive development achievements of the past and build on it into the future.

Summary of 1999-2000 Budget

Percent	Amount	Yen in millions
1. Government Revenue	297,394	29.7
2. Capital Expenditure	44,443	4.4
3. Current Expenditure	252,951	25.3
4. Total Expenditure	297,394	29.7
5. Deficit	0	0
6. Total	297,394	29.7
7. Total	297,394	29.7
8. Total	297,394	29.7
9. Total	297,394	29.7
10. Total	297,394	29.7
11. Total	297,394	29.7
12. Total	297,394	29.7
13. Total	297,394	29.7
14. Total	297,394	29.7
15. Total	297,394	29.7
16. Total	297,394	29.7
17. Total	297,394	29.7
18. Total	297,394	29.7
19. Total	297,394	29.7
20. Total	297,394	29.7
21. Total	297,394	29.7
22. Total	297,394	29.7
23. Total	297,394	29.7
24. Total	297,394	29.7
25. Total	297,394	29.7
26. Total	297,394	29.7
27. Total	297,394	29.7
28. Total	297,394	29.7
29. Total	297,394	29.7
30. Total	297,394	29.7
31. Total	297,394	29.7
32. Total	297,394	29.7
33. Total	297,394	29.7
34. Total	297,394	29.7
35. Total	297,394	29.7
36. Total	297,394	29.7
37. Total	297,394	29.7
38. Total	297,394	29.7
39. Total	297,394	29.7
40. Total	297,394	29.7
41. Total	297,394	29.7
42. Total	297,394	29.7
43. Total	297,394	29.7
44. Total	297,394	29.7
45. Total	297,394	29.7
46. Total	297,394	29.7
47. Total	297,394	29.7
48. Total	297,394	29.7
49. Total	297,394	29.7
50. Total	297,394	29.7
51. Total	297,394	29.7
52. Total	297,394	29.7
53. Total	297,394	29.7
54. Total	297,394	29.7
55. Total	297,394	29.7
56. Total	297,394	29.7
57. Total	297,394	29.7
58. Total	297,394	29.7
59. Total	297,394	29.7
60. Total	297,394	29.7
61. Total	297,394	29.7
62. Total	297,394	29.7
63. Total	297,394	29.7
64. Total	297,394	29.7
65. Total	297,394	29.7
66. Total	297,394	29.7
67. Total	297,394	29.7
68. Total	297,394	29.7
69. Total	297,394	29.7
70. Total	297,394	29.7
71. Total	297,394	29.7
72. Total	297,394	29.7
73. Total	297,394	29.7
74. Total	297,394	29.7
75. Total	297,394	29.7
76. Total	297,394	29.7
77. Total	297,394	29.7
78. Total	297,394	29.7
79. Total	297,394	29.7
80. Total	297,394	29.7
81. Total	297,394	29.7
82. Total	297,394	29.7
83. Total	297,394	29.7
84. Total	297,394	29.7
85. Total	297,394	29.7
86. Total	297,394	29.7
87. Total	297,394	29.7
88. Total	297,394	29.7
89. Total	297,394	29.7
90. Total	297,394	29.7
91. Total	297,394	29.7
92. Total	297,394	29.7
93. Total	297,394	29.7
94. Total	297,394	29.7
95. Total	297,394	29.7
96. Total	297,394	29.7
97. Total	297,394	29.7
98. Total	297,394	29.7
99. Total	297,394	29.7
100. Total	297,394	29.7

The Ministry of Finance is also pleased to report that in recognition of the onerous responsibilities of the Gups and Chaks, as well as the anticipated increase in their duties as a result of the Royal Government's thrust on decentralization and increased people's participation, His Majesty has commanded that their salaries be

Fiscal Year 1999-2000

The fiscal year 1999-2000, the third year of the 8th Plan, promises to be as successful as the previous year. The budget for this fiscal year is only 10% more than the past year. This is mainly due to the fact that most of the programmes and projects for the 8th Plan are well underway. It is also a reflection of our commitment to consolidation with emphasis on quality over expansion.

