



**NATIONAL BUDGET**  
**FINANCIAL YEAR 2007-08**

**MINISTRY OF FINANCE**  
**June 2007**

**NATIONAL BUDGET**  
**Financial Year 2007-08**



**MINISTRY OF FINANCE**

June 2007

## TABLE OF CONTENTS

<b>Part I</b>	<b>INTRODUCTION .....</b>	<b>5</b>
<b>Part II</b>	<b>REVIEW OF ECONOMIC PERFORMANCE (2001-02 to 2005-06) 5</b>	
2.1	Macro-economic Performance .....	6
2.1.1	<i>Gross Domestic Product (GDP)</i> .....	6
2.1.2	<i>Prices</i> .....	6
2.1.3	<i>Exchange Rate</i> .....	6
2.1.4	<i>Employment</i> .....	6
2.1.5	<i>Monetary and Credit Development</i> .....	7
2.1.6	<i>Interest Rates</i> .....	7
2.1.7	<i>Balance of Payments (BoP)</i> .....	7
2.1.8	<i>Foreign Reserves</i> .....	8
2.2	Fiscal Performance .....	8
2.2.1	<i>Expenditure</i> .....	8
2.2.2	<i>Resources</i> .....	8
2.2.2.1	Revenues .....	8
2.2.2.2	Grants .....	9
2.2.3	<i>Overall Balance and Financing</i> .....	9
2.3	Debt .....	9
2.4	Financial Sector .....	10
2.5	State Enterprises Sector .....	10
<b>Part III</b>	<b>BUDGET POLICY AND FISCAL FRAMEWORK.....</b>	<b>11</b>
<b>Part IV</b>	<b>ACTUAL OUTCOME OF FY 2005-06 BUDGET .....</b>	<b>12</b>
4.1	Expenditure .....	13
4.2	Resources .....	15
4.2.1	<i>Revenue</i> .....	15
4.2.2	<i>Grants</i> .....	16
4.3	Overall Balance and Financing.....	16
4.4	Debt .....	16
<b>Part V</b>	<b>REVISION OF THE FY 2006-07 BUDGET ESTIMATES.....</b>	<b>17</b>
5.1	Outlay .....	19
5.2	Resources .....	21
5.2.1	<i>Revenue</i> .....	21
5.2.2	<i>Grants</i> .....	22
5.3	Overall Balance and Financing.....	23
5.4	Debt .....	23
<b>Part VI</b>	<b>BUDGET ESTIMATES FOR THE FY 2007-08.....</b>	<b>24</b>
6.1	Expenditure Budget Outlay .....	24
6.1.1	<i>Current Expenditure</i> .....	25
6.1.2	<i>Capital Expenditure</i> .....	26
6.2	Net Lending .....	27
6.3	Resources .....	27
6.3.1	<i>Revenue</i> .....	27
6.3.2	<i>Grants</i> .....	29
6.4	Overall Balance and Financing.....	29
6.5	Debt .....	30
6.6	Dzongkhag and Gewog Expenditure Budget.....	30
6.7	Sector Allocations .....	32
6.7.1	<i>Social Services</i> .....	32
6.7.1.1	Health .....	32
6.7.1.2	Education .....	33

6.7.2	<i>Economic &amp; Public Sector</i> .....	35
6.7.2.1	Agriculture .....	35
6.7.2.2	Industrial and Private Sector Development.....	35
6.7.2.3	Roads.....	37
6.7.2.4	Urban Development, Housing and Public Amenities.....	38
6.7.2.5	Communications and Transport .....	38
6.7.2.6	Energy .....	39
6.7.3	<i>Cultural Services</i> .....	40
6.7.4	<i>General Public Service</i> .....	41
<b>Part VII</b>	<b>PROJECTIONS FOR FYs 2008-09 AND 2009-10</b> .....	<b>43</b>
<b>Part VIII</b>	<b>PUBLIC DEBT</b> .....	<b>44</b>
8.1	External Debt.....	44
8.2	Domestic Debt.....	45
<b>Part IX</b>	<b>TRUST FUNDS</b> .....	<b>45</b>
<b>Part X</b>	<b>PUBLIC ENTERPRISES/ CORPORATIONS</b> .....	<b>46</b>
10.1	Public Corporations - General .....	46
10.1.1	<i>Overall Performance</i> .....	46
10.1.2	<i>Performance of Government-owned Corporations</i> .....	47
10.1.3	<i>Performance of Companies with Government as Minority Shareholders</i> .....	47
10.2	Public Corporations - Financial.....	48
<b>Part XI</b>	<b>FUTURE OUTLOOK</b> .....	<b>49</b>
<b>Part XII</b>	<b>CONCLUSION</b> .....	<b>51</b>
	<b>ANNEXURES</b> .....	<b>52</b>

# **BUDGET PRESENTATION FOR THE FINANCIAL YEAR 2007-2008**

## **Part I INTRODUCTION**

Honourable Speaker, Honourable Members of the National Assembly,

I have the honour to present to this august body the budget for the financial year (FY) 2007-08. As the Honourable Members are aware, this will be the final budget for the 9th Five-Year Plan. This will also be the final budget to be presented by the existing government.

The presentation will be made in the following sequence. First, I will present a review of the economic performance. Second, the budget policy and fiscal frameworks will be outlined. Third, the actual results of the FY 2005-06 will be presented followed by a review of the FY 2006-07 budget. Fourth, I will go on to present the budget estimates for the coming FY, and the budget outlook for the following two years. Finally, other relevant aspects of the financial system will be presented.

## **Part II REVIEW OF ECONOMIC PERFORMANCE (2001-02 to 2005-06)**

In a world where global imbalances have been set off by political unrest, natural calamities, price instabilities, and financial crisis, Bhutan has enjoyed peace and unparalleled economic growth. This has been due to the far-sighted leadership of His Majesty the 4<sup>th</sup> Druk Gyalpo. As we stand today on the threshold of another historic era, the prospects for greater progress await the Bhutanese people under a new and dynamic leader in His Majesty the 5th Druk Gyalpo.

In paying tribute, this is an appropriate time for the Government to review its economic performance over the last five years. The review of the economic performance for the period 2001-02 to 2005-06 is presented in five parts, namely macro-economic, fiscal, debt, financial sector, and state enterprises sector.

## **2.1 Macro-economic Performance**

### **2.1.1 Gross Domestic Product (GDP)**

Over the five-year period, Bhutan's economic growth rate as measured by GDP has been on average 7.5 % per annum. This being well above the average of the South Asian region for the same period, the Bhutanese economy has performed well. The tertiary or services sector grew the fastest over the period. In terms of the shares to GDP also, the same trend has been reflected. The tertiary sector was the highest followed by the secondary sector comprising of manufacturing, electricity and construction. As per the National Statistics Bureau, the actual **GDP** in current prices was Nu. 24,556 m in FY 2001-02. For the FY 2005-06, it is estimated to be around Nu. 39,652 m.

### **2.1.2 Prices**

The annual inflation rate as measured by the Consumer Price Index ranged from 2.7 % in June 2002 to 6.2 % in June 2006, with a low of 1.8 % in June 2003, reflecting similar movements in India. Over the five-year period, the annual rate has on average been 4 % which was lower than the South Asian region's average of 5 % for the same period.

### **2.1.3 Exchange Rate**

The movement of the value of Ngultrum in terms of international currencies reflect the movements in the Indian Rupee exchange rate. The average rate in June 2002 was Nu. 47.93 to one US \$ while in 2006, it was Nu. 44.74 to one US \$. Over the period, the Ngultrum appreciated by an average of 1.9 %. However, it did not have much impact on the economy as more than 90 % of Bhutan's exports are to India.

### **2.1.4 Employment**

In the years under consideration, the issue of unemployment was not a major concern. However, since 2004, when an assessment was done, it was estimated at 2.5 %. In 2005, it was estimated at 3.1 %. Although no estimates are available for 2006, it is felt that the rate would not have risen much due to the various programmes initiated by the Government.

### **2.1.5 Monetary and Credit Development**

On average, over the five years, the money supply (M2) had grown by 17 % per annum. The average growth of the components of the money supply were 24 % domestic credit, 13 % Net Foreign Assets, and 7 % others.

Within the domestic credit growth, credit to the private sector had risen the fastest at an average rate of 29 % per annum. Over 70 % of the credits to the private sector, and the balance 30 % to the Government corporate sector.

In accordance with the prudent borrowing policy of the Government, the Government's domestic borrowing has been minimal. On average during the period, the Government has been a net depositor to the system. The Government has relied largely on external grants and soft-term external loans, and this has increased the Net Foreign Assets.

The increase in money supply over the period at an average of 17 % per annum was slightly above the nominal GDP average growth rate of 13 % per annum over the period. However, it did not have much adverse impact on the economy, as the RMA was able to effectively regulate the money supply through its operations.

### **2.1.6 Interest Rates**

One of the most significant developments over the past five years is the developments in the financial market. The Government's policy of bringing about greater efficiency in the financial market through the market mechanism has taken effect. With larger numbers of financial institutions, interest rates have fallen thus boosting private sector investments. Since 2003, the lowest lending rate has fallen to 10 % from 12 %.

### **2.1.7 Balance of Payments (BoP)**

A deficit in the Balance of Trade (BoT) and in the Current Account balance is unavoidable for an economy of Bhutan's stage of development. Over the period, the average BoT deficit has been 19 % of GDP. The ratios have been declining however and in the last year, i.e. FY 2005-06, it is expected to have come down to 13%. These deficits have generally been more than equally matched by capital inflows in the form of foreign aid. The overall BoP over the period has been a surplus of an average of 4.5 % of GDP. Again, the trend has been on the rise from a low of 1.1 % of GDP in FY 2001-02 to an estimated 13 % in FY 2005-06.

### **2.1.8 Foreign Reserves**

The movements in the foreign exchange reserves correspond directly to the developments in the BoP. Over the period 2001-02 to 2005-06, the reserves positions have been comfortable, with an average of about 16 months' worth of merchandise imports. This has been possible due to the growth in concessionary loans and also due to prudent management. As a ratio of the external debt stock, the average has been almost 74 %. Given that all of the Government's external debts are long-term in nature, this has been a very favourable ratio. At the end of June 2006, the reserves stood at US \$ 478.8 m, sufficient to cover about 12.1 months of imports. As compared to US \$ 366.5 m at the end of the previous FY, the growth was over 30 %.

## **2.2 Fiscal Performance**

### **2.2.1 Expenditure**

Expenditures grew on average by over 8 % and constituted on average 35.6 % of GDP. **Current expenditures** were on average fully covered by revenues (103 %), and **interest payments** accounted for only 4.5 % of revenues and 4.6 % of current expenditures. The Royal Government's **expenditures on pay** in the past 5 years under consideration have been at an average of 40 % of current expenditures or 38 % of revenues.

### **2.2.2 Resources**

#### **2.2.2.1 Revenues**

Under the national policy of self-reliance, the Royal Government endeavoured to raise domestic revenues but in a gradual way. Taxes were kept very nominal to begin with and relied largely on non-tax revenues. From a basically non-existent amount when the country first embarked on modernisation, the national revenues today have grown to Nu. 6,902 m (*Actual of FY 2005-06*). Over the five-year period under consideration, it has grown on average by 7.86 % per annum. The ratio of tax revenue to non-tax revenue has grown over the years thus indicating growth in the disposable income of the public. Domestic revenues have been able to cover the current

expenditures (*103 % on an average*) satisfying one of the cornerstones of the Government's fiscal policy.

