



**NATIONAL BUDGET REPORT
&
BUDGET & APPROPRIATION BILL**

Financial Year 2008-09

MINISTRY OF FINANCE

JUNE 2008

TABLE OF CONTENTS

Introduction	5
Chapter I: Budget Policy and Fiscal Framework	7
Chapter II: Annual Financial Statements (AFS) of the FY 2006-07	8
2.1 Expenditure:	9
2.2 Revenue:	9
2.3 Grants	10
2.4 Debt	11
2.4.1 Domestic Debt	11
2.4.2 External Debt	11
2.4.3 Fiscal balance	11
Chapter III Revised Budget Estimates of FY 2007-2008.....	12
3.1 Expenditure	13
3.1.1 Current Expenditure	13
3.1.2 Capital Expenditure	13
3.3 Net Lending	14
3.4 Fiscal deficit	14
3.5 Project-tied borrowings	15
3.6 Debt and Debt Servicing	15
3.7 Supplementary budgets granted during the year.....	15
Chapter IV: Budget Estimates and Budget & Appropriation Bill, .. FY 2008-09	19
Part I: Budget Estimates for FY 2008-09.....	19

4.1	Resources	20
4.1.1	Domestic Revenue.....	21
4.1.2	Grants.....	22
4.2	Expenditure Outlay	23
4.2.1	Current expenditure	23
4.2.3	Net Lending.....	25
4.3	Financing.....	25
4.3.1	External borrowing.....	25
4.3.2	Debt servicing (principal repayments).....	25
4.4	Dzongkhag and Gewog Budgets	26
4.5	SECTOR ALLOCATIONS.....	27
4.5.2	Agriculture.....	31
4.5.3	Trade, Industry and Private Sector Development.....	32
4.5.4	Tourism Sector	33
4.5.5.	Vocational Training and Employment.....	33
4.5.6.	Roads.....	34
4.5.7	Urban Development, Housing and Public Amenities.....	36
4.5.8.	Communications and Transport.....	36
4.5.9.	Energy	37
4.5.10	Cultural Services.....	38
4.5.11	Law and Order.....	39
4.5.12	General Public Services.....	39

Part II: Budget and Appropriation Bill40

Chapter V: Projections for FYs 2009-10 and 2010-11.....51

5.1	Projection	52
5.1.1	Domestic Revenue.....	52
5.1.2	Grants	52

5.1.3	Expenditure and Net Lending.....	52
5.1.4	Fiscal Balance and Resource Gap	52
5.1.5	Public Debt.....	52
(a)	External debt and debt servicing	53
(b)	Domestic Debt.....	53
5.2	Balance of Payments (BoP) and Foreign Exchange Reserves	53
5.3	Inflation	54
5.4	Gross Domestic Product (GDP)	54
Chapter VI: Report on Trust Funds		55
Trust Funds:		55
6.1	BTFEC	55
6.2	Health Trust Fund.....	55
6.3	Cultural Trust Fund	56
6.4	Universal Service Fund - ICT.....	56
Chapter VII: Report on State-Owned Enterprises		57
7.1	Report on DHIL-owned and DHIL-linked companies	58
7.2	Report on the Companies in which Government Shares are held directly by the Ministry of Finance ...	59
Chapter VIII: Challenges		61
Conclusion:.....		62

LIST OF TABLES

Table 2.1: Outcome of Receipts and Payments during FY 2006-07	8
Table 2.2: Summary of Actual Revenue Collections 2006-07	10
Table 3.1: Summary of Revised Budget Estimates for FY 2007-08	12
Table 3.2: Revised Revenue Summary for Financial Year 2007/08	14
Table 3.3.A: Under RGoB funding	16
Table 3.3.B: Under external funding	17
Table 4.1: Budget estimates for the FY2008-09	Error! Bookmark not defined.
Table 4.2: Domestic Revenue Projection for the FY 2008-09	21
Table 4.3 Grants expected from sources other than GoI during FY 2008-09	22
Table 4.4: Statement of interest payments for the FY 2008-09	24
Table 4.5: External Borrowings	25
Table 4.6: Statement of Principal Payments for the FY 208-09.....	26
Table 4.7: Summary of Expenditure Budget for Dzongkhags & Gewogs	27
Table 4.8: Sector Allocation for the FY 2008-2009	Error! Bookmark not defined.
Table 4.13: Major capital works of Vocational Training and Employment Service.....	34
Table 5.1: Budget Policy and Fiscal Framework Statement	51
Table 5.2: External Debt <i>Stock</i>	53
Table 6: Summary of Trust Funds	55
Table 7.1.A: Performance of Corporations fully-owned by DHIL for 2007.....	58
Table 7.1.B: Performance of DHIL linked companies for 2007	59
Table 7.2: List of companies retained with MoF for the year ending 2007	59

INTRODUCTION

Honourable Speaker and Honourable Members of the National Assembly,
Honourable Chairman and Honourable Members of the National Council,

I have the honour to present to this august body, the Royal Government's budget for the financial year (FY) 2008-09. The budget presentation today assumes great significance in many ways. It is the first budget of the democratically elected government. Bhutan today is the youngest parliamentary democracy in the world, and the peaceful elections on the 24th of March 2008 marked our transition from a benevolent monarchy to a parliamentary democracy. With the success of this historic process as well as the formal adoption of the Constitution of Bhutan, the vision of the Fourth Druk Gyalpo, His Majesty King Jigme Singye Wangchuck has been fulfilled. Further, this budget is significant for all of us as it co-incides with the centenary celebrations of the Wangchuck dynasty, under whose reign we have enjoyed peace, stability and prosperity for over a century. The nation is now poised to make further progress under the reign of the Druk Gyalpo His Majesty King Jigme Khesar Namgyel Wangchuck with the launching of the 10th Plan.