Summary of 1999-2000 Budget

Expenditure Outlay	Amount	Nu. in millions
		Percent
1. Current expenditure	3,570.150	43.43
2. Capital expenditure	4,424.273	53.82
Sub Total	7,994.423	97.25
3. Net Lending	17.074	0.21
4. Repayment	209.258	2.55
Total	8,220.755	100.00

Sources of Finance	Nu. in millions	
	Amount	Percent
1. Domestic Revenue	3,869.791	47.07
2. Grants		
a. GoI Program Grant	800.000	9.73
b. GoI Project Grants	1,430.249	17.40
c. Grants from other sources	1,386.333	16.86
Sub Total	3,616.582	43.99
3. Borrowings	436.988	5.32
4. Resource Gap	297.394	3.62
Total	8,220.755	100.00

The main highlight of the 1999-2000 budget is the 20% increase in pay and allowances of the civil servants and the security forces that was approved by His Majesty the King. His Majesty, who has always had the well-being of the people working for the government close to His heart, issued the decree to redress the erosion of pay and allowances caused by the rise in living costs.

The Ministry of Finance is also pleased to report that in recognition of the onerous responsibilities of the Gups and Chimis, as well as the anticipated increase in their duties as a result of the Royal Government's thrust on decentralisation and increased people's participation, His Majesty has commanded that their salaries be

raised to Nu. 3,000 per month. Furthermore, to enhance the capacity of the Gup's office to discharge their growing responsibilities effectively and efficiently, an assistant will be provided for the Gups. The assistant will be paid Nu. 1,500 per month.

The total burden on the Royal Government as a consequence of these pay raises is Nu. 429.856m or around 5% of the total budget.

On the revenue front, domestic revenue is projected to increase by around 11%. This was made possible only by the initiative of His Majesty the King, who during a recent visit to India, negotiated an increase in the export power tariff. The 50ch increase in the tariff will bring in an additional revenue of Nu. 669.549m in the coming fiscal year alone.

As a result, domestic revenues are more than sufficient to cover projected current expenditures. However, this will not be sufficient to cover fully the increase in capital expenditures and given the minimal expansion in the size of external assistance, the budget will face a resource gap of Nu. 297.394m representing 3.6% of the total budget or less than 2% of the GDP. This is well within acceptable norms and no cause for concern. In fact a majority of this is for capital works that will eventually yield returns. Moreover, the resource gap is only an indicative figure that could change with progress in the field. Where necessary, financing of

this gap will be sought by floating bonds to absorb some of the excess liquidity in the financial institutions. However, the Ministry of Finance will closely monitor the utilisation of these funds to ensure that the gap does not widen.

Sector Allocation of 1999-2000 Budget

The broad sector allocations of the budget for 1999-2000 is indicated below. These are based on extensive discussions with the sectors and within the overall framework of the approved 8th Plan. As such, the allocations reflect the Royal Government's priority.

Sectors	Amount	Nu. in millions
		Percent
Health and Education	2,175.684	26.47
Agriculture	748.578	9.11
Human Settlements	288.076	3.50
Communication	910.668	11.08
Energy	1,046.268	12.73
General Public Service	1,151.438	14.01
National Debt Service	285.837	3.48
Others	1,184.350	14.41
Provision for Pay Revision	429.856	5.23
Total	8,220.755	100.00

Policy and Programme Initiatives of Major Sectors

Health and Education

The allocation for the coming fiscal year confirms the Royal Government's continued commitment to the health and education sector which receives around 26% of the total outlay for the year. The large investment in this sector is expected to improve the quality of human capital. This is the most important resource for any country and is the reason why the Royal Government is earnest in maintaining its commitment to this sector.

Major programmes include construction of additional facilities and upgradation. The Royal Government has also recently established the National Technical Training Authority. This authority will be responsible for coordination and advancement of technical and vocational education. This is expected to increase opportunities for all Bhutanese by providing alternative employment opportunities particularly at lower levels. It will also promote our traditional arts and crafts by providing training and ensuring gainful employment.

While this sector will continue to receive the highest priority, it requires massive investments that do not provide immediate returns and thus is an enormous budgetary burden. To mitigate this, the Royal Government will explore possibilities of private sector participation in education. However, such participation will only be permitted upon assurance that standards will be

maintained. Simultaneously, cost recovery possibilities will also be explored to ensure sustainability of the massive investments.

Agriculture

Agriculture, on which 85% of our population depend for their livelihood and which, in spite of growth in other sectors still account for around 38% of GDP, will also continue to receive high priority. Given its importance as a major source of livelihood for our population, the Royal Government, regardless of the huge costs involved, will continue to invest in this sector.