#### **2.2.2.2 Grants**

Under the great stewardship of the nation by His Majesty the King, the Royal Government has been able to benefit from generous grant assistance from friendly nations and international organisations. Over the period, grants have covered sizeable proportions of expenditures - on an average more than 39 % of the total outlays and well over 78 % of the capital expenditures.

#### **2.2.3 Overall Balance and Financing**

Given the considerable expenditures required for an uninterrupted development, the Government has run deficits in the overall budget balance. However, due to the generous grant assistance from development partners and rigorous current expenditure control, the Government has managed to keep the overall deficits on an average of 4 % of GDP. This is below the Government's policy ceiling of 5 % of GDP, which has been felt to be a reasonable level for a developing country. Other economic indicators show that this has not brought about any economic instability, nor deprived the private sector of the credit. Much of the extra-demand created by increased Government expenditure were met from imports. Therefore, save to the extent of non-tradable goods and the level of prices in India, Bhutan's major trading partner, the effect on inflation due to high Government expenditures has been minimal. International reserves have also not been adversely affected due to the sizeable inflows of aid capital.

### **2.3 Debt**

Net external borrowings covered 10 % of the total outlays and 20 % of capital expenditures on average during the period.

The external **debt service ratio** has on average been 8.2% of exports which is reasonable compared to that of other countries in the region which on an average was above 10 %. As a percentage of GDP, it has been on an average not more than 3 %.

The average **external debt outstanding** was 69 % of GDP over the period. This is higher than the average in the South Asian countries. However, the Government's own debt outstanding has been only 17 % of GDP. 52 % of the total outstanding was on account of corporations which are self-liquidating. In terms of **internal outstanding debt**, the ratio has on an average been at 3 % of GDP.

## **2.4 Financial Sector**

The financial sector continued to play an important role in promoting the country's economic development. It is essential for an economy to have a robust financial system. Competition and efficiency in the financial sector has largely been developed over the years with the establishment of new institutions. From the establishment of the first bank in the country in 1968, the nation has today five such institutions including the National Pension and Provident Fund. The Royal Monetary Authority as the supervisor of the financial institutions has taken a series of measures to improve the system, one of them being the set of norms for prudential lending which protect the system.

The sector's contribution to GDP was over 3.69 % on average in the period FYs 2001-02 to 2005-06. Over that period, it has increased from a low of 3.1 % in FY 2002-03 to over 4 % in FY 2005-06. Their assets have grown by an average of 8.25 % per annum over the period from 2003 to 2006.

## **2.5 State Enterprises Sector**

The Government established corporations and enterprises in the past mainly to stimulate the industrial development of the country, at a time when due to lack of entrepreneurial skills and capital, the private sector was non-existent. Since then, the private sector has grown considerably, and therefore the Government has been gradually relinquishing its ownership in the state enterprises. However, in doing so, the Government's policy is to maintain state-ownership of such enterprises either for strategic reasons or for reasons of such enterprises operating in a monopolistic environment. As of today, there are 13 corporations which are 100 % state-owned, three which are majority state-owned and 5 in which the Government has shareholdings of less than 50 %.

The total assets of the fully-owned state corporations grew from Nu.12,791.7 m to Nu. 27,683 m over the period. The aggregate profits earned by the corporate sector with Government shareholding grew from Nu. 2,609.24 m in 2002 to Nu. 5,082.93 m in 2006. Their contribution to the Government in terms of taxes and dividends grew by 58 % from Nu. 2,173.58 m to Nu. 3,437 m over the period. Employment by these companies increased by 48 % from 5,767 to 8,524.

**Concluding this review**, it may be stated that the nation has made considerable achievements over the period under consideration. With sound economic policies, the Government, under the farsighted leadership of His Majesty the King, has been able to bring about rapid socio-economic development while at the same time maintaining macro-economic stability.

### **Part III      BUDGET POLICY AND FISCAL FRAMEWORK**

Although not articulated in specific terms, the Royal Government has a fiscal framework in the form of the five-year plans (FYP) wherein the estimated expenditures and resources are projected over a period of five years. It is against the backdrop of the FYPs that the annual budgets are drawn up.

It has also been found useful to make such estimates on a shorter term basis namely covering three years at a time. The Ministry of Finance has already started to prepare the estimates in such manner. I am pleased to mention today that along with the budget estimates for the next FY, the projections for the following two years are also presented here. Such forward estimates shed light on the likely situation in the near future and sensitises the Government to the fiscal challenges ahead. Such requirements are outlined in the draft Public Finance Act which will be introduced in this session of the National Assembly.

The Royal Government's budget policy has always been a prudent one, which has enabled it to maintain a sound public finance. The primary characteristics of its budget policy have been the following:

-  to avoid at least the operating deficits;
-  to maintain the overall budget deficit to a maximum of 5 % of GDP;

- ✚ to cap the Government's pay budgets at sustainable ratios of current expenditures or of revenues;
- ✚ to keep outstanding debt at sustainable levels;
- ✚ to keep external debt service to exports ratios at low levels;
- ✚ to maintain the momentum of investments in the socio-economic sectors;
- ✚ to invest in industries with potential for significant revenue and employment generation.

#### **Part IV                      ACTUAL OUTCOME OF FY 2005-06 BUDGET**

I am glad to report that, for the first time, the actual audited results of the previous financial year is ready in time for presentation to the National Assembly. In the past, due to the delays in the receipt of accounts from the fields, it used to take a considerable amount of time. Now with the creation of the Department of Public Accounts, better trained manpower and updated computer system, this has become possible, and from this year onwards, it shall be a regular feature in the annual budget reports.

The actual audited outcome is summarised below:

<b>Actual 2005-06</b>	<b>Nu. in millions</b>
<b>OUTLAY</b>	<b>13,770.887</b>
1. Expenditure Outlay Sub-total	13,356.808
i) <i>Current Expenditure</i>	6,672.383
ii) <i>Capital Expenditure</i>	6,684.425
2. Net Lending	289.090
3. Advances/ Suspense Net	124.989
 <b>RESOURCES</b>	 <b>13,452.154</b>
I. Domestic Resources	7,027.438
i) Domestic Revenue	6,902.906
ii) Other Receipts & Balances	124.532
II. Grants	6,424.716
1. Programme Grants	2,628.494
i) <i>Government of India</i>	1,700.000
ii) <i>World Bank</i>	710.258
iii) <i>Denmark</i>	218.236
2. Project Grants	3,796.222
i) <i>Government of India</i>	1,717.224
ii) <i>Other International Agencies</i>	2,078.998
 <b>DEFICIT(-) / SURPLUS (+)</b>	 <b>-318.733</b>
a) Net External Borrowing	715.476
i) Project-tied Borrowing	1,113.901
Less Repayments	398.425
b) Net Domestic Borrowing	-396.743
i) Project-tied Borrowing	1,753.023
Less Repayment	2,253.023
ii) Resource Gap ( <i>Change in balances</i> )	103.257

#### **4.1 Expenditure**

The total expenditure for the year was Nu.13,356.808m, constituting over 34 % of GDP. The GDP for the FY was Nu.39,652 m as per the National Statistics Bureau.

The **current expenditure** was Nu. 6,672.383 m, lower by 7.3 % against the revised estimate. Expenditure on **pay** remained comparable with a negligible variation of 0.4 %. Expenditure on **interest payments** was less by 28 % primarily due to the

conversion of the short-term borrowing for the aircraft purchase to a long-term one. **Subsidy payments** were also less by an amount of Nu. 8.760 m or 1.9% of the revised estimates.

The **capital expenditure** was Nu. 6,684.425 m, constituting 17 % of GDP. Against the capital expenditure of Nu. 4,462.89 m (*net of expenditure on aircraft purchase*) in FY 2004-05, this was an increase of 37 %.

## 4.2 Resources

### 4.2.1 Revenue

A summary of the revenue receipts are given in the table below:

<b>SOURCE</b>		<b>Nu. in millions</b>
<b>TOTAL NATIONAL REVENUE (A+B)</b>		<b>6,902.906</b>
<b>A</b>	<b>TAX REVENUE (I+II)</b>	<b>4,124.680</b>
I	Direct Tax	2,420.087
	<i>Corporate Income Tax</i>	1,363.298
	<i>Business Income Tax</i>	356.538
	<i>Personal Income Tax</i>	113.354
	<i>Other Direct Tax Revenue</i>	586.897
II	Indirect Tax	1,704.593
	<i>Sales Tax</i>	662.785
	<i>Export Tax</i>	0.339
	<i>Excise Duty</i>	879.543
	<i>Import Duty</i>	157.178
	<i>Other Indirect Tax Revenue</i>	4.748
<b>B</b>	<b>Non-Tax Revenue</b>	<b>2,778.226</b>
	<i>Administrative Fees &amp; Charges</i>	197.131
	<i>Capital Revenue</i>	167.826
	<i>Revenue from Govt. Departments</i>	102.062
	<i>Dividend</i>	1,542.429
	<i>Transfer of Profit</i>	503.268
	<i>Other Non-Tax Revenue</i>	18.311
	<i>Interest from corporations</i>	247.199

Domestic revenue was on target with a collection of Nu. 6,902.906 m registering a growth of 14 % over that of the FY 2004-05. The energy sector continued to generate the highest revenue constituting 31 % of the total domestic revenue. Once again, domestic revenues not only met the current expenditures fully as per the Royal Government's policies but also registered a modest surplus of 3 %.

**Tax revenue** collection was Nu. 4,124.68 m registering an increase of 22 % over the FY 2004-05. **Direct tax** comprising mainly receipts from Corporate Income Tax, Business Income Tax and Royalty constituted 59 % of the total tax revenue. **Indirect tax** receipts was Nu.1,704.593 m, constituting 41 % of the total tax revenue registering an increase of 25% over the actual receipts of FY 2004-05.

Among the **non-tax revenue** items, Transfer of Profits exhibited the highest performance against the actual amount of FY 2004-05 by 31 % largely due to the high returns on the central bank's investments abroad.

#### **4.2.2 Grants**

External assistance in the form of grants amounted to Nu. 6,424.716 m. Programme grant was higher than the FY 2004-05 level mainly due to the Development Policy Grant from the World Bank of Nu. 710.258 m (*US\$ 15 m*). Project-tied grant was also higher as disbursements increased with the increased momentum of the 9<sup>th</sup> Plan activities.

### **4.3 Overall Balance and Financing**

On the whole, the overall balance was a **deficit** of Nu. 318.733 m or only 0.8 % of GDP.

During the year, **external borrowing** of Nu. 1,113.901 m was at about the same level as that in the FY 2004-05. Out of that, Nu. 427.078 m was on-lent to corporations. Nu. 398.425 m was repaid, of which Nu.320.602 m were received from corporations for onward repayment to external lenders.

**Domestic borrowing** was Nu. 1,856.280 m of which Nu. 1,753.023 m was borrowed for paying the cost of one aircraft and given to the Druk Air Corporation (DAC) as the Government's equity. Repayment was made on the short-term borrowing for the aircraft and a past loan of Nu. 500 m was liquidated.