Against the backdrop of the draft 10th Plan, which will also be presented to Parliament, the budget for FY 2008-09 has been prepared. The budget aims to realize the Government's socio-economic objectives based on the principles of equity and justice, where there is opportunity and security for all. We are committed to accelerating the pace of development to build a strong and vibrant economy as well as the promotion of culture and preservation of the environment, contributing to happiness of the people.

My presentation will be in line with the Public Finance Act, 2007 and is summarized below:

Chapter I - Budget Policy and Fiscal Framework

Chapter II - Annual Financial Statements of the FY 2006-07;

Chapter III – Revised Budget Estimates for the FY 2007-08;

Chapter IV - Budget Estimates and the Budget & Appropriation Bill, FY 2008-09;

Chapter V - Projections for FYs 2009-10 and 2010-11

Chapter VI- Report on Trust Funds;

Chapter VII - Report on State-owned Enterprises;

Chapter VIII - Challenges

Annexures

1: Audited Annual Financial Statements of the FY 2006-07.

CHAPTER I: BUDGET POLICY AND FISCAL FRAMEWORK

In accordance with the *Public Finance Act 2007* (PFA), the Royal Government has put in place the Budget Policy and Fiscal Framework to improve public expenditure management and to facilitate resource mobilization, proper allocation of resources, enhancement of transparency and financial discipline.

The Budget sets out the broad strategies to manage the public finances in a prudent and efficient manner being mindful of its impact on other key aspects of the economy such as the balance of payments, inflation, and debt burdens.

The Royal Government's budget policy remains consistent with the sound policies of the past. The following are the primary characteristics of the government budget policy:

- to avoid current operating deficits;
- to limit the overall fiscal deficit to a maximum of 5 % of Gross Domestic Product (GDP);
- to cap the Government's pay budgets at sustainable ratios of current expenditures or of revenues;
- to keep outstanding debt at internationally accepted thresholds;
- to keep external debt service to exports ratio 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.

With regard to the fiscal framework, it is a step to improve from a purely need-based to a resource availability basis of budgeting, taking into account key macro-economic variables such as growth, debt, inflation, deficit etc.. Taking these variables into account, the framework projects resources and expenditures for the new financial year and two consecutive future years. Such forward projections present the likely situation in the near future and sensitize the Government to the fiscal challenges ahead. The projections for the two ensuing FYs are presented in Chapter V below.

CHAPTER II: ANNUAL FINANCIAL STATEMENTS (AFS) OF THE FY 2006-07

As required by the *PFA 2007*, I have the honour to present the audited Annual Financial Statements (AFS) for the FY 2006-07 to the Parliament. With the institutional reforms and enhanced access to Information Technology (IT), we have been able to improve the quality and timeliness of AFS. For the last two FYs, the annual statements have been prepared within a period of six months after the closure of the financial year and received audit certification as required under the Act. As the complete Audited Annual Financial Statements is submitted as a separate document, only the summarized accounts and salient features are presented below in

Table 2.1:

Table 2.1: Outcome of Receipts and Payments during FY 2006-07 *Nu. in millions*

APPLICATION OF FUNDS	Revised Estimates	Actual Outcome	% Variation
I. EXPENDITURE	19,983.347	15,166.107	(24.1)
i. Current	8,463.098	7,636.225	(9.8)
ii. Capital	11,520.249	7,529.882	(34.6)
II. REPAYMENTS	671.884	668.616	(0.5)
i. Internal	175.303	175.302	(0.0)
ii. External	496.581	493.314	(0.7)
III. LENDING	499.758	463.524	(7.3)
IV. ADVANCES(Net)		486.688	0.0
V. OTHER PAYMENTS	-	55.148	0.0
VI. SURPLUS	-	642.612	
TOTAL	21,154.989	17,482.695	(17.4)

SOURCES OF FUNDS	Revised Estimates	Actual Outcome	% Variation
I. INTERNAL RECEIPTS	9,618.925	10,082.160	4.8
i. Tax	4,073.717	4,266.911	4.7
ii. Non-Tax	5,545.208	5,815.249	4.9
II. RECOVERY OF LOANS	376.640	376.140	(0.1)
III. GRANTS	7,773.458	6,000.934	(22.8)
i. In Cash	6,751.107	5,031.532	(25.5)
ii. In Kind	1,022.351	969.402	48.0
IV. BORROWINGS	1,590.149	1,023.461	(35.6)
i. Internal			
ii. External	1,590.149	1,023.461	(35.6)
V. OTHER RECEIPTS	405.595		(100.0)
VI. DEFICIT	1,390.222		
TOTAL RECEIPTS	21,154.989	17,482.695	(17.4)

2.1 Expenditure:

The total expenditure during the FY 2006-2007 amounted to Nu. 15,166.107 million representing around 32 % of the GDP. This is an increase by 14 % over that of the previous FY. This increase is attributed to some of the major activities related to *national elections* and *preparatory activities for national celebrations*.

The total **recurrent expenditure** of Nu. 7,636 million reflects an increase of Nu. 1,006 million (15 %) over the FY 2005-06. *Pay and allowances* and *in-country travel* accounted for 18.01 % and 5.6 % respectively of the total recurrent expenditure. *Debt servicing* during the year amounted to Nu. 443 million representing 4 % of domestic revenue and 0.95 % of total payments. I am happy to report that our recurrent expenditure was fully covered by the internal revenue of Nu.10,082 million realized during the FY.

The total **capital expenditure** of Nu. 7,529 million was an increase by 13 % over that of the FY 2005-2006. 86 % of the total was financed by grants and borrowings of Nu. 7,024 million.