To sustain and make further developments in this sector, an integrated approach that includes livestock, agriculture and forestry, has been employed. Numerous programmes are underway to achieve the sector's principal objective of increasing rural income through improved productivity such as introduction of scientific management practices, promotion of cash crops, increased irrigation, improved pest control and livestock management practices, etc.

The major programme initiatives in the coming fiscal year include, among others, the Second Eastern Zone Agricultural Programme (focused on six eastern districts), the Wang Watershed Project (four western dzongkhags) and the Sub Tropical Integrated Area Development Project (four southern dzongkhags).

Human Settlements

As a result of the rapid development that we have made, large number of people are now beginning to migrate to urban areas. This trend is stretching the existing service facilities and causing acute housing problems.

To contend with this phenomenon, the Royal Government recently established the Urban Development and Housing Division within the Ministry of Communications. This is essential to provide focus on urban development and related issues. As an initial step and due to lack of private sector interest, the Royal Government has taken a decision to construct 300 units each of low income housing in Thimphu and Phuentsholing. This initiative is part of a broader strategy to provide affordable shelter to the growing urban population.

A Housing Policy that addresses these issues from a strategic point has been drafted and is currently under review. Legal frameworks and management capacities will be strengthened for the management of the urban areas. Several district towns as well as Thimphu and Phuentsholing will receive assistance to improve the urban environment.

Communications

The 1999-2000 budget allocation for this sector is 11%. The roads sector will continue to receive priority. Improvement of national

highways will continue along with the start of a programme for construction of around 155kms of feeder roads and some bridges in the coming fiscal year. The direct beneficiaries of these roads will be people of Zhemgang, Tashi Yangtse, Lhuentse and Pema Gatshel dzongkhags. It is hoped that the construction of these roads will enable people to exploit horticulture and other potentials as well as improve communication.

Under the telecommunications sub-sector, the important activities will be the introduction of Internet and Email facilities, National Television as well as the preparation of a Telecommunications Master Plan and the provision of telecommunication services for remote parts of the country.

Information Technology holds immense potential of becoming a major industry and a source of employment for our future generations. Given the improvements in our education system, it is the intention of the Royal Government to take full advantage of this technology. The formulation of an Information Technology Strategy has already begun. This is expected to provide the required focus and guidance for further development.

The introduction of television is another important milestone under this sector. It is expected to be an important force for national integration and promotion of our culture and language.

Under the transport sub-sector, the Royal Government is intensifying efforts to strengthen the Road Safety and Transport

Authority. Major emphasis is placed on improvement of public transport facilities for improved safety, convenience and comfort of travellers. Furthermore, the capacity of the Road Safety and Transport Authority to carry out effective monitoring and stringent enforcement of safety regulations is being enhanced.

Energy

Energy is the sector with the greatest potential for development and the budget allocation for this important sector is 13%. This allocation does not include investments in Tala Hydropower Project and Kurichhu Hydropower Project. This sector is also the largest contributor to domestic revenues with Chukha Hydropower Corporation alone accounting for nearly half of total domestic revenues today.

Policy initiatives in this sector include the phased corporatisation of Division of Power. This has become necessary to ensure that power distribution to all corners of the country is efficient and sustainable. While we have abundant power potential, its transmission is an expensive affair. The actual cost of power transmission for urban and industrial consumers is Nu. 2.49 per unit while the tariff in effect is only 60ch per unit. Similarly, the cost of power transmission for rural areas is about Nu. 7 per unit while the tariff in effect is only 50ch per unit. The large subsidy provided by the Royal Government is not sustainable and given the need to increase investment in power infrastructure, an increase

on the present tariff has become necessary. However, in line with His Majesty's wishes, special consideration will be made for the rural people in the revision of the tariffs so that they remain least affected. The Ministry of Finance would like to point out here that the tariff used to be 80ch per unit as far back as 1982.

Major programme initiatives in the coming fiscal year include the second phase of rural electrification for which the Royal Government has negotiated a loan. Studies and programmes are also underway to provide other sources of energy for people and places that are not connected to the national power grid.

Financial Sector

Financial sector development is essential for further development and growth of the economy. Numerous problems, mainly legacy of a past of inadequate legislation, guidelines etc. are being corrected. The results of the Royal Government's interventions are coming to fruition. Non-performing assets as a percent of total loans have decreased to around 10% today from around 20% in 1995.