### **4.4 Debt**

At the end of the FY, the **external debt outstanding** on account of loans purely for the Government's departmental activities was Nu.6,492.41 m or 23 % of the total external debt stock. The corresponding amount for corporations stood at

Nu. 22,212.21 m or 77% of the total external debt stock. The total external debt outstanding was therefore Nu.28,704.627 m or 72 % of GDP.

The Government's **domestic debt outstanding** at the end of the FY was Nu. 1,753.023 m which was the amount borrowed for the purchase of one aircraft as mentioned above. It constituted only 4.42 % of GDP and 5.76 % of the total debt stock.

The **debt service ratios** were all at a comfortable range. The total external debt service ratio to exports was 6.4 %, down from the previous year's ratio of 8.9 % and well within the average of the past ratios.

## **Part V REVISION OF THE FY 2006-07 BUDGET ESTIMATES**

As the Government embarked on the new FY in July 2006, the total outlay was estimated at Nu. 17,901.583 m. Due to unbudgeted new activities required to be undertaken during the year it has been revised to Nu.18,316.206 m as of 31<sup>st</sup> of March 2007. The revised budget is as summarised in the table below.

## SUMMARY OF REVISED BUDGET ESTIMATES FOR FY 2006-07

(Nu. in millions)

	Original Estimate	Revised Estimate (As of 31st March 2007)
<b>OUTLAY</b>	<b>17,901.583</b>	<b>18,316.206</b>
1. Expenditure Outlay Sub-total	17,775.963	18,287.704
<i>i) Current Expenditure</i>	7,961.974	8,185.666
<i>ii) Capital Expenditure</i>	9,813.989	10,102.038
2. Net Lending	125.620	28.502
<b>RESOURCES</b>	<b>16,412.933</b>	<b>16,669.490</b>
I. Domestic	10,178.212	9,950.993
i) Domestic Revenue	10,121.982	9,618.925
ii) Other Receipts & Balances	56.230	332.068
II. Grants	6,234.721	6,718.497
1. Programme Grants	1,194.000	1,760.000
<i>i. Government of India</i>	1,050.000	1,100.000
<i>ii. World Bank</i>	-	516.000
<i>iii. Denmark</i>	144.000	144.000
2. Project Grants	5,040.721	4,958.497
<i>i. Government of India</i>	3,124.832	2,691.242
<i>ii. Other International</i>	1,915.889	2,267.255
Agencies		
<b>DEFICIT(-) / SURPLUS (+)</b>	<b>-1,488.650</b>	<b>-1,646.716</b>
<b>FINANCING (Net Borrowing)</b>	<b>1,488.650</b>	<b>1,646.716</b>
a) Net External Borrowing	810.844	960.723
<i>i) Project-tied Borrowing</i>	1,287.344	1,456.696
<i>ii) Programme Borrowing</i>		
<i>Less Repayment</i>	476.500	495.973
b) Net Domestic Borrowing	677.806	685.993
<i>i) Project-tied Borrowing</i>	-	-
<i>Less Repayment</i>	175.303	175.303
<i>ii) Resource Gap</i>	853.109	861.296
<i>(Change in Cash Balances)</i>		

## **5.1 Outlay**

As against the original estimate, the total outlay as of 31<sup>st</sup> March 2007 shows an increase of Nu. 414.623 m or 2%. The **current expenditure** is estimated at Nu. 8,185.666 m, 3 % higher from the original estimate of Nu. 7,961.974 m.

**Capital expenditure** budget has increased by Nu. 288.049 m or 3 %. The increase is accounted for by activities not foreseen at the time of the original budget preparation. Some of such major activities financed by the Royal Government's (RGoB) are as given in the table below.

<b>Sl. No.</b>	<b>Purpose</b>	<b>Nu. in millions</b>
1	Construction of Tshechu Ground, Tashichheo Dzong	48.950
2	Construction of Badzaguru Dungdub temple at Khuruthang, Punakha	8.319
3	Compound Development of National Memorial Chheoten, Thimphu City	7.870
4	Remodelling of Changlingmethang Stadium, Thimphu City	48.789
5	Construction of Vegetable Shopping Centre, Thimphu City	43.380
6	Participation in International Horticulture Exhibition in Chiangmai, Thailand	5.817
7	Celebration of 20th anniversary of Bhutan-Japan diplomatic relations	2.322
8	Issue of machine-readable citizenship identity cards	10.300
9	Establishment of JSW College of Business, Gedu	4.430
10	Increase in stipends of students	47.406
11	National school games and sports	1.400
12	Medical Treatment (Third Country)	3.500
13	Subsidy to BPC for diesel generator sets operations	10.000
14	Land acquisition for Supreme Court building, Thimphu City	52.895
15	Land compensation for road widening (Babesa - Chhudzom)	11.574
16	Restoration works of roads damaged by monsoon	56.736
17	E-governance and establishment of call centres	30.000

Expenditures on the **national elections had been estimated** in the original budget at an amount of Nu. 214.438 m. The estimate has since been revised to Nu. 264.993 m. A summary of the status for the programme as on 30<sup>th</sup> April 2007 is as follows:

## FY 2006-07 Expenditure Budget for the National Election Activities

<i>Item</i>	<b>Original Estimate</b> <i>(Nu. m)</i>	<b>Estimate as on 30<sup>th</sup> April 2007</b> <i>(Nu. m)</i>	<b>Remarks</b>
i. Equipment	86.500	62.000	Nu. 51 m for voting machines.
ii. Election Commission Head Office	13.072	24.351	
iii. Establishment of Election Offices in Dzongkhags	10.150	22.382	In all 20 Dzongkhags.
iv. Training, Publicity and other preparatory activities	91.716	90.260	
v. Election simulation (Two times)	13.000	66.000	For TA/DA, transport etc.
<b>Total</b>	<b>214.438</b>	<b>264.993</b>	

**Net lending** has been revised downwards to Nu. 28.502 m with more realistic assessment of loans to corporations and recoveries from them.

## 5.2 Resources

### 5.2.1 Revenue

Domestic revenue estimates have been revised downwards from the original estimates of Nu. 10,121.982 m to Nu. 9,618.925 m. This is mainly due to the reassessment of the realisation of the excise duty refund. As the claims for the year 2004 have yet to be verified, it is felt unlikely that the estimated funds will be received in the current FY. The other major reason is the re-estimation of the revenues from the THPP

which were initially estimated based on a tariff of Nu. 2 per unit against the finalised tariff of Nu. 1.80 per unit.

The amounts from the other sources are largely on track with the original estimates except for minor variations under different heads.

The break-ups are as summarised in the table below:

<b>REVISED DOMESTIC REVENUE ESTIMATES FOR FY 2006-07</b>			
(Nu. in millions)			
Sl. No.	Source	Original Estimates	Revised Estimates
<b>TOTAL NATIONAL REVENUE (A+B)</b>		<b>10,121.982</b>	<b>9,618.925</b>
<b>A</b>	<b>TAX REVENUE (I+II)</b>	<b>5,586.850</b>	<b>4,073.717</b>
<b>I</b>	<b>Direct Tax</b>	<b>3,061.010</b>	<b>2,618.801</b>
1	<i>Corporate Income Tax</i>	1,988.277	1,486.312
2	<i>Business Income Tax</i>	341.014	344.498
3	<i>Salary Tax / PIT</i>	146.416	140.142
4	<i>Other Tax Revenue</i>	585.303	647.849
<b>II</b>	<b>Indirect Tax</b>	<b>2,525.840</b>	<b>1,454.916</b>
1	<i>Sales Tax</i>	781.038	777.944
2	<i>Export Tax</i>	0.894	0.102
3	<i>Excise Duty</i>	1,516.406	515.415
4	<i>Import Duty</i>	223.176	156.467
5	<i>Other Tax Revenue</i>	4.326	4.988
<b>B</b>	<b>NON-TAX REVENUE</b>	<b>4,535.132</b>	<b>5,545.208</b>
1	<i>Adm. Fees &amp; Charges</i>	215.285	226.279
2	<i>Capital Revenue</i>	217.568	199.578
3	<i>Revenue from Govt. Dept/ Agencies</i>	86.565	111.194
4	<i>Dividends</i>	3,460.813	2,012.090
5	<i>Transfer of Profits</i>	271.701	2,593.810
6	<i>Other Non-Tax Revenue</i>	8.246	9.329
7	<i>Interest from Corporations</i>	274.954	392.928

The revenue from the THPP is expected from this FY. It was estimated at Nu. 1,750 m for the current FY and it is likely to be on track. It would constitute 18 % of total revenue and 39 % of the total power-sector revenue.

### 5.2.2 Grants

Under external grant assistance, a total increase of Nu. 483.776 m is anticipated. This is mainly on account of the Second Development Policy Grant (*approximately US \$*

12 m) being provided by the World Bank. The other differences are accounted for by the changes in disbursements of resources under project-tied grants.

### **5.3 Overall Balance and Financing**

With the above scenario, especially with the increase in the expenditure budget, the overall fiscal balance for the FY 2006-07 is expected to be a deficit of Nu. 1,646.716 m. Against the estimated GDP of Nu.46,509m, it would be 3.5 %, which is a slight increase from 3.2 % of the original estimates but still below the ceiling of 5 %. This amount is being financed as follows:

**External Borrowing:** Against the project-tied external borrowing of Nu. 1,456.696 m, the repayment is expected to be Nu. 495.973 m. Thus the net external borrowing will be Nu. 960.723 m or 2.1 % GDP.

**Domestic Borrowing:** While there is no new project-tied borrowing from the domestic financial system during the FY, the resource gap is to be financed from domestic borrowing. After discounting the repayment of Nu. 175.303 m on domestic borrowings, the net financing of the deficit from domestic sources will be Nu. 685.993 m or 1.5 % of GDP.

### **5.4 Debt**

No significant change is foreseen in the total **debt service** budget. At Nu.1,111.403 m, it is expected to remain at 2.3 % of GDP. By the end of June 2007, the **external debt outstanding** on account of the Royal Government's own loans is expected to be Nu. 7,708.557 m or 16 % of GDP. That of corporations is likely to be Nu. 23,883.762 m or 51 % of GDP. The **internal debt outstanding** will be Nu. 1,681 m or 3.61 % of estimated GDP.

**Part VI                      BUDGET ESTIMATES FOR THE FY  
2007-08**

Being the final year of the 9th Plan, the expenditure budget estimates for the new FY has been drawn up mainly with the view to complete most of the activities of the 9th Plan. Hence, the amount is larger by 22 % from that of the FY 2006-07's revised estimates. This is summarised in the table below.