2.2 Revenue:

Domestic revenue exceeded the target by 4.8 % with a collection of Nu.10,082.160 million. It registered a growth of 46 % over the FY 2005-06. The electricity sector continued to generate the highest revenue, constituting 45.4 % of the total domestic revenue.

Tax revenue collection was Nu. 4,267 million, registering an increase of 3 % over the FY 2005-06. *Direct tax*, comprising mainly of receipts from corporate income tax, business income tax, personal income tax (PIT) and royalty, constituted 66.3 % of the total tax revenue. *Indirect tax* comprising of receipts from sales tax, excise duty and import duty constituted 34 % of the total tax revenue. Collections from tax revenue constituted 42.3 % of the domestic revenue and 9 % of GDP. Although comparatively small, the PIT collections grew by 54 % in the FY. In mature economies, the PIT account for the largest portion of revenues.

The **non-tax revenue** collections increased by more than 100 % largely due to remittance from the THPA, which was accounted for as profit transfers. Higher dividends received from *CHPC* and *Basochhu Hydro-power Corporation (BHPC)* and profit transfers from the *Royal Monetary*

Authority (RMA) also contributed to this growth. Non-tax revenue constituted 57.6 % of the domestic revenues.

A detailed statement of revenue collected during the FYs 2005-06 and 2006-07 and the percentage change as compared to the previous FY is presented in **Table 2.2**:

Table 2.2: Summary of Actual Revenue Collections 2006-07

Nu. in Millions

REVENUE HEADS	2005-2006	2006-2007	% Change
A Tax Revenue	4,124.68	4,266.91	3%
I Direct Tax	2,420.09	2,829.03	17%
Corporate Income Tax	1,363.30	1,566.94	15%
Business Income Tax	356.538	367.656	3%
Tax on Payroll/PIT	113.354	174.462	54%
Health Contribution	44.06	49.419	12%
Royalties	407.398	498.614	22%
Rural Tax	-	-	0%
Motor Vehicle Tax	85.246	93.273	9%
Business & Professional Licences	25.63	45.628	78%
Other Tax Revenue	24.563	33.038	35%
II Indirect Tax	1,704.59	1,437.88	-16%
Bhutan Sales Tax	662.785	765.544	16%
Export Tax	0.339	0.012	-96%
Excise Duty	879.543	519.393	-41%
Import Duty	157.178	144.69	-8%
Other Indirect Tax	4.748	8.242	74%
B Non Tax Revenue	2,778.23	5,815.25	109%
Fees, Dividends, Profits	2,610.40	5,639.99	116%
Administrative Fees & Charges	197.131	214.726	9%
Revenue from Government Departments	102.062	225.7	121%
Dividends	1,542.43	2,123.16	38%
Transfer of Profits	503.268	2,678.75	432%
Other Non-Tax Revenue	265.511	397.651	50%
Capital Revenue	167.826	175.258	4%
Total Revenue	6,902.91	10,082.16	46%

2.3 Grants

During the FY 2006-07, the Government received a total grant of Nu. 6,000.934 million, covering about 80 % of total capital expenditure. While receipts in cash accounted for 84 % of

the total grants, there was also direct disbursement of Nu. 969.402 million, by our donors, which is about 16 % of the total receipt.

2.4 Debt

During the FY, disbursement of loans amounted to Nu. 1,023.461 million, covering 13.6 % of capital expenditure. The **total outstanding debt** of the Government as on 30th June, 2007 amounted to Nu. 31,056.399 million, which translates to approximately USD 777.682 million and represents about 68 % of GDP. Of this, about 60 % consisted of Indian Rupee loan for the hydropower projects.

2.4.1 Domestic Debt

During the FY 2006-07, the Government did not resort to any domestic borrowing except for ways and means advances to tide over cash flow difficulties. As on June 2007, the domestic debt outstanding of the Government was Nu. 1,577 million, and it was the balance of debt incurred on account of the Government's equity participation in Druk Air for the purchase of new aircrafts.

2.4.2 External Debt

During the FY, the total external borrowing amounted to Nu.1,023.461 million. This consisted of Nu. 599.937 million as receipts in cash and Nu. 423.524 million in kind. Large disbursements were from the *World Bank*, *Denmark* and *ADB* accounting for 39 %, 30 % and 17 % respectively of the total borrowings.

The **total external debt outstanding** at the end of the year was Nu. 29,478.68 million, of which Nu. 18,369.93 million was in Indian Rupee and debt service ratio was 3.3 %.

2.4.3 Fiscal balance

The actual outcome for the FY 2006-07 budget was a surplus of Nu. 281.767 million. The realized resource was Nu. 16,083.094 million and the reported expenditure Nu. 15,795.327 million. This can be mainly attributed to the commissioning of the Tala project which contributed Nu. 1,800 million to the Government revenue.

CHAPTER III REVISED BUDGET ESTIMATES OF FY 2007-2008

At the start of the new Financial Year in July 2007, the total outlay was estimated at Nu. 20,585.600 million. Due to incorporation of new activities required to be undertaken during the year, the overall expenditure estimates has increased to Nu. 22,222.72 million by 30th April 2008, representing 7.95 % increase from the original budget estimates. The revised budget as on 30th April 2008 is as summarized below in **Table 3.1**:

Table 3.1: Summary of Revised Budget Estimates for FY 2007-08

	<i>Nu. in millions</i>		
	Original Estimates	Revised Estimates	Percentage Change
OUTLAY			
1. Expenditure Outlay	20,585.60	22,222.72	7.95
<i>i) Current Expenditure</i>	11,620.88	10,590.96	-8.86
<i>ii) Capital Expenditure</i>	10,618.43	13,424.03	26.42
2. Net Lending	-1,653.72	-1,792.27	8.38
RESOURCES	19,535.43	20,481.01	4.84
I. DOMESTIC REVENUE	13,152.50	12,148.43	-7.63
i) Domestic	13,130.21	11,607.98	-11.59
ii) Other Receipts & Balances	22.286	540.445	2325.04
II. GRANTS	6,382.94	8,332.58	30.54
i. Program Grants	1,262.00	1,262.00	0.00
<i>a) GoI</i>	1,100.00	1,100.00	0.00
<i>b) Denmark</i>	162	162	0.00
ii. Project-tied Grants	5,120.94	7,070.58	38.07
<i>a) GoI</i>	3,017.89	4,588.74	52.05
<i>b) Others</i>	2,103.05	2,481.84	18.01
DEFICIT (-) / SURPLUS (+)	-1,050.17	-1,741.71	65.85
FINANCING (Net Borrowing)	1,050.17	1,741.71	65.85
i) Net External Borrowing	1,365.03	1,632.48	19.59
a) Project-tied borrowing	1,193.03	1,460.48	22.42
b) Programme borrowing	172	172	0.00
Less Repayment	1,832.90	1,945.60	6.15
i) Net Domestic Borrowing	1,518.04	2,054.84	35.36
a) Project-tied borrowing	0	0	0.00
Less Repayment	175.303	175.303	0.00
b) Resource Gap (Change in Cash Balances)	1,693.34	2,230.14	31.70

3.1 Expenditure

3.1.1 Current Expenditure

The current expenditure projection has been revised downwards by Nu. 1,029.928 million. Although supplementary budgets were provided during the year, there is a net reduction in the overall recurrent expenditure projection. This is largely due to withdrawal of the substantial budget kept for the payment of interest on account of *THPA* loan. This happened as *Interest During Construction* (IDC) of the *THPA* loan was initially added to the principal loan, as a result of which the interest payment budget had been high. With the decision not to capitalize the IDC, the interest budget was reduced.

3.1.2 Capital Expenditure

The capital expenditure projection has increased by Nu. 2,805.602 million or by about 26% increase from that of the original capital budget by end of April 2008. The increase was due to incorporation of supplementary budgets granted during the year for which details are given in a later part of this Chapter.

3.2 Domestic Revenue

Domestic revenue was revised downwards by 11.5 % from the original estimates of Nu. 13,130.209 million, due to downward revision in revenue from *THPA* and *Bhutan Power Corporation* (BPC). Interest receipts from *THPA* were revised downwards to Nu. 1,295.86 million, on account of non-capitalization of IDC with the principal amount. The revision under Corporate Income Tax and Transfer of Profit is due to reclassification of revenue from the *THPA*, which is now shown under *Transfer of Profits* as the authority has not been corporatized. The revenue from other sources has been revised upward based on the actual collections made during the first half of the fiscal year. The revised revenue estimates is as shown in the following **Table 3.2**:

Table 3.2: Revised Revenue Summary for Financial Year 2007/08*Nu. in millions*

	Source of Revenue	2007/08 (Original)	2007/08 (Revised)	% Change
A	Tax Revenue	5,762.225	4,843.486	-16
I	Direct Tax	4,012.458	3,069.424	-24
	Corporate Income Tax	2,799.344	1,643.255	-41
	Business Income Tax	393.083	408.458	4
	Personal Income Tax	153.737	237.041	54
	Other tax revenue	666.294	780.670	17
II	Indirect Tax	1,749.767	1,774.062	1
	Sales Tax	777.944	824.638	6
	Excise Duty	836.665	850.000	2
	Import Duty	129.55	90.670	-30
	Other tax revenue	5.608	8.754	56
B	Non Tax Revenue	7,367.984	6,764.496	-8
	Adm. Fees and charges	217.337	252.255	16
	Capital Revenue	84.57	86.914	3
	Revenue from Govt. Depts.	112.523	167.893	49
	Dividend	3,741.901	2,114.747	-43
	Transfer of Profits	550.45	2,463.190	347
	Other Non tax Revenue	8.658	8.125	-6
	Interest receipts from Corporations	2,652.545	1,671.372	-37
	Total Revenue	13,130.209	11,607.982	-12

3.3 Net Lending

The negative net lending is estimated to increase by Nu. 138.553 million or 8% due to increase in the recovery of loans (principal) mainly on account of *THPA* loan.

3.4 Fiscal deficit

The fiscal deficit is estimated to increase to Nu. 1,741.712 million. The increase is expected due to the downward revision of domestic revenue and the provision of supplementary budget allocations. The overall fiscal balance is estimated to increase from 2 % to 3 % of GDP, which is below the 5 % policy threshold. The *resource gap*, i.e. fiscal deficit less net external borrowings, representing changes in cash balance and net borrowing from the domestic financial system is projected to increase to Nu. 2,230 million or by 31.7%.

3.5 Project-tied borrowings

The borrowings from external sources are estimated to increase by 22 % due to increase in the disbursement of loans for the *Decentralized Rural Development project*, the *Second Education Development project*, and the *Rural Skills Development project*.

3.6 Debt and Debt Servicing

The **external debt** outstanding by end-June 2008 is projected at Nu.31,484 million which represents about 61 % of the estimated GDP. This would be an improvement from the 64.24 % of GDP in FY 2006-07 mainly due to the full amortization of the *Chhukha Hydro-power Corporation (CHPC)* loan in December 2007 and with the commencement of the *Tala Hydro-power Project Authority's (THPA)* loan repayment from January 2008.

With respect to **debt servicing**, the ratio is projected to increase from 3.3 % in FY 2006-07 to 11.6 % in FY 2007-08 due to the commencement of debt servicing for the *THPA* loan.

The **domestic debt** stock by the end of the current fiscal year is estimated to be at Nu. 1,402.42 million which pertains to the Government's equity participation in the purchase of new aircraft for *Druk Air Corporation*.