Continuous improvement strategies including increased banking supervision, project appraisal training etc. will be pursued. The opening up of the sector to foreign investment should also provide further impetus to the development of this important sector. Possibilities of deepening the sector will also be explored. Liberalization policies that have been initiated in the past will be

further strengthened and complemented by additional policies and legislation where necessary.

The lack of clear and adequate legislation has been one of the main impediments to the development of the financial sector. Legal frameworks are essential for improving financial discipline and transparency of transactions, both for the borrower and the lender. The existence of clear legislation would also ease credit availability and thus provide greater opportunities for enterprise.

The Ministry of Finance is pleased to report that two important legislation, the Bankruptcy Act and the Moveable and Immoveable Properties Act is ready and will be presented to the National Assembly for enactment later during this session.

The Royal Government will also continue to fulfil its commitment of providing credit to the rural population. In the last fiscal year, the Royal Government provided, through the sale of bonds, Nu. 50m for the BDFC's rural credit program. This is a quarter of the Nu. 200m that the Royal Government will provide over the next few years. This is not easy for a government that has limited resources but will be maintained to enable the farmers to engage in income generating activities. It is hoped that these efforts will yield dividends in the future and take us closer to "Gross National Happiness".

In order to enhance the efficacy of the rural credit initiative, the rural credit program has been decentralised. The increased

involvement of the rural people in decision making through the Geog Loan Committees, complemented by the establishment of three regional offices, is expected to decrease loan approval periods, enable closer monitoring of credit utilisation and improve delivery and recovery of loans.

Private Sector

The Royal Government remains committed to private sector development and will continue to pursue policies and programmes for its upliftment. The Royal Government earnestly believes that Bhutan's further progress hinges on developments and successes in the private sector.

Efforts to create an enabling environment for increased commercial activity include numerous interventions such as further simplification of procedures for business licenses, import license etc. The Royal Government is also studying Foreign Direct Investment, dry port warehousing and hard currency export promotion mechanisms among others. Important legislation essential for enhancing private sector activity is being promulgated. The efforts of the Royal Government in the financial sector should also benefit potential entrepreneurs.

In addition, the investments in the coming fiscal year and the increased momentum in the implementation of the mega projects will translate into unprecedented opportunities for private sector participation. It is hoped that these opportunities will vitalise and

strengthen our relatively weak private sector that is yet to tap its full potential, especially in the manufacturing sector.

To further the policy of His Majesty the King to promote broad-based private sector development, the Royal Government will continue to divest its holdings in public enterprises. To ensure and encourage broad-based participation, shares will be sold subject to ceilings for individuals. In this respect, the Ministry of Finance is pleased to inform that the offer of Penden Cement Authority Limited shares was well received with an actual demand of 58,392 shares (as compared to the offer of 21,894 shares). Given the huge demand, the Royal Government decided to allot 30,752 shares. In the coming fiscal year, the Royal Government will divest shares in the Royal Insurance Corporation of Bhutan.

The Royal Government would like to reaffirm its commitment to the development of a broad-based and dynamic private sector that will assume its rightful place as the main engine of growth. The private sector must become capable of fulfilling the important responsibility of enhancing the productive capacity of the country and providing gainful employment to future generations.

Domestic Revenue

The recent visit of His Majesty the King to India and the consequent revision in the tariff of export power from Nu. 1 per unit to Nu. 1.50 per unit increased the domestic revenue estimate for the coming fiscal year by Nu. 669.549m. The total domestic

revenue estimate for the coming fiscal year is now Nu. 3,869.791m which will adequately cover current expenditures.

Domestic revenue growth in the last three fiscal years averaged around 20% per annum. Efforts to increase this will be sustained. Significantly, the tax revenue as a proportion of the total domestic revenue is 45%. Given the fact that there has been no major revision to the tax policy, this reflects, in addition to a growing economy, improved administration and collection of taxes. While there will be no major changes to our existing tax policy in the coming fiscal year, the sales tax will be subject to its periodical review.

The National Assembly had approved the introduction of Personal Income Tax (PIT) in the last session, and the present calendar year was to be the first year of PIT. However, due to the lack of readiness of the required legislation and also the substantial increase in the power revenue, the introduction of PIT as announced by His Majesty the King during the Silver Jubilee Celebrations will be deferred for the time being.