**BUDGET ESTIMATES FOR FY 2007-08**

	Nu. in millions
<b>OUTLAY</b>	<b>20,585.600</b>
1. Expenditure Outlay Sub-total	22,239.317
<i>i) Current Expenditure</i>	<i>11,620.883</i>
<i>ii) Capital Expenditure</i>	<i>10,618.434</i>
2. Net Lending	- 1,653.717
 <b>RESOURCES</b>	 <b>19,535.432</b>
I. Domestic	13,152.495
i) Domestic Revenue	13,130.209
<i>a) Tax</i>	<i>5,762.225</i>
<i>b) Non-tax</i>	<i>7,367.984</i>
ii) Other Receipts & Balances	22.286
II. Grants	6,382.937
1. Programme Grants	1,262.000
2. Project Grant	5,120.937
 <b>DEFICIT(-) / SURPLUS (+)</b>	 <b>-1,050.168</b>
<b>FINANCING (Net Borrowing)</b>	<b>1,050.168</b>
a) Net External Borrowing	- 467.869
<i>i) Project-tied borrowing</i>	<i>1,193.031</i>
<i>ii) Programme borrowing</i>	<i>172.000</i>
Less repayment	1,832.900
b) Net Domestic Borrowing	1,518.037
<i>i) Project-tied borrowing</i>	<i>-</i>
Less Repayment	175.303
ii) Resource Gap	1,693.340
(Change in cash balances)	

**6.1 Expenditure Budget Outlay**

The total expenditure budget outlay is estimated at Nu.22,239.317 m. This is 39 % of the estimated GDP of Nu.52,846 m. On the whole, the outlay increases by a margin 22 % from that of the revised estimates of FY 2006-07. The reasons for the higher

amount can be seen in the changes in the respective components explained below. The pressure on prices is likely to be modest as the increase in aggregate demand will be largely deflected by imports. The impact on external reserves is also not likely to be severe given the additional inflow of Indian Rupees on account of the THPP's electricity exports.

### ***6.1.1 Current Expenditure***

On the whole, current expenditures are estimated at Nu. 11,620.883 m or 42 % increase over the revised FY 2006-07 budget estimates. The increase is mainly accounted for by the estimated increase in interest payments. Discounting the interest payments, the increase is 15 %. In spite of the substantial increase, total current expenditures are still covered fully by the estimated revenues of Nu. 13,130.209 m.

The major components of current expenditures are briefly explained below:

#### **Pay Expenditure**

Current expenditures largely comprise of pay of the Government employees. In the FY 2007-08, it is estimated at Nu. 3,803.119 m which is around 36 % of the estimated revenues (*net of interest revenues*). As against the estimated current expenditures (*net of interest expenditure*), the ratio is 43 %. While these ratios are within the past average trends, the Government has to be cautious to ensure that they do not increase further.

#### **Interest Payments**

Interest payments budget is being highlighted as a distinct item as it reflects the trend in the effects of past debts. For the FY 2007-08, it is estimated at Nu. 2,737.674 m as compared to Nu. 440 m in the revised estimates of FY 2006-07. The stark contrast is mainly due to the interest liabilities on account of the loan for the THPP. It is anticipated that the loan repayment for THPP will start from the coming FY. However, the Honourable Members will note that this does not put any additional burden on the budget because the total amount of interest is provided for by the THPP's own earnings. Interest payments on loans obtained purely for the Government's general development projects amount to only 2.1 % of the current

expenditures (*net of interest expenditures on account of corporations*). Similarly, it accounts for 1.9% of the revenues (*net of interest receipts from corporations*).

Interest payments on domestic loans include the interest on the Government's loan contracted for the purchase of one aircraft in FY 2005-06. The interest amount is Nu.86.775 m for the FY 2007-08.

### **Subsidies**

Subsidies are estimated at Nu. 902.960 m. Among the large components is the provision for the DAC's payment of the interest on its loan for the purchase of one new aircraft. The other significant ones are the operational budgets of the Bhutan Broadcasting Service (BBS) and the Thimphu City Corporation (TCC). The provision also includes Nu. 110.6 m for the Government's contribution to the political parties' campaign funds.

### **Current Expenditure Others**

This part of expenditures comprise of all the other current expenditures and is estimated at Nu. 4,177.130 m or 5 % increase from the revised 2006-07 estimate. It includes Nu. 234.619 m for the national elections.

### **6.1.2 Capital Expenditure**

Capital expenditures reflect the state of development activities being carried out. For the FY 2007-08, it is estimated at Nu. 10,618.434 m, and it is based on the remaining on-going major capital works of the 9<sup>th</sup> Plan. In line with the past averages, the capital expenditures for FY 2007-08 is estimated at 20 % of the GDP or 52 % of the total budget outlay.

Subsidies on capital account of the budget and capital injections into the corporations is estimated at Nu. 1,110.232 m for the new FY. The large components are for the provision of external funds to the Bhutan Power Corporation (BPC) for the continuing power transmission and rural electrification activities (*Nu. 514 m*), and to the BBS for the completion of the GoI-assisted project. (*Nu. 131.412 m*). It also includes the provisions kept for the RGoB's equity in the Dagachhu hydro-power project (*Nu. 270 m*), and for the construction of the Bhutan-India Friendship Association's office building (*Nu. 20 m*).

Some of the other major capital works budgeted for the FY 2007-08 are the following:

- i) construction of National Council building - Nu. 70 m,
- ii) construction of residences for ministers and heads of constitutional post holders in Motithang - Nu. 229 m,
- iii) Secretariat building for Education Ministry - Nu. 50 m,
- iv) Thimphu Tshechu ground construction - Nu. 45 m,
- v) Construction of Supreme Court building - Nu. 225.147 m,
- vi) Post Graduate scholarships - Nu. 36 m,
- vii) Establishment of Jigme Singye Wangchuck College of Business in Gedu - Nu. 49 m.

These will feature later under the respective sector's budget allocations.

## **6.2 Net Lending**

Lending is expected to be around Nu. 40 m only in the coming FY. This is because most of the corporate sector loans have ended and no disbursements are expected on new loans in the FY 2007-08. Recoveries of loans from corporations are estimated at Nu.1,693.717m, an amount considerably higher than in the past. This is mainly because the THPP loan repayment will begin as mentioned before.

## **6.3 Resources**

### **6.3.1 Revenue**

Total revenues for FY 2007-08 is estimated at Nu. 13,130.209 m, 37 % higher than the revised estimates for FY 2006-07. The core revenue (*excluding the interest receipts from corporations on on-lent funds*) is however projected to increase by 13.5 % over the FY 2006-07 revised estimates. This increase is mainly due to the commencement of revenue inflows from the THPP as corporate tax (Nu. 914 m) and dividends (Nu. 1,706 m).

The summary of the revenue estimates are as given below:

**DOMESTIC REVENUE PROJECTIONS FOR FY 2007-08**

Sl. No.	Source	Nu. in millions
<b>TOTAL NATIONAL REVENUE (A+B)</b>		<b>13,130.209</b>
<b>A</b>	<b>TAX REVENUE (I+II)</b>	<b>5,762.225</b>
	<b>I. Direct Tax</b>	<b>4,012.458</b>
	1. Corporate Income Tax	2,799.344
	2. Business Income Tax	393.083
	3. Salary Tax / PIT	153.737
	4. Other Tax Revenue	666.294
	<b>II. Indirect Tax</b>	<b>1,749.767</b>
	1. Sales Tax	777.944
	2. Export Tax	0.374
	3. Excise Duty	836.665
	4. Import Duty	129.550
	5. Other Tax Revenue	5.234
<b>B</b>	<b>NON-TAX REVENUE</b>	<b>7,367.984</b>
	1. Adm. Fees & Charges	217.337
	2. Capital Revenue	84.57
	3. Revenue from Govt. Departments	112.523
	4. Dividends	3,741.901
	5. Transfer of Profits	550.450
	6. Other Non-Tax Revenue	8.658
	7. Interest from Corporations	2,652.545

**Tax Revenues**

Tax revenues are expected to be Nu. 5,762.225 m, comprising primarily of the corporate income tax (CIT) which constitutes almost 49 % of the tax revenues. 77 % of the CIT is estimated to come from the hydro-power corporations. With the incorporation of the THPP as a company, its contribution to CIT is expected to be Nu. 914.136 m. Business Income Tax is expected to grow marginally. The Personal Income Tax is also expected to grow to Nu. 153.737 m with the decision to restore the previous tax rates.

## **Non-tax Revenue**

Non-tax revenues (*net of interest receipts from corporations on on-lent funds*) is estimated at Nu. 4,715.439 m, and the largest component is the dividend from the Government's shares in the companies. As in the case of the direct taxes, this is largely accounted for by the hydro-power corporations (*Nu. 3,575.087 m or 49 % of non-tax revenue*). Dividends from THPP is estimated at Nu. 1,706.387 m or 46 % of the total dividend revenue.

### **6.3.2 Grants**

External grants are estimated at Nu. 6,382.937 m for the coming FY. The Programme Grant amount (*Nu. 1,262 m*) is as per the schedules agreed with development partners. The Project Grants are estimated at Nu. 5,120.937 m, and it is based on the respective agencies' capacities to carry out the activities.

As usual, the largest programme grants are received from Bhutan's closest friend and neighbour India. The overall programme grant from the Government of India for the entire 5-years of the 9<sup>th</sup> Plan has been agreed at Nu. 8,200 m, and for this last year of the Plan, the amount is Nu. 1,100 m. Apart from India, Denmark also provides similar grants.

The Government of India is also the largest provider of project-tied grants. In the new FY, i.e., the last year of the 9th Plan, an amount of Nu. 3,017.890 m has been estimated to be disbursed. Grant assistance in such form from the other development partners is estimated to be Nu. 2,103.047 m.

Once again, I take this opportunity to express our gratitude to the government and the people of India and the government and people of all our other development partners for providing such assistance generously.

## **6.4 Overall Balance and Financing**

The overall balance is projected to be a deficit of Nu. 1,050.168 m. On the estimated GDP, it constitutes around 2 %. This deficit will be financed by net domestic borrowing, and is expected to cover 10 % of the capital expenditures. The

Government's domestic borrowings to the extent forecast are not likely to have any adverse impact on credit to the private sector, given the favourable liquidity situation.

## **6.5 Debt**

### **Debt Service**

An amount of Nu. 1,832.900 m has been budgeted for principal repayment of external loans. It is an incomparably higher amount than the past because of the THPP loan.

Of the estimated GDP, debt service constitutes 9 %. If the corporate debt service is excluded, i.e., debt service only on account of loans contracted directly by the Government (*Nu. 487.391 m*), the Government's debt service comes to only 0.92 % of GDP.

The debt principal repayment on the RGoB's internal loans is budgeted at Nu. 175.303 m only, which is for the loan obtained for the aircraft purchase.

### **Debt Outstanding**

At the end of the FY, the total **external debt** outstanding is expected to be Nu. 43,331m or 82 % of the estimated GDP. On account of the RGoB's own obligations, it is expected to be Nu. 9,592 m or 18 % of estimated GDP, while it is estimated to be Nu. 33,739 m or 64 % of estimated GDP for corporations. The **internal debt** outstanding is estimated to be Nu. 2,367 m or 4.5 % of estimated GDP.

## **6.6 Dzongkhag and Gewog Expenditure Budget**

A budget of Nu. 4,358 m, which is around 20 % of the total outlay, is projected for implementation by the Dzongkhags and Gewogs. The distribution between Dzongkhags and Gewogs is 90 % and 10 %. Since most of the 9<sup>th</sup> Plan activities executed by the Dzongkhags and Gewogs have been completed, the outlay in the FY 2007-08 is less by about 7 % from the revised outlay of FY 2006-2007. The pertinent activities are constructions of rural water supply, farm roads, power-tiller tracks and Gup's office and renovation of Lhakhangs. A summary is provided in the table below:

**Summary of Expenditure Budget Provisions in Dzongkhags' and Gewogs' Budgets**  
(Nu. in millions)

Description	Revised 2006-07 Budget (31st March 2007)	2007-08 Budget Estimates
<b>Dzongkhag</b>	<b>4,079.882</b>	<b>3,920.804</b>
Current	2,460.149	2,534.456
Capital	1,619.733	1,386.348
<b>Gewog</b>	<b>600.504</b>	<b>437.120</b>
Current	79.616	97.952
Capital	520.888	339.168
<b>Combined Dzongkhags &amp; Gewogs</b>	<b>4,680.386</b>	<b>4,357.924</b>
Current	2,539.765	2,632.408
Capital	2,140.621	1,725.516

The share for the social sector is Nu. 2,588 m or 12 %, of which Nu.1,998 m is for the Education sector, and includes the construction of schools. The Health sector's share is Nu. 590 m for activities comprising of RWSS works and constructions of Basic Health Units (BHU). The appropriations for the Renewable Natural Resources (RNR) sector is Nu. 780 m. A sum of Nu. 16 m is also set aside for the construction of Gups' offices.