3.7 Supplementary budgets granted during the year

As per the *Public Finance Act, 2007*, all supplementary budget requests have to be submitted to the Parliament in the form of a revised *Budget and Appropriations Bill*. During the FY 2007-08, the Government had to consider a substantial amount of supplementary budgets, mainly due to the following reason. At the time of formulating the FY 2007-08 budget, the *PFA, 2007* was not enacted, and even after enactment, budget agencies were not fully aware of the strict provisions in the Act. As such, not all foreseeable activities and provisions were ensured in the budget. Thus, while there were budget incorporations of donor-supported projects as permitted, the Government had not been able to avoid the provision of supplementary budgets for several activities under RGoB funding.

The Ministry of Finance would like to seek Parliament's endorsement of the supplementary budgets sanctioned amounting to Nu. 711.481 million on account of RGoB financing and Nu. 2,836.064 million on account of external financing in the form of revised budget for the FY 2007-08 submitted herewith.

The Ministry would like to assure the august body that from the FY 2008-09 onwards, the provisions of the *PFA, 2007* shall be strictly complied.

Lists of major supplementary allotments are provided in **Tables 3.3A and 3.3 B** below:

Table 3.3.A: Under RGoB funding

Nu. in millions

Sl. No.	Purpose	Amount	Remarks
1	Urban infrastructure development project, MWHS	18.148	Counterpart funding
2	Construction of farm roads in Lhuentse Dzongkhag	5.525	Counterpart funding
3	Social welfare support programme for road workers	21.178	WFP Generated Fund
4	Construction of farm road Teki Gona to Tashila & Takshachu, W/Phodang	19.300	KR II Fund
5	Contribution to Bhutan-India Friendship Fund	30.000	
6	Establishment of National Education Council	60.728	
7	Installation of Sertog in Tashichheo Dzong	5.949	
8	Additional fund for construction of Thimphu Tshechu ground	33.227	
9	Medical treatment in India	17.000	
10	River protection works at Olarongchhu for new Workshop	6.380	
11	Compensation payment to SD Eastern Bhutan Coalmine on partial closure	21.629	
12	Restoration of monsoon damaged road works, MWHS	79.313	
13	Construction of Kerabari-Samadowan Road, Dagana	15.613	
14	Construction of approach road to Ngabephu, Debsi and Samojab	8.760	
15	Improvement of Doebum Lam	51.817	
16	Construction of Chhubachhu bridge	10.918	
17	Consultancy and site development works for Secretariat Complex construction	11.846	
18	Nation-wide cadastral re-survey of land	143.575	
19	Renovation of National Council Office Building	8.363	
20	Pay arrears of the Royal Bhutan Police personnel	62.207	
21	Duty vehicles for Ministers, Leader of Opposition, Speaker of NA, Chairperson of NC and Chief Justice	19.500	Budget provided from reserve
22	Transport allowance for MPs	40.600	-do-
23	Renovation of Dechhenphug Lhakhang	6.698	
24	Construction of Tsirang Dzong	10.000	
25	Construction of Chhukha Dzong	15.000	

Table 3.3.B: Under external funding*Nu. in millions*

Sl. No.	Purpose	Amount	Funding Source
1	Rural skills development project, MLHR	69.741	ADB
2	Development of agriculture marketing system, MoA	12.860	GoI
3	Strengthening seed sector program for food security and poverty alleviation, MoA	5.376	FAO
4	Rural Enterprise Development Project, MoA	10.190	UNDP IPF
5	Sustainable Land Management Project, MoA	10.102	GEF
6	Agriculture Production Project, MoA	16.560	EU
7	LINKA Project, MoA	5.981	WWF
8	Development of Class IV Mathematics Curriculum, MoE	5.199	DENMARK
9	Strengthening public expenditure and promoting transparency, MoF	8.342	World Bank
10	Construction of Youth Development Centre, MoE	19.983	GoI
11	Training & purchase of computers under Project "Strengthening the Capacity of RMA & RESEB"	9.150	ADB
12	Support to Capacity Building in management and monitoring, MoH	14.900	DENMARK
13	Vector borne disease control programme, MoH	7.584	GFATM
14	HIV/AIDS & STDs prevention and control programme, MoH	11.725	World Bank
15	Implementation of Tourism Master Plan & HTMTI, MEA	17.533	Austrian
16	Urban Development Project, Phase II, MWHS	17.940	World Bank
17	Urban Infrastructure Development Project, MWHS	99.493	ADB
18	Environment & Urban Sector Programme Support, MWHS	20.631	DENMARK
19	Construction of farm roads in Lhuentse Dzongkhag	5.633	IFAD
20	Construction of farm roads in Thimphu Dzongkhag	5.125	GoI
21	Construction of farm roads, irrigation and RNR Centre in Tongsa Dzongkhag	10.410	World Bank
22	Strengthening of Local Governance Project	5.980	UNDP IPF
23	Establishment of IT Park at Wangchhutaba, Thimphu	25.406	World Bank
24	Dungsum Cement Project	1,193.611	GoI
25	Construction of TV Centre for BBSCL	54.324	GoI
26	Construction of National Council building	14.000	GoI
27	Construction of Gyalpoizhing-Nganglam road	33.330	GoI
28	Double-laning of Chhudzom-Isuna road	42.833	GoI
29	Survey & investigation works of Gomphu-Panbang road	7.716	GoI
30	Project for environment mainstreaming, NEC	7.350	UNEP
31	Good Governance Support to RIM	6.500	DENMARK
32	Construction of Samtengang MSS	15.177	GoI
33	Decentralization of natural resources management	19.195	DENMARK
34	Agriculture Sector Support Project, MoA	26.606	EU
35	Preparedness and response project for national influenza	17.399	World bank
36	Strengthening of livestock services, MoA	83.792	EU