Summary of National Revenue Forecast: FY 1999-2000

Source of Revenue		Nu. in millions	
		Amount	Percent
A	Tax Revenue	1,757.562	45.42
	1. Direct Tax	1,063.664	27.49
	Corporate Income Tax	761.113	19.67
	Salary Tax	26.109	0.67
	Business Income Tax	74.824	1.93
	Health Contribution	14.642	0.38
	Royalty	178.778	4.62
	Rural Tax	8.198	0.21
	2. Indirect Tax	693.898	17.93
	Bhutan Sales Tax	246.697	6.37
	Export Tax	19.897	0.51
	Excise Duty	325.068	8.40
	Tax on Motor Vehicles	41.890	1.08
	Import Duty	36.436	0.94
	Business & Prof. Licenses	7.418	0.19
	Other Tax Revenue	16.492	0.43
B	Non-Tax Revenue	2,112.229	54.58
	Admin. Fees and Charges	57.910	1.50
	Capital Revenue	41.278	1.07
	Revenue from Govt. Divs.	471.715	12.19
	Dividends	1,270.099	32.82
	Transfer of Profits	243.000	6.28
	Other Non-Tax Revenue	28.227	0.73
Grand Total		3,869.791	100.00

The Ministry of Finance would like to highlight to the National Assembly, as reported on several occasions in the past and as shown in the table above, that the people of Bhutan are among the

least taxed in the world. While 80% of our population are employed in the rural sector, rural taxes account for 0.2% of domestic revenues. Similarly, Business Income Tax contributes less than 2% to total domestic revenues. In addition to low taxes, the Royal Government provides most service facilities at highly subsidised rates or totally free such as health, education, power etc. The Ministry of Finance would like to report that this has only been possible because of the enlightened leadership of His Majesty the King and His deep love and concern for the welfare of His people.

External Assistance

Bhutan has the good fortune of having forged enduring relationships based on mutual trust and respect with all our development partners. This is evident in the large generous assistance that we continue to receive to this day, a trend uncommon to most developing countries.

Capital expenditures are almost fully covered by our development partners. In the last four fiscal years our donors have funded on an average 55% of our expenditures ie. almost the entire capital expenditures. This is testimony to not only close relations but is the manifestation of a deeper common understanding and confirmation that the development path we have chosen is in consonance with desirable universal views and values. We acknowledge and share all the successes in our development history with all our donors, especially the Government of India, the

first donor and oldest friend of Bhutan, and thank each and every one deeply for their goodwill and support. Our future is made less uncertain by these enduring relationships that have stood the test of time.

On our part, the Royal Government will pursue without relent the attainment of common aspirations. The Royal Government will also ensure that the precious resources provided by the donors (and their taxpayers) will be optimally utilised and spare no effort in ensuring that benefits accrue to the intended beneficiaries. Any and every opportunity to further improve cooperation will be explored on a continuing basis.

Loans

The Royal Government will continue to exercise extreme caution in availing additional loans. The expansion in loans utilisation over the last 3 fiscal years has been around 10% per annum. This reflects progress in implementation. This will rise as fresh loans will be availed in the coming fiscal year for rural electrification, rural roads and urban development. These are all highly concessional loans, sustainable and will not endanger or burden our children in the future. On the contrary, the careful investment will ensure that there are more opportunities and security for our country in the future. As a rule of thumb, the Royal Government will resort to debt only within the confines of our repayment and absorptive capacity and as a last alternative.

The external debt outstanding in convertible currency is USD 97m today and the Rupee debt on account of Chukha Hydropower Corporation is Rs. 787.950m. The total debt servicing for fiscal year 1999-2000 amounts to Nu. 285.837m. Of this, Nu. 125.845m services the Rupee debt and an equivalent of Nu. 159.992m, the hard currency debt. The debt service ratio is around 9%. Our total debt compared to a reserve position of USD 280m reflects prudent approach to loan finances. However, the Rupee debt will increase sharply on account of the large investments for Tala Hydropower Project and Kurichhu Hydropower Project once the projects are at an advanced stage and the grant portion has been fully utilised. This should only pose a short-term challenge as these are sound investments that will generate large revenues upon completion. These projects will eventually become the backbone of our economy for further development.