## 6.7 Sector Allocations

The sector-wise distribution in FY 2007-2008 budget is presented in the table below:-

**Sector-wise Distribution of FY 2007-2008 Budget Nu. in millions**

<b>Sectors</b>	<b>Current</b>	<b>Capital</b>	<b>Total</b>	<b>Percent</b>
<b>Social Services</b>	<b>2,913.900</b>	<b>2,318.242</b>	<b>5,232.142</b>	<b>22%</b>
<i>Health</i>	993.691	853.461	1,847.152	8%
<i>Education</i>	1,920.209	1,464.781	3,384.990	14%
<b>Economic and Public Sector</b>	<b>1,981.546</b>	<b>6,055.631</b>	<b>8,037.177</b>	<b>33%</b>
<i>Agriculture</i>	1,037.706	1,281.894	2,319.600	10%
<i>Mining &amp; Manufacturing Industries</i>	87.713	127.225	214.938	1%
<i>Roads</i>	227.501	2,272.033	2,499.534	10%
<i>Housing &amp; Community Amenities</i>	281.923	983.669	1,265.592	5%
<i>Communications</i>	301.598	246.631	548.229	2%
<i>Energy</i>	45.105	1,144.179	1,189.284	5%
<b>Cultural Services</b>	<b>284.626</b>	<b>278.682</b>	<b>563.308</b>	<b>2%</b>
<b>General Public Services</b>	<b>3,703.137</b>	<b>1,965.879</b>	<b>5,669.016</b>	<b>24%</b>
<b>National Debt Services</b>	<b>2,737.674</b>	<b>2,048.203</b>	<b>4,785.877</b>	<b>20%</b>
<i>Repayment</i>	2,737.674	2,008.203	4,745.877	20%
<i>Lending</i>	-	40.000	40.000	
<b>Total</b>	<b>11,620.883</b>	<b>12,666.637</b>	<b>24,287.520</b>	<b>100%</b>

### 6.7.1 Social Services

In keeping with the Royal Government's policy, high priority has been accorded continuously to the Social Sector in every budget. Thus, the highest budget allocation (22 %) has been made to this sector in the new budget also. The combined budget of the two sectors amounting to Nu. 5,232 m is about 10 % of the estimated GDP, which is well above the average for the developing countries.

#### 6.7.1.1 Health

With the Royal Government's policy to provide universal access to primary health care, a sum of Nu. 1,847 m has been allocated for this sub-sector. It accounts for 8 %

of the total outlay. The current expenditure budget allocation in absolute terms has increased from the previous year, and the total projection is Nu. 994 m. Nu. 75 m has been projected as the expenditure budget for medical referrals outside the country.

The budget appropriation for the sector's capital expenditure is Nu.853m which is slightly lower than the allocation of the previous year. This is mainly on account of the major civil works of the hospital constructions like the Jigme Dorji Wangchuck National Referral Hospital (*Total estimated cost Nu. 760 m*), Regional Referral Hospital, Mongar (*Total cost estimate Nu. 435 m*) and the Phuntsholing Hospital, (*Total estimated cost Nu. 112.39 m*), which are being completed. The projection in the new FY's budget is for the settlement of final bills.

The other capital budget includes human resource development, where a budget of Nu. 31 m has been allocated for specialisation and other courses. There is a provision of Nu. 419 m to procure essential drugs, expendable items and equipment. A provision of Nu. 230 m is to go towards the on-going hospital and laboratory constructions, and Nu. 40 m is provided for construction of Basic Health Units in the rural areas.

#### **6.7.1.2 Education**

A total sum of Nu 3,385 m has been allocated for this sector which is 14 % of the total outlay. The Royal Government has taken a policy decision to intensify its efforts in this sector as it has serious concerns over the quality of education. With the view to address this concern, a sum of Nu. 141 m has been provided in the budget. These are mainly for the revision of syllabus and improvement of teaching methods, school libraries, science laboratories, and computer facilities in the schools.

The Government also increased the stipends of the children from Nu.180 to Nu. 240 per child. Now food-support is considered also at the primary schools for informal boarders, and an allocation of Nu.21m is made for this. This is to reduce the burden on the parents for educating their children, especially in the remoter parts of the country.

There is also a provision of Nu. 417 m earmarked for construction of the on-going as well as new schools. Besides, there is a provision of Nu. 23 m for the supply of furniture for schools and the Royal University of Bhutan.

Besides, the Royal Government is establishing the Jigme Singye Wangchuck College of Business at Gedu, at a cost of Nu. 127.18 m by remodelling of the buildings handed over by the Tala Hydro-power Project. With the completion of the works, the new college will facilitate greater intake of high schools graduates for tertiary education. It will in turn meet the growing demands of the economy for financial services and facilitate greater employment. The budget provided in the new FY for this purpose is Nu. 48.76 m.

A need has also strongly been felt to provide a proper secretariat building for the Education Ministry. For this, a sum of Nu. 50 m has been apportioned in the coming FY's budget against the total estimated cost of Nu. 180 m. With this, the Education Ministry can be housed under one roof and make the administration easier and more efficient.

### **Human Resource Development (HRD)**

The 9th five-year plan has envisaged the need to upgrade the capabilities of the civil servants. Therefore, a sum of Nu. 283 m is allocated for HRD, out of which Nu. 54 m is for health professionals to pursue specialised courses. The remaining budget of Nu. 229 m is for undergraduate scholarships (*Nu. 120 m*) of which Nu. 26 m is for new scholarships. These are in various professions for 115 students.

An amount of Nu. 27 m has been appropriated for on-going and new masters' degree courses for civil servants, besides the nominal provisions kept the respective agencies to develop their specific human resource needs

A budget of Nu. 15 m has also been provided for under the Royal Institute of Management to conduct pre-service training in various management fields like Diploma in Financial Management, Diploma in Information Management Systems, Post Graduate Diploma in Financial Management and Post Graduate Diploma in Public Administration.

## **6.7.2 Economic & Public Sector**

### **6.7.2.1 Agriculture**

Although only 8 % of Bhutan's total land mass is arable, the Royal Government continues to invest a considerable amount of resources to agriculture. This is because the bulk of the rural population subsists on agriculture and livestock. Besides, it has been estimated that almost 30 % of Bhutan's population still live below the poverty line, and most of them are in the rural areas.

The total allocation for this sector is Nu. 2,320 m or 10% of the total outlay. This includes a budget provision of Nu. 47 m for the construction and establishment of the Ugyen Wangchuck Environmental and Forestry Institute in Bumthang (*Total estimated cost: Nu. 150 m*). As in the previous FYs, support will also be continued for the farmers to increase their productivity. Among these, Nu. 11 m has been earmarked to continue the promotion of commercial activities in piggery and poultry production, and Nu. 63 m for the supply of improved livestock breeds. To improve marketing, the Government will increase its effort in the construction of farm roads and power tiller tracks in the rural areas for which a provision of Nu.374 m has been set aside. The Ministry of Agriculture is also constructing a building to house the Thimphu vegetable market. Estimated to cost Nu. 86 m, it will facilitate the proper marketing of the farmers' produces.

Another crucial activity to increase farm production is to provide timely technical support by the RNR staff to the farmers. Towards this, budget provision of Nu. 34 m has been made for the construction of two new RNR centres and for the completion of 12 others started in the previous years. A provision of Nu. 27 m has been made for irrigation facilities as well. The Royal Government will also continue to provide subsidised farm equipment and farm machinery to the farmers.

### **6.7.2.2 Industrial and Private Sector Development**

With high importance given to the private sector development, the Government continues to provide substantial funds for the development of industrial estates. The total budget outlay provided in this sector in the next FY is Nu. 215 m, of which Nu. 18 m is for internal roads construction at the Pasakha Industrial Estate. A provision of

Nu. 20 m is also kept for industrial feasibility and investment studies for further industrial development in the country and expanding job opportunities.

Tourism is the other sector besides hydro-power sector which has a high potential for contribution to the nation's economic growth. Besides being a source for foreign exchange, tourism also contributes to the generation of employment. To boost the tourism industry further, the work on establishment of the Hotel and Tourism Management Training institute in Motithang has commenced. A sum of Nu. 52 m has been apportioned in the coming year against the total estimated cost of Nu. 365.95 m. In the meanwhile, the institute has started functioning from a hired accommodation in Taba and training is underway to boost employment opportunity for the youth and in preparation for the 2008 celebrations. For this, a budget of Nu. 12 m has been allocated.

#### **Direct fiscal assistance to the Private Sector**

As reported to the National Assembly in the earlier sessions, the Government instituted fiscal incentives such as income tax holidays, and import duty and sales tax exemptions with the view to stimulate private sector growth and employment generation. The incentive schemes come to an end by the end of this month. The Government is assessing the effectiveness of the scheme and will accordingly develop further measures.

#### **Vocational Training and Employment**

The lack of managerial and technical skills and mismatch between the skills and the prevalent job opportunities in the market has been one of the serious challenges of the Government. To address this, the Department of Human Resources has expanded its training capacity and upgraded the technical and vocational training facilities within the country. The facilities in both the National Institute of Zorig Chusum in Thimphu and Tashi Yangtse have been expanded. Additional construction training centres have been completed, both in Chhumey and Sarpang and are functioning.

A budget allocation of Nu. 172 m has been included for Human Resources Development for the private sector, out of which Nu. 14 m is for various skills development in the country. Such programmes include apprenticeship programmes with Nu. 8 m for training 300 school-leavers in various vocations and for training 100

villagers in the fields of furniture making, electrical wiring, plumbing and masonry. Another Nu. 7 m is appropriated for conducting English language courses for students selected for call centres, for training 115 new youths to work in call centres and 25 in IT-related fields and for medical transcription.

### **6.7.2.3 Roads**

Bhutan being a land-locked country with mountainous terrain, road communications is the single most important element for development. Considering this, the Government has put in huge resources to develop this sector in all its economic development plans and budgets. There is an even greater need to rededicate efforts in developing this sector as the economy has reached a point where further development is hindered by inadequate road infrastructure.

The total budget outlay for this sector is Nu. 2,500 m or 10 % of the total outlay and 24 % of the capital budget outlay. Strong emphasis is given for the completion of the **on-going road constructions** for which an outlay of Nu. 487 m has been projected. The provisions for some of the major works are

- (i) Nu. 52 m for Gyalpoizhing-Nganglam road (*Total estimated cost: Nu. 276.69 m*),
- (ii) Nu. 15 m for Damji-Zamechhu road (*Total estimated cost: Nu. 50.689 m*),
- (iii) Nu. 30 m for Nangar-Ura road (*Total estimated cost: Nu.312.067 m*),
- (iv) Nu.50 m for Samtse-Phuntsholing road (*Total estimated cost: Nu.229.274m*),
- (v) Nu. 12 m for Sunkosh-Dagana road improvement (*Total estimated cost: Nu. 82 m*),
- (vi) Nu. 93 m for Thimphu urban roads including
  - a. Nu. 20 m for National Handicrafts Emporium to Chhubachhu circle road (*Total estimated cost: Nu.43.45m*) and
  - b. Nu. 45 m for Kuensel Phodang road (*Total estimated cost: Nu. 72.5 m*).