37	Nature conservation project, MoA	9.499	WWF
38	Purchase of library books for schools, MoE	46.000	World Bank
39	Broadcast of electoral process, BBSCL	13.155	UNDPO
40	Technical backstopping to Daga Hydro Power Authority	15.605	Austrian
41	Rural electrification	6.841	ADB
42	Establishment of Youth Development Centre	20.000	GoI
43	Construction of RENEW Secretariat, Thimphu	13.000	GoI
44	Purchase of vehicle and kits under HIV/AIDS Project	7.369	World Bank
45	Control programme of communal diseases	14.813	GFATM
46	Procurement of medical equipment, MoH	147.076	GoI
47	Deothang-Rangia transmission line	24.556	GoI
48	Training of electoral officials	15.220	UNDP IPF
49	Private sector development project, RUB	22.725	World Bank
50	HRD Project, RCSC	9.300	SDS
51	Construction & furnishing of Tashidingkha MSS	20.725	GoI
52	Others	512.503	

CHAPTER IV: BUDGET ESTIMATES AND BUDGET & APPROPRIATION BILL, FY 2008-09

I have the honour to submit for the first time, the budget estimates for the FY 2008-09 along with the Budget & Appropriation Bill for 2008-09 as required under *PFA, 2007*. At the same time, it has been a challenging task to prepare this budget given the very limited time to carry out a rigorous exercise in the normal fashion. The budgeting had to be done simultaneously with the review of the draft 10th Plan, with the resource mobilisation not finalised. The disparate pledges made by the Honourable members of the National Assembly had to be collated, costed, and synchronised with the proposals received from the Dzongkhags and Gewogs.

Against this backdrop, the budget is presented in two parts: Part I - Budget Estimates for the FY 2008-09 and Part II - presents the Budget & Appropriation Bill, 2008-09.

PART I: BUDGET ESTIMATES FOR FY 2008-09

Being the first year of the 10th Plan and the resource picture not being very clear, the budget estimates for the FY 2008-09 has been drawn up giving priority to complete the spill-over activities of the 9th Plan and including mainly those activities for which donor-funding has been secured. Specifically for the local governments' activity level, proposals received were rationalised and was further augmented with some of the pledges made by the Honourable Members of the National Assembly. In this regard, at least one activity as pledged by the Honourable NA members has been incorporated in those Gewogs where no activities featured under the proposals received from the local government. However, it may be mentioned that most of the pledges lacked essential details such as specific locations and physical dimensions which made it difficult to make quick estimates for considering budget provisions. Hence, they require proper planning, surveying and designing before implementation. The budget estimates for the FY 2008-09 is summarized in the **Table 4.1** as follows:

TABLE 4.1: BUDGET ESTIMATES FOR THE FY 2008-09 Nu. in millions

	<i>Estimates</i>	<i>% of Total</i>
<u>RESOURCES</u>	15,080.457	100.00
I. DOMESTIC REVENUE	11,932.580	79.13
i. Tax	5,485.999	36.38
ii. Non-Tax	6,446.581	42.75
II. GRANTS	3,147.877	20.87
i. Program Grants	871.200	5.78
a) GoI		0.00
b) Others	871.200	5.78
ii. Project-tied Grants	2,276.677	15.10
a) GoI		0.00
b) Others	2,276.677	15.10
<u>OUTLAY</u>	21,490.720	100.00
I. TOTAL EXPENDITURE	22,948.463	106.78
i. Current	11,471.435	53.38
ii. Capital	11,477.028	53.40
II. NET LENDING	-1,457.743	-6.78
OVERALL BALANCE	-6,410.263	
<u>FINANCING</u>	6,410.263	
i. Project-tied Borrowings	1,810.124	
ii. Repayment	2,110.818	
iii. Resource Gap (Domestic Borrowing)	6,710.957	

4.1 Resources

As shown in **Table 4.1** above, total estimated resources of Nu. 15,080.457 million include domestic revenue and grants. However, it may be noted that no estimate has been included for the *GoI* grants as the break-up of the *GoI*'s most generous assistance of Nu. 100 billion announced for the 10th Plan has not been finalized yet. As and when the actual figures are finalised, the budget estimates will be updated.

4.1.1 Domestic Revenue

Domestic revenue for FY 2008-09 is estimated at Nu. 11,932.580 million, 3.4 % higher than the revised estimates for FY 2007-08. The **tax revenue** is projected to increase by 13 % attributable mainly to corporate income tax from hydro-power companies of *CHPC*, *KHPC* and *BHPC*, now incorporated as *DGPC*.

Non-tax revenue is expected to decline by 4 % as compared to the revised estimates of the FY 2007-08. The decline is mainly because the *Transfer of Profits* from the *RMA* is not likely to be received in the FY due to losses on account of exchange rate fluctuations.

The domestic revenue projection for the FY 2008-09 is shown below in **Table 4.2:**

TABLE 4.2: Domestic Revenue Projection for the FY 2008-09 *Nu. in millions*

Sl. No.	Source	Amount
	Total National Revenue (A+B)	11,932.580
A	Tax Revenue	5,485.999
I.	Direct Tax	3,619.268
1	Corporate Tax	2,023.889
2	Business Income Tax	428.064
3	Personal Income Tax	260.745
4	Other Tax Revenue	906.570
II.	Indirect Tax	1,866.731
1	Sales Tax	907.102
2	Excise Duty	850.000
3	Import Duty	100.000
4	Other Tax Revenue	9.629
B	Non Tax Revenue	6,446.581
1	Admin. Fees & Charges	277.481
2	Capital Revenue	91.260
3	Revenue from Govt. Dept	184.682
4	Dividend	2,237.098
5	Transfer of Profit	1,971.560
6	Other Non-Tax Revenue	8.531
7	Interest Receipt from Corporations	1,675.969