Economic Prospects

The policies and programmes mentioned above and the progress in the implementation of the mega projects is expected to have a significant impact on the economy. We should witness an unprecedented level of activity all around the country and all through this plan. As a result, we expect the present positive growth rate of 6% to be surpassed. While the current account will be negative, the overall balance of payment is expected to be positive, around current levels of 10-11% of GDP. Given the

stability in India, the inflation is anticipated to remain around present levels of 12% and exchange rates are expected to be stable.

While we have enjoyed sustained growth rates for over a decade, there is a clear need now to pay close attention to promotion of exports and the narrowing of the current account deficits. The current account with India is no longer a concern due to the large export of power. However, the current account gap with the non-Rupee market is not only negative but likely to widen as a result of the growing demand for third country imports. Such a trend in the trade pattern is not sustainable and furthermore, exposes our economy to undue external shocks. It is now of utmost importance for the Royal Government to promote third country exports and convertible currency earning activities.

Conclusion

The fiscal year 1999-2000 is certain to be an exciting and successful year, being set off by the Silver Jubilee Celebrations around the country. The year will see increased activities as evidenced by the sizeable budget allocations. Moreover, the introduction of TV, Internet etc. will bring changes that will impact our country forever. It will also be the fiscal year that will bridge two centuries and take us to the next millennium.

The economy will receive impetus from increased government expenditure and a stepping up of the implementation of the mega projects. Infrastructure activities such as rural roads, rural

electrification, communication facilities, schools etc. will also take place throughout the country.

Bhutan will step into the next millennium with most of its natural resources intact, sound policies, a high level of social services and a pristine environment where tradition and culture flourish. With the solid economic, social and political foundation that has been built, we are poised to enter the next century with determination and confidence. However, while we take pride in our accomplishments, let us also remind ourselves to always be mindful, dedicated to remaining a united country and most importantly, to submit ourselves wholly to the leadership and guidance of His Majesty the King.

The true fortune of Bhutan began with the establishment of the hereditary Monarchy. The enlightened leadership has seen our country safely and securely through this century and we remain confident that as long as our people place their trust and faith in the leadership of His Majesty the King, Bhutan will materialize its dreams.

On the auspicious occasion of the Silver Jubilee celebrations, let us rededicate ourselves to serve and protect our King, Country and People. May the blessing of the guardian deities of the Palden Drukpa and the hard work and enlightened leadership of our beloved King continue to bring peace and prosperity to the people of Bhutan for all time.

Selected Monetary and Financial Indicators

Items	Description	1997/98	1999 March	Percent Change
Millions of Nu.				
1	Total Assets of the Financial Sector	16,906.70	19,421.70	14.9
	a. Royal Monetary Authority	7,666.80	9,208.40	20.1
	b. Four Financial Institutions	9,239.90	10,213.40	10.5
2	Money Supply	6,063.10	7,319.40	20.7
	a. Quasi Money 1/-	3,562.90	4,440.50	24.6
	b. Demand Deposits	1,327.10	1,974.40	48.8
	c. Ngultrum in Circulation	1,050.30	740.70	-29.5
3	Domestic Credit	1,245.60	-75.00	-106.0
	of which Private Sector	1,242.10	1,287.50	3.7
Millions of USD				
4	Gross International Reserves	215.5	280.5	30.2
	a. Convertible Currencies	177.2	197.5	11.5
Millions of Rs.				
	b. Indian Rupees	1,629.10	3,520.40	116.1
Ngultrum per USD				
5	Exchange Rate for USD (Period Average)	38.4	42.5	10.7
6	Consumer Price Index (%)	9	12.1*	

Note :

1/- quasi money includes foreign currency deposits & time deposits

* consumer price index for 1998 is for the month of December

Selected Monetary and Financial Indicators

Items	Description	1997/98	1999 March
		In Percent	
7	Structure of Interest Rates		
a.	Deposits	5.0-7.0	5.0-7.0
i)	Savings		
ii)	Fixed Deposits		
	3 months to 1 year	8.0	8.0
	1 year to less than 3 years	10.0	10.0
	More than 3 years	11.0	11.0
b.	Lending Rates		
i)	Export Finance	13.0	13.0
ii)	Manufacturing, Service, Transport, Agriculture	13.0	13.0
iii)	Housing	14.0	14.0
iv)	Working Capital	15.0	15.0
v)	Personal and General Trade	16.0	16.0