The total budget for **road improvement** has been estimated at Nu.347m. Such provisions include

- (i) Nu. 10 m for the road improvement from diesel power-house area in Changzamtog to the National Memorial Chheoten (*Total estimated cost: Nu. 20 m*),

- (ii) Nu. 50 m for Doebum Lam widening from NM Chheoten to Chhubachhu (*Total estimated cost: Nu. 100 m*) and
- (iii) Nu. 15 m for foot-path and permanent works within the core area of Thimphu city.

Over and above the bridge constructions being carried out under the Government of Japan's assistance, a budget provision of Nu. 74 m has been included for other bridge constructions. It includes the construction of suspension bridges (*Nu. 14 m*) in the remote areas.

#### **6.7.2.4 Urban Development, Housing and Public Amenities**

A sum of Nu. 1,266 m or 5 % of the total outlay has been allocated towards further development in this sector. Importance is placed on developing affordable housing in the urban areas for low-income groups. With this objective in mind, constructions of low-income housing in seven Dzongkhags started in the previous year. The Dzongkhags are Lhuentse, Tashigang, Tashiyangtse, Dagana, Samdrup Jongkhar, Zhemgang and Tongsa. A sum of Nu. 45 m has been set aside to complete them. A budget provision of Nu. 135 m has been made towards developing sewerage systems, water supply, construction of solid waste disposal sites and other amenities in various urban centres.

Budget provisions have also been made for the public buildings and facilities in Thimphu. With the introduction of parliamentary democracy, appropriate housing has to be provided for the constitutional post holders including ministers. Therefore, a sum of Nu.229 m for the construction of residences has been budgeted against the total cost estimated at Nu. 453 m. A budget provision of Nu. 70 m has been made for the construction of the National Council building (*Total cost estimated Nu. 108.346 m*), and Nu. 203 m for the redevelopment of Changlingmethang stadium (*Total cost estimated Nu.252.19 m*).

#### **6.7.2.5 Communications and Transport**

A budget of Nu. 548 m has been considered in the coming budget for this sector. The main components of the budget are Nu. 20 m for the establishment of E-Governance, and Nu. 10 m for the development of Call Centres. The activities will also contribute

to the creation of jobs in the market and private sector development. Given the importance of information technology sector towards employment generation, the Royal Government has negotiated a loan of US \$ 8 m from the World Bank recently for establishing an information technology park conducive for foreign investment.

Another item is the budget for the BBS' project of Nu. 131.412 m. The amount is for the completion of the constructions works for the television centre, which should be of immense benefit to the nation.

For the urban transport, a sum of Nu. 16.3 m has been included for the purchase of additional buses. It has been essential to induct more buses for the Thimphu city bus service to provide more frequent services. The budget also includes provision for the purchase of 20 motor bikes for better monitoring of public vehicles operations in order to reduce the occurrence of accidents.

In the Civil Aviation sub-sector, a sum of Nu. 31 m is allocated for the maintenance and improvement of J J Peak control tower, construction of parking for aircraft and renovation of the terminal building. Another component of the budget for this sector includes the sum of Nu.132.678 m provisioned for subsidising the DAC in the payment of interest on its loan for the purchase of aircraft.

#### **6.7.2.6 Energy**

Towards achieving the objective of "Electricity for All" by 2020, budgets are allocated annually for rural electrification, and in the new budget a budget of Nu. 24 m has been allocated. This fund will allow the Bhutan Power Corporation to complete the provision of electricity to over 9,000 house-holds in Punakha, Chhukha, Samtse, Sarpang, Mongar, Lhuentse, Pema Gatshal and Tashigang as part of the 9<sup>th</sup> Plan target. It is felt appropriate to report here that on the 9<sup>th</sup> of May 2007, the Royal Government signed a rural electrification loan with the Government of Japan for a sum equivalent to USD 30 m at a highly concessionary interest rate of 0.01 % per annum. This will enable the Royal Government to provide electricity to about 15,000 rural households in the 10<sup>th</sup> Plan.

A provision of Nu. 400 m has been kept for the on-going Tingtibi-Tongsa-Bumthang transmission line which when completed will reach stable and adequate supply of electricity to Tongsa and Bumthang. Further, to complete the Deothang-Rangia line

on the Bhutanese side, a budget of Nu. 90 m is allocated. This will provide an alternative route for Kurichhu power to India as well as increasing the reliability of supply in Eastern Bhutan.

As is well known, Bhutan's greatest resource is its hydro-power potential. It is estimated at 30,000 mega watts (MW). Including the recent commissioned 1,020 MW Tala hydroelectric project, only 1,488.68 MW or 5 % have so far been tapped. The Royal Government has made plans to accelerate the construction of many more hydro-power projects. The pre-construction works on the Punatsangchhu I (1,095 MW) have already been started. In the next FY's budget, an allocation of Nu. 235 m has been made to carry out the construction of a bridge, roads, power transmission, site offices, housing and water supply for the project. A sum of Nu. 68 m has also been incorporated for preparing the detailed project reports of the Mangdechhu hydro-power project (672 MW) and the Punatsangchhu II hydro-power project (992 MW).

Another important provision in the budget for this sector is for the pre-construction works on Dagachhu hydro-power project (114 MW). An amount of Nu. 270 m has been earmarked to initiate the construction of access road, bridge and other essential infrastructure works. To manage the preconstruction activities and also for the overall management, supervision and construction of the project, the formation of the Dagachhu Hydroelectric Project Authority is underway. Official requests have already been sent to the Government of Austria and the Asian Development Bank for loans to finance the project, and positive indications have been received.

### **6.7.3 Cultural Services**

In the FY 2007-08, the Government has made a budget provision of Nu. 563 m for this sector. The main budget provisions are Nu. 50 m for renovation of Lhakhangs in Dzongkhags and Gewogs, Nu. 45 m for the construction of Thimphu Tshechu ground (Total estimated cost Nu. 94.451 m) and Nu. 57.090 m for continuing the renovation of the Tongsa Ta Dzong (Total estimated cost: Nu. 117.348 m).

#### 6.7.4 General Public Service

The important provisions under this sector include (i) Nu. 225.147 m for the Supreme Court building construction (*Total estimated cost: Nu.397 m*); (ii) Nu. 28 m for the continuation of the Chhukha Dzong construction (*Total estimated cost: Nu. 142.168 m*); (iii) Nu. 30 m for the continuation of the Tsirang Dzong construction (*Total estimated cost: Nu. 113.666 m*), and (iv) Nu. 20 m for BIFA building construction (*Total estimated cost: Nu. 57.340 m*).

Besides the above, the most significant budget that fall under this category is that for the **national election activities**. The cost of actual national elections is estimated to be approximately Nu. 277.4 m in FY 2007-08. The costs are mainly the TA/DA, stationery, utilities and transportation expenses for officials engaged in conducting the elections. It also includes a sum of Nu. 110.600 m estimated for contributions to the political parties for their campaigning activities.

In total so far, the costs associated with the preparations for the elections under the new system of parliamentary democracy is estimated at Nu. 662.529 m. We are confident that the resources invested will raise the political consciousness of the people and that they would turn out in full to elect their new government. The details are as provided in the table below:

#### Expenditure Budget for the National Elections

<i>Item</i>	<b>Actual Expenditure for FY 2005-06 &amp; Revised Estimates for FY 2006-07</b> <i>(Nu. m)</i>	<b>Estimates for FY 2007-08</b> <i>(Nu. m)</i>	<b>Total</b> <i>(Nu. m)</i>
i. Equipment	62.000	-	62.000
ii. Election Commission Head Office	31.755	23.566	55.321
iii. Establishment of Election Offices in Dzongkhags	22.382	24.805	47.187

iv.	Training, Publicity and other preparatory activities	90.260	64.361	154.621
v.	Election simulation (Two times)	66.000	-	66.000
vi.	Elections – Actual		277.400	277.400
a.	<i>Elections - Gyalyong Tshogdu</i>		109.500	109.500
b.	<i>Election - Gyalyong Tshogdey</i>		57.300	57.300
c.	<i>Public Election Fund</i>		110.600	110.600
<b>Total</b>		<b>272.397</b>	<b>390.132</b>	<b>662.529</b>

---

## Part VII PROJECTIONS FOR FYs 2008-09 AND 2009-10

Adhering to the same policies outlined above under the heading Budget Policy and Fiscal Framework, the medium-term fiscal framework has been developed. The summary of the framework is as given in the table below.

<b>Summary of Fiscal Projections for FYs 2008-09 &amp; 2009-10</b>		
(Nu. in millions)		
	<b>2008-09</b>	<b>2009-10</b>
<b>Total Revenue &amp; Grants</b>	<b>20,327</b>	<b>20,865</b>
Revenue	12,967	13,097
Grants	7,360	7,768
<b>Expenditure + Net Lending</b>	<b>22,648</b>	<b>23,539</b>
Total Expenditure	23,931	24,822
Current	11,800	12,500
Capital	12,131	12,322
Net Lending	-1,283	-1,283
<b>Deficit (-)/ Surplus (+)</b>	<b>-2,322</b>	<b>-2,673</b>
% of GDP	-4%	-4%
Net External Borrowing	1,365	1,944
Net Domestic Borrowing	956	729
<b>Total External Debt</b>	<b>47,984</b>	<b>58,034</b>
<b>GDP Estimate (Nominal)</b>	<b>58,569</b>	<b>66,347</b>
<b>Total External Debt</b>	<b>82 %</b>	<b>88 %</b>
On-lent to Corporations (% of GDP)	62 %	66 %
Government-executed works (% of GDP)	20 %	22 %

This framework has been drawn up in order to guide the Government through the next FY and two subsequent FYs. This is a standard practice which allows a Government and the National Assembly to get a view of the future scenario. Such a framework is drawn up, given all the parameters that are known or can be reasonably assumed to hold in the future. It is within such frameworks that there can be some predictability of the Government's finances and their impact on the economy.

Thus, the framework has been developed for the next two years namely FYs 2008-09 and 2009-10. The overall fiscal balances are projected to be deficits of 4 % GDP in both the years, which are within the 5 % ceiling. As the next year, i.e. FY 2008-09 approaches, the Government will have such estimates for a further two more years.

## **Part VIII PUBLIC DEBT**

### **8.1 External Debt**

The Government has to resort to deficit financing of its budget in order to meet its capital expenditures. To a large extent, the Royal Government endeavours to meet them with grants from external sources. However, these grants do not sufficiently cover the needs, and as a result the debts accumulate.

As of December 2006, the public debt outstanding stood at US\$679.375 m. As measured in terms of GDP, it is around 75.67 % of estimated GDP. As the ratio is fairly high by international standards, the Government has been exercising extreme caution in seeking further loans. The Government is acutely aware that debts pose a burden on the future generations. Therefore, loans are availed only for essential socio-economic development activities which are part of the five-year development plans. This can be seen by the following data.