4.1.2 Grants

A sum of Nu. 3,147.877 million which makes up for 21 % of the total resources is expected to be received as grants from various bilateral and multi-lateral sources. This does not include the *GoI* assistance for the reasons mentioned earlier. The details are shown in **Table 4.3** below:

Table 4.3 Grants expected from sources other than GoI during FY 2008-09

	Particular	Amount (Nu. in Millions)
i.	Program Grant	871.200
	a. World Bank DPG (USD 15 million)	600.200
	b. ADB (USD 2 million)	80.000
	c. Denmark	75.000
	d. Netherlands	116.000
ii.	Project-tied Grants	2,276.677
	a. Other External Sources	-
		2,276.677
	Total	3,147.877

The external grant funding are mainly for projects which are on-going from the 9th Plan, while only those new projects with confirmed funding for the 10th Plan have been included in the budget. As and when more funding becomes available, those projects will also be incorporated in the budget.

With regard to the ***GoI* assistance for the 10th Plan**, about Nu. 55 billion of the total amount committed during the recent visit of the Indian Prime Minister, His Excellency Dr. Manmohan Singh, is being requested for Programme Grant and Project-tied Grant. Without such a substantial allocation of the *GoI* assistance, it will be difficult to meet many of the expectations of the people during the 10th Plan. As the Honourable Members will observe from the Budget Summary shown in **Table 4.1**, the resource gap without the *GoI* grant is estimated at Nu. 6.8 billion. Although the spill-over projects from the 9th Plan is reflected in the expenditure budget, the new projects proposed for *GoI* funding in the 10th Plan are included. At this stage, discussions with the *GoI* are being pursued, and the actual quantum of its support will be reflected once it is finalized between the two Governments.

4.2 Expenditure Outlay

The total outlay (Total expenditure + Net Lending) for the FY 2008-09 is estimated at Nu. 21,490.720 million constituting around 38 % of the estimated GDP. The overall outlay for the FY is less than the revised estimates of FY 2007-08 due to lower amounts required to be budgeted for *Election Commission* and preparatory activities for the *centenary celebrations*.

A summary of the expenditure estimates on agency basis for the FY 2008-09 is presented as part of the Budget & Appropriation Bill, 2008-09.

4.2.1 Current expenditure

The current expenditure for the FY 2008-09 is estimated at Nu. 11,471.435 million. The current expenditure has been estimated by applying standard rates for transparency and uniformity across all agencies. The major components of the current expenditure are salaries and wages, operation and maintenance cost, debt servicing (interest payments), subsidies, etc.

a. Salaries and wages

The provision of Nu. 4,744.682 million includes pay and allowances of regular, contract and special appointment categories of government employees, parliamentarians, volunteers and elementary service personnel. Salaries and wages account for 41 % of the current expenditure and 21 % of the total expenditure. As against the estimated revenue, it accounts for 40 %. While these ratios are within the past average trends, it may change according to the recommendations of the *Pay Commission* which has been recently set up. As of now, there are over 31,000 persons on the Government budget's payroll.

b. Operation and maintenance

Over the years, the operation and maintenance cost has been rising steadily. The maintenance cost escalates with completion of infrastructure development works such as schools, hospitals, roads, etc. Moreover, with projects and programs spread all over the country, monitoring and supervision cost is also increasing. For the FY 2008-09, Nu. 4,460.772 million are estimated to cover the operation and maintenance costs.

c. Debt servicing (interest payments)

Interest payments for the FY 2008-09 is estimated at Nu. 1,734.638 million, accounting for 15 % of the total current expenditure. Against the total estimates, Nu. 86.134 million is for interest payments on the Government's loan contracted for the purchase of aircraft in the FY 2005-06. **Table 4.4** below shows the interest payments falling due in the FY 2008-09.

Table 4.4: Statement of interest payments for the FY 2008-09 *Nu. in millions*

Sl. No.	Lender	Interest
1	GoI (THPA –Nu. 1,296 m and KHPC – Nu. 201.6 m)	1,497.600
2	Austria (BHPC)	55.475
3	KFAED	0.143
4	JBIC (Rural Electrification)	0.011
5	IFAD	9.772
6	IDA	30.763
7	ADB	54.740
	Total external interest payment	1,648.504
	Total internal interest payment	86.134
	Grand Total	1,734.638

The interest payment for external loans is estimated at Nu. 1,648.504 million in the FY 2008-09. The interest payment has increased substantially starting from the FY 2007-08 because of the loan repayment for *THPA* to the Government of India. *THPA* loan alone accounts for Nu. 1,296 million. However, the Honourable Members will note that this does not put additional burden on the Government exchequer because the interest obligation is met from the project's earnings.

d. Subsidies

Current grants to individuals, non-profit organizations, financial and non-financial institutions are estimated at Nu.561.343 million. Among the large component is the provision for the *Druk Air Corporation's* interest subsidy provided by the Government on its loan for the purchase of one new aircraft. The other significant subsidies provided for the FY 2008-09 are the operational costs of the *Bhutan Broadcasting Service* (Nu.70 million) and *Thimphu City Corporation* (Nu.15 million).

4.2.2 Capital expenditure

Capital expenditure is estimated at Nu. 11,477.028 million. The details of the capital expenditure are presented under sector – allocation as well as a part of the *Budget and Appropriation Bill, 2008-09*.

4.2.3 Net Lending

Lending is expected to be Nu. 286.267 million, of which, Nu. 208.600 million secured from the *Japan Bank of International Cooperation (JBIC)* will be on-lent to *BPC* for rural electrification. Principal recoveries of loans from corporations are estimated at Nu.1,744.010 million, an amount considerably higher than in the past. This is mainly because of the recoveries on the principal loan of *THPA*. Hence, Net Lending for the FY 2008-09 is negative Nu. 1,457.743 million (lending minus principal recoveries).

4.3 Financing

4.3.1 External borrowing

Loan disbursement amounting to Nu. 1,810.124 million is expected from the existing loan agreements. The expected loan amount includes Nu. 160.400 million as program borrowing from the *Asian Development Bank*. The sources of loan disbursement are as shown in the **Table 4.5** below:

Table 4.5: External Borrowings

Nu. in millions

Sl. No.	Lender	Amount
1	Asian Development Bank	666.971
2	International Fund for Agricultural Development	274.925
3	Japan Bank for International Cooperation	208.600
4	World Bank	659.628
	Total	1,810.124

At the end of the FY, the **external debt outstanding** is estimated to be Nu. 33,254 million or 58.52 % of estimated GDP. Of this, the Indian Rupee component outstanding is expected to be Nu. 16,720.36 million or 50.2 % of the total.

4.3.2 Debt servicing (principal repayments)

The total debt servicing (principal repayment) is estimated at Nu. 2,110.818 million. Against the total estimates, Nu. 1,935.515 million is required for external principal repayment and Nu. 175.303 million is estimated for the internal principal repayment. The detail of principal repayment by lender is summarized in the **Table 4.6** below.

Table 4.6: Statement of Principal Payments for the FY 208-09 *Nu in millions*

Sl. No.	Lender	Principal
1	DENMARK	81.759
2	GoI	1,581.843
3	Austria	53.863
4	KFAED	9.470
5	JBIC	0.000
6	IFAD	18.174
7	IDA	51.926
8	ADB	138.480
	Total external Principal Payment	1,935.515
	Total internal Principal Payment	175.303
	Grand Total	2,110.818

Debt service ratio is projected to be 10.4 %.

4.4 Dzongkhag and Gewog Budgets

A budget of Nu. 5,479.679 million, which is around 25% of the total outlay, is projected for implementation by the Dzongkhags and Gewogs. The distribution between Dzongkhags and Gewogs is 83 % and 17 % respectively. The outlay for Dzongkhags and Gewogs in the FY 2008-09 is more by about 15% from the revised outlay of the FY 2007-08 reflecting the enhanced volume of activities executed at local governments' levels.

Major activities include Nu. 65 million for constructions of Chhukha and Tsirang Dzongs, Nu. 478 million for development of school infrastructures, Nu. 22 million for construction of two hospitals (Dagapela and Zhemgang), Nu. 65 million for construction of fourteen Basic Health Units and upgrading four BHUs, Nu. 10 million for construction of forty-five Out-reach Clinics, Nu. 381 million for construction and renovation of farm roads, Nu. 96 million for construction of power-tiller tracks, Nu.75 million for renovation and construction of irrigation channels, Nu. 124 million for construction and rehabilitation of Rural Water Supply Schemes,

and Nu.29 million for construction of twenty one Gups' offices and Nu.175 million for construction and renovation of Lhakhangs.

A summary of the current and capital budget for Dzongkhags and Gewogs is presented below in **Table 4.7:**

Table 4.7: Summary of Expenditure Budget for Dzongkhags & Gewogs *Nu. in millions*

Description	Revised 2007-08 Budget (30th April 2008)	2008-09 Budget Estimates
Dzongkhag	4,289.112	4,567.709
Current	2,665.366	2,684.275
Capital	1,623.746	1,883.434
Gewog	479.782	911.970
Current	98.562	98.187
Capital	381.220	813.783
Combined Dzongkhags & Gewogs	4,768.894	5,479.679
Current	2,763.928	2,782.462
Capital	2,004.966	2,697.217

4.5 SECTOR ALLOCATIONS

The sector-wise allocation of budget for the FY 2008-09 is given in the **Table 4.8** below:

Sector Allocation for 2008-2009 Budget

Nu. in millions

Sectors	Current	Capital	Total	Percent
Social Services	3,232.749	2,740.752	5,973.501	24%
Health	1,082.538	871.288	1,953.826	8%
Education	2,150.211	1,869.464	4,019.675	16%
Economic and Public Services	2,117.301	6,315.178	8,432.479	33%
Agriculture	1,095.995	1,757.718	2,853.713	11%
Mining & Manufacturing Industries	147.344	471.008	618.352	2%
Roads	216.781	2,375.969	2,592.750	10%
Housing & Community Amenities	291.915	659.853	951.768	4%
Communications	323.453	435.656	759.109	3%
Energy	41.813	614.974	656.787	3%
Religion & Cultural Services	301.270	291.104	592.374	2%
Law and Order Services	1,190.639	798.440	1,989.079	8%
General Public Services	2,894.838	1,331.554	4,226.392	17%
National Debt Services	1,734.638	2,397.085	4,131.723	16%
Repayment	1,734.638	2,110.818	3,845.456	15%
Lending	0.000	286.267	286.267	1%
Total	11,471.435	13,874.113	25,345.548	100%

4.5.1. Social Services

In keeping with the past trends, high priority has been accorded to the social service sector in the budget. The health and education sectors combined receives the highest share of 24 % of the total budget.

a. Health

Improving health service both in terms of quality and accessibility is central to the achievement of the national vision of Gross National Happiness. With the policy to provide universal access to free public health care, a sum of Nu.1,953.826 million constituting 8% of the total outlay has been projected for the health sector alone. The budget allocation in the FY 2008-09 is for ensuring equity and quality in delivering health services, preventive measure through disseminating health messages, containing spread of global pandemics and infrastructure development amongst others. Of the total, Nu. 80 million has been kept for medical referrals in India.

The capital budget for the health sector is estimated at Nu. 871.288 million. This includes construction of four hospitals