#### **Sector-wise Composition of External Loans Outstanding as on 31<sup>st</sup> December 2006**

<b>Sl. No.</b>	<b>Sector</b>	<b>Amount (US \$ m)</b>	<b>%</b>
1	Agriculture	36.452	5.37 %
2	Communications	13.004	1.91 %
3	Energy	499.939	73.59 %
4	Finance	11.247	1.66 %
5	General	6.444	0.95 %
6	Industries	7.515	1.11 %
7	Roads	31.010	4.56 %
8	Urban Development	16.783	2.47 %
9	Education	45.201	6.65 %
10	Health	10.964	1.61 %
11	Rural Development	0.815	0.12 %
	<b>TOTAL</b>	<b>679.374</b>	

The Honourable Members will also be aware that if borrowings are curtailed excessively, it will be difficult to continue the momentum of development activities. Every year lost in terms of not being able to start a project means lost opportunity for future production and growth. What has to be ensured is that the loan proceeds are not used for consumption or current expenditure purposes, which do not directly contribute to growth. This has been a concern which His Majesty the King has always cautioned the Government about, and so far, the Government has been able to steadfastly adhere to the policy. I am confident that the future government will also see merit in this policy and continue to maintain this policy.

Although the external loans are high with respect to the GDP, the Royal Government has been able to repay them without fail. The Honourable Members will be pleased to note that the Royal Government has a good reputation for meeting its debt obligations. The situations at the end of each FY were given in the respective sections.

## **8.2 Domestic Debt**

Even though there had been overall budget deficits, the financings were almost all from external borrowings, at highly concessionary rates of interest. Thus, the average level of domestic debt in the past was a low of 3 % of GDP. Although with the increasing levels of annual budget deficits, the internal debt outstanding is likely to rise, it should be manageable with the higher rates of GDP growth.

## **Part IX TRUST FUNDS**

As the Honourable Members are aware, the Royal Government establishes separate funds held in trust for specific purposes. These are done in areas where it is considered essential that funding for certain activities are available even in times of budgetary difficulties. Presently, the Royal Government has three such trust funds, namely the Bhutan Trust Fund for Environmental Conservation (BTFEC), the Health Trust Fund (HTF) and the Cultural Trust Fund (CTF). Each of them has a mandate to invest the funds and contribute their incomes to the national development

programmes. The table below indicates the funds' situations as of end-December 2006.

### Summary of Trust Funds

Sl. No.	Trust Fund	Initial Fund	Present Level	Amount Contributed to Programmes
1	BTFEC	US \$ 21 m	US \$ 32.664 m	Nu. 53.314 m up to 2006-07.
2	HTF	US \$ 1.923 m	US \$ 19.992 m	Nu. 4.956 m for drugs and vaccines in 2005-06.
3	CTF	Nu. 31.267 m	Nu. 39.882 m	

Although such extra-budgetary funds serve a good purpose, having a large number of them would undermine the Government's budgetary system and distort the allocation of resources. Therefore, such funds are kept small in number.

## **Part X PUBLIC ENTERPRISES/ CORPORATIONS**

### **10.1 Public Corporations - General**

#### ***10.1.1 Overall Performance***

Almost all the companies with shareholding by the government, except the State Trading Corporation of Bhutan Limited and BBS, posted profit during 2006. The Ministry of Finance is pleased to report that DAC, Kurichhu Hydro-power Corporation (KHPC) and Bhutan Power Corporation (BPC) posted net profits for the first time since inception. Among the **best performers** in terms of revenues to the Government have been the CHPC (*on average 27 % of Government revenue*) and the PCAL (*on average 1.86 % of Government revenue*).

Notwithstanding the performance in general, the Government has to continue to support some corporations with **subsidies**. Among those, the highest recipients are the DAC (*over 13 % of its income in 2005*) and the BDFC (*almost 17 % of its income in 2005*).

### **10.1.2 Performance of Government-owned Corporations**

In the year 2006, the companies fully-owned by the Government earned a **combined profit** of Nu. 3,864.36 m. Their **assets** grew by 4.18 % from Nu. 26,572.98 m in 2005 to Nu. 27,683.28 m in 2006.

These companies continue to be the major **revenue contributors** to the government exchequer. Among them, the power-sector companies are the highest contributor with a total contribution of Nu. 2,709.73 m, which is 28.6 % of the estimated total revenues of the Government.

The **CHPC** alone contributed Nu. 2,586.62 m in the form of taxes and dividends during the year. The company is undertaking a major capital investment programme for linking of the water from the nearby streams to augment its generation capacity during the lean period and to undertake major repairs of the civil and mechanical infrastructure. Therefore, this is likely to impair the project's ability to maintain the level of revenue contribution in the next few years. However, I am happy to report that the loan for the construction of the project will be liquidated by December 2007.

The **THPP**, the biggest project in the country, started power generation from July, 2006, and is expected to remit a sum of Nu 1,750 m during FY 2006-2007. With the full commissioning and stabilization of the power generation, THPP is expected to contribute around Nu. 2,620 m in the form of revenues in the FY 2007-08.

As for the **other non-power state-owned corporations**, it is worth mentioning that the decision to purchase aircraft with a higher capacity for the **DAC** along with the increased frequency to various destinations has enabled the company to earn a profit in spite of the high cost of operations and maintenance. The proposed expansion of the flights to new destinations and increased aircraft utilization factor is expected to help the company earn higher revenue in future. However, the DAC would still have to be highly subsidized by the Government.

### **10.1.3 Performance of Companies with Government as Minority Shareholders**

The companies, in which the shareholding of the Government is less than 50 %, earned a combined profit of Nu. 1,218.57 m during 2006 as compared to Nu. 976.70 m during 2005. These companies contributed Nu. 501.83 m to the Government's

revenues in the form of dividends and corporate taxes. Their assets also grew by 20 % from Nu.27,538.03 m to Nu. 33,154.35 m over the last year.

## **10.2 Public Corporations - Financial**

The financial institutions achieved a strong growth during 2006, posting a combined profit of Nu. 778.2 m against Nu. 598.18 m in 2005. The sector contributed Nu. 270.29 m to the Government revenues in the form of taxes and dividends.

Their total assets grew by 20 % from Nu. 25,462.71 m in 2005 to Nu. 30,559.29 m in 2006. The growth is mainly due to the increase in the credit and deposits achieved by the banking financial institutions.

The total loans increased from Nu. 9,887.37 m in 2005 to Nu. 12,647.85 m, registering a growth of 28 % over the previous year. The housing sector continued to be the biggest borrower with 35 % of the total loan outstanding, followed by the manufacturing sector, which shared 16 % of the total loan. It is encouraging to note that the total loan sanctioned to the manufacturing sector grew by 35 % over last year against the growth of the loan portfolio in the other sectors. This indicates the much desired shift in the borrower pattern to the industrial sector. Such a shift will fuel economic growth and create employment. The increase in the credit demand in the manufacturing sector is attributable to the establishment of the industrial estate at Pasakha by the Government.

The average non-performing loan (NPL) has been brought down to below 9 % of the total loan during the year. This is mainly due to the banking financial institutions containing their NPLs to below 5 % during the year. The Ministry of Finance, the RMA and the respective financial institutions are constantly monitoring the developments to bring down the NPLs further.

### **Initiatives**

In order to create avenues for private sector investor and bring about fair competition in the market for the benefit of the consumers at large, the Government has already divested 49 % of its shares in Kuensel Corporation. The telecom sector, which was a government monopoly till recently, has been opened to private-sector participation through the granting of an operating license to a private operator. The financial sector

is also open to private participation, and private parties are likely to enter the market soon. This would bring in competition in the market and benefit the consumers by providing alternative services at competitive costs.

## **Part XI FUTURE OUTLOOK**

The economy of Bhutan is poised to take even greater strides as it enters the 10<sup>th</sup> phase of its development. While there are many challenges ahead, it is felt that, as always, the Government and the people will overcome them under the wise and far-sighted leadership of His Majesty the Druk Gyalpo. The returns from development initiatives taken in the past especially THPP is expected to contribute immensely to the country's development needs. With the plans to harness more of the nation's vast potential in hydro-power, it is certain that the economy will grow further and bring about even greater prosperity to the people of Bhutan. The necessary framework for an export of 5,000 MW of hydro-power to India by 2020 has already been created with the signing of a very important bilateral agreement with the Government of India in July 2006.

Bhutan's **GDP** is estimated to have grown by 16.6 % in 2006-07, and for FY 2007-08, it is estimated to grow by 9.1 %. While it is necessary to aim for higher GDP growth, it is also important to keep inflation under control. It is expected that with responsible economic management, the **inflation** rate will be contained between 4 % and 5 % per annum on average in the medium term. The Royal Government's budgetary framework tries to ensure that the fiscal deficits are not high but at the same time that the development prospects are not undermined by excessive control of government expenditures.

**Debt** to GDP ratio is likely to rise with more loans for the hydro-power projects in the pipeline. However, as mentioned before, the loans on account of hydro-power projects are self-liquidating. The debt ratios on account of the Government's other development activities are low and are not likely to rise steeply over the medium term. Although the constructions of additional hydro-power projects will raise the debt ratios higher, the overall long-term impact will be to make the economy stronger.

Due to associated exchange risk for convertible currency debt, the cost of debt servicing may vary from year to year. However, the impact should be manageable as a large part of the external debts are in Indian Rupees, and a large part of the exports are to India.

With the completion of the THPP, the **Balance of Payments** will improve, although with the import requirements of new industries and the constructions of the new hydro-power projects, it will be moderate.

On the **employment** front, with the rapid growth of educated manpower, providing gainful employment is likely to continue to be a major challenge. However, with the stepping-up of employment generation programmes, and the private sector growing, it is felt that the problem can be mitigated to a large extent.

Bhutan's **public finance system** is also set to become ever stronger. During this session of the Assembly, the Public Finance Bill is being submitted. With the passing of this bill, the system will be further strengthened. The Ministry of Finance is confident that the Honourable Members will approve the bill.

Although the prospects look positive, it needs to be cautioned that the resources need to be used prudently. Thus far, the Royal Government has been known to have used its scarce resources judiciously, and as a result it has been able to maintain the confidence of its development partners for their continued assistance. I have no doubt that the future Government will uphold this wise policy and make Bhutan a stronger and more stable nation in political, social and economic terms.

In the dialogues with its development partners, the Royal Government has emphasised on the need to continue their **assistance** to the people of Bhutan. They understand that their support have never been as crucial as it would be in the 10<sup>th</sup> Plan. There is a great deal of good-will from all of Bhutan's development partners, and the outlook for their continued assistance is positive. They are also aware that although the THPP will bring in substantial additional resources for the country, it will not be sufficient to meet the growing needs, especially with the new system of governance and the need to achieve the Millennium Development Goals.

## **Part XII CONCLUSION**

With this, I commend the budget for the FY 2007-08 to this august body. I take this opportunity to express my sincere appreciation to the Honourable Members for placing confidence in my presentations of the annual budget for the last three FYs. As mentioned earlier, the results of the past budgets have been all within acceptable limits, and I am confident that this last budget of the present Government will also be similarly successful.

As I conclude the budget presentation for the new FY 2007-08, I would like to also express my confidence and support to the new government when it comes into place under the system of parliamentary democracy and constitutional monarchy. As I mentioned in the beginning, Bhutan has achieved much within a short period of time under the dynamic leadership of our farsighted kings, and the system suited our country well. We have now reached a situation where we are venturing into a new form of governance. With such a move emanating from the Golden Throne, we have no doubt of the efficacy of the change.

With the constant blessings of the guardian deities of the Palden Dukpa, I look forward to the successful launching of parliamentary democracy under the great leadership of His Majesty the Druk Gyalpo. May it bring peace, prosperity and happiness to the people of Bhutan for all time to come.

\*\*\*\*\*

## ANNEXURES

**Table 1: Selected Monetary and Financial Indicators**

<b>Selected Monetary and Financial Indicators</b>		
<b>Items Description</b>	<b>2005 (Dec)</b>	<b>2006 (Dec)</b>
Millions of Ngultrum		
1 Total Assets of the Financial Sector*)	43,151.2	46,787.7
a. Royal Monetary Authority	18,220.4	18,510.7
b. Four Financial Institutions	24,930.9	28,277.0
2 Money Supply		
a. Quasi Money <sup>1/</sup>	9,599.5	10,645.5
b. Demand Deposits	6,565.2	7,575.6
c. Ngultrum in Circulation	2,404.4	2,762.5
3 Domestic Credit (from Monetary Survey)	5,403.1	5,424.0
a. Claims on Government (net) <sup>2/</sup>	- 2,715.3	- 5,183.9
b. Private Sector (including Joint Corporations)	6,571.0	8,801.2
4 Gross International Reserves (USD Millions)	458.1	537.6
a. Convertible Currencies (USD Millions)	354.3	453.1
b. Indian Rupees (INR Millions)	4,737.3	3,768.5
5 Exchange Rate for USD (Period average)	45.64	44.74
6 Consumer Price Index (%) <sup>3/</sup>	4.9	5.3

**Note:**

1/ quasi money includes foreign currency deposits & time deposits

2/ Positive figure indicates government's liabilities to the banks and negative figure indicates government's net deposits with the banks.

3/ Data for 2004 to 2006 represent yearly change in quarterly CPI for quarter ending December in each year (Q3, 2003 = Base Year)

\*) Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**Table 2: Financial Institutions Deposits and Lending Rates**

<b>Structure</b>	<b>As of December 2006</b>	
	<b>BoBL</b>	<b>BNBL</b>
	Rate of interest (% p.a.)	
<b>Deposit Rates</b>		
1. Savings	4.5	4.5
2. Fixed deposits		
<i>a) 3 months to less than 1 year</i>	4.5	4.5
<i>b) 1 year to less than 3 years</i>	6.0	6-6.5
<i>c) More than 3 years</i>	7.0	7.0
3. Corporate Deposits		
<i>46 days to less than 3 months</i>	2.0	2.1
	Discount Rate (% p.a.)	
<b>RMA Bills</b>		
R147 (Auction Date 30-Nov-05)	3.5	
R150 (Auction Date 22-Feb-06)	3.5	
	Interest rate (% p.a.)	
<b>Lending Rates</b>		
1. General Trade	13.75	14
2. Export Finance (Convertible Currency Areas)		
<i>a) From date of 1st disbursement to 60 days after the date of last disbursement</i>	13	
<i>b) More than 60 days after the last disbursement</i>	14.0	-
3. Manufacturing Industry		
<i>Term loan</i>	12.0	12.0
<i>Working Capital</i>	13.0	13.0
4. Service Industries (e.g. tourism, contract services, and other service activities)	10 - 12.75	12.0
5. Transport		
a) Truck & buses (Heavy vehicle)		
<i>i) Term Loan</i>	13.0	13.0
<i>ii) Working Capital</i>	14.0	-
b) Other Passenger Vehicles (Light vehicle)	14.0	14.0
6. Agriculture & Livestock	13.0	-
7. Housing	10-13	10-13
8. Equity Finance	13.0	12.0
9. Personal Loan/ Gold Loan	15.0	15.0
10. Vehicle Loan to Government employee	12.0	12.0

(\* ) *Effective April 1999, the interest rate on deposits and advances have been fully liberalised.*

**Table 3: Comparative Socio-economic Indicators**

<b>Indicators</b>		
<b><u>INCOME</u></b>	<b>1985</b>	<b>2005</b>
GDP in mill. Nu.	2,392	36,914.6
Per capita GDP in US\$ (1 USD = Nu. 44.1)	-	1,513.7
GDP growth (%)	6.8	6.5
Share of Agriculture in GDP	53	23.0
Saving as % of GDP	0.0	25.6
Investment as % of GDP	45.0	51.4
Export of goods and services as % to GDP	11.4	35.1
Import of goods and services as % to GDP	43.5	50.9
	<b>1985</b>	<b>2006</b>
Inflation rate (%)	4.4	5.3 (a)
Foreign exchange reserves (Mill. US \$)*	20.6	482.2
- US \$	-	433.2
- Rupees 2,225 million	-	48.9
(Exchange rate US \$ 1 = Nu. 45.47)		
<b><u>PUBLIC FINANCE</u></b>	<b>1985</b>	<b>2005-06</b>
Government revenue receipt in Mill. Nu.	233.0	6,902.907
- Tax revenue	135.9	4,124.680
- Non-tax revenue	-	2,778.227
Government expenditure in Mill. Nu.		
- Current	441.5	6,672.383
- Capital	776.2	6,684.425
- Net lending	-	289.09
- Repayments	-	2,651.448
Convertible currency loan (Mill. US\$) As of December 2006	-	264.07
<b><u>HUMAN RESOURCE</u></b>	<b>1985</b>	<b>2006</b>
Population		552,996
Population growth rate (%)	2.0	1.3
<b><u>HEALTH</u></b>	<b>1985</b>	<b>2006</b>
Life expectancy at birth	47.5 (b)	66.1 ©
- Male	45.8	66.0
- Female	49.1	66.2
Infant mortality rate (Per 1,000 live births)	142 (b)	40.1
Crude birth rate (Per 1,000 population)	39.1 (b)	20
Crude death rate (Per 1,000 population)	19.3 (b)	7
Maternal mortality rate (Per 1,000 live births)	7.7 (b)	2.6 (d)
Health coverage (%)	50	90
<b>Health Institutes</b>	98	715

Hospitals	27	29
Indigenous hospital	1	1
Indigenous Units	4	21
Training Institutes	1	3
Basic Health Units (BHUs)	65	176
Outreach Clinics	-	485
<b>Sanitation</b>		
Rural water supply scheme	150	3,852
Rural population access to piped water (%)	14	78.2
Rural population access to latrine (%)	-	89
Under one immunization coverage (%)	-	89.7
<b><u>EDUCATION</u></b>		
	<b>1985</b>	<b>2006</b>
School enrolment (No. of students)	51,835	169,810 (e)
Number of Teachers	1,716	6,094 (f)
Gross Primary Enrolment rate (%)	-	97.3
Literacy rate (%)	23	59.5
<b><i>Educational institutes</i></b>		
	183	507 (g)
High Schools (Middle & Higher Secondary schools)	8	49
Junior High Schools/ Lower Secondary Schools	22	84
Primary Schools	145	88
Degree College	1	1
Community Schools	-	245
Private Schools	-	23 (h)
Other Institutes	7	18 (i)
<b><u>TRANSPORT &amp; COMMUNICATIONS</u></b>		
	<b>1985</b>	<b>2006</b>
Length of road (Kms.)	1,755.1	4,544.7 (j)
Number of motorable bridges	-	236
Number of suspension bridges	175	422 (k)
Number of telephone exchanges	13	86
Number of telephone connections	1,880	31,526
Number of internet connections	-	6,685
- Dial-up connection	-	7,004
- Lease line connection	-	63
Number of Post Offices	54	90
Number of WT stations	18	19
B-Mobile subscribers	-	82,078
No. of motor vehicles registered	3,643	33,241
- Heavy	899	4,547
- Light	1,587	17,712
- Two Wheeler	1,157	7,931
- Taxi	-	2,056
- Others	-	995
No. of revenue earning passengers carried by Druk Air**	-	110,137
Revenue earned by Druk Air (Mill. Nu.)**	-	917.45

<b><u>RENEWABLE NATURAL RESOURCES</u></b>	<b>1985</b>	<b>2006</b>
<b>AGRICULTURE</b>		
Agriculture Extension Centres	121	51 (l)
Agriculture Seed Production Farms	10	11
Plant Protection Centre	-	1
Farm Mechanization Centres	-	3
Farm Mechanization Training Centre	1	1
National Mushroom Centre	1	1
National Post Harvest Centre	-	1
<b>RNR (COMMON SERVICES)</b>		
RNR extension Centres	-	95 (m)
RNR Research Centres	2	4
RNR Research sub-centres	-	6
Soil & Plant Analytical Laboratory	-	1
<b>LIVESTOCK</b>		
Veterinary Hospitals	18	20
Livestock Extension Centres	87	54 (n)
Regional Veterinary Laboratories	-	4
Satellite Veterinary Laboratories	-	3
Livestock Farms	14	11
Fodder Seed Production Centre	1	1
Vaccine Production Centre	-	1
National Artificial Insemination Centre	-	1
Cold Water Fishery Centre	-	1
National Warm Water Fish Culture Centre	-	1
National Centre for Animal Health	-	1
<b>FORESTRY</b>		
Territorial Division HQs	25	12
Range Offices	83	35 (o)
Beat Offices	1	65 (o)
Nature Study Centre	-	1
Forest cover (including 8 % shrub)	-	72.5
Protected area (%)	-	26.2
<b><u>POWER</u></b>		
Total electricity generation (Mill. unit)	40.5	3,336.8
<i>By Chhukha</i>	-	1,877.9
<i>By Kurichhu</i>	-	365.3
<i>By Tala</i>	-	766.7
<i>By Basochhu</i>	-	326.9
Total electricity export (Mill. unit)	-	2,583.59
<i>From Chhukha</i>	-	1,731.3
<i>From Kurichhu</i>	-	295.99
<i>From Tala</i>	-	556.3

Total export of electricity (%)	-	77
No. of villages electrified as of June 2006	95	1,318
No. of towns electrified as of June 2006	23	68
No. of household electricity consumers as of June 2006	9,750	64,253

*Italicised figures are sourced from the final results of the Population & Housing Census 2005.*

\* As of October 2006 (includes reserve tranche position in the IMF).

\*\* From 1 January to 31 December 2006.

(a) 4<sup>th</sup> quarter 2006 (Year on year).

(b) Demographic Sample Survey, 1984.

(c) National Health Survey, 1994.

(d) National Health Survey, 2000.

(e) Includes 18,550 in NFE and 107 in Day Care Centres;

(f) Includes 669 in NFE and 13 in Day Care Centres.

(g) Excludes 646 NFE Centres.

(h) Excludes 5 Day Care Centres (Private).

(i) Includes RBIT (College of Science & Tech.), Jigme Namgyel Polytechnic, ILCS and two NIEs (Colleges of Education).

(j) As of June 2006 and includes 574.8 kms of Forest Roads (the length of Forest Roads change from time to time as some them are abandoned after logging operation in a certain area is completed).

(k) Includes wooden cantilever bridges.

(l) Some centres have been upgraded to RNR centres, while some have been closed down.

(m) Excludes five RNR centres under construction.

(n) Some centres were upgraded to RNR centres while some have been closed down.

(o) Defunct structures and rented in other buildings are excluded.

\*\*\*\*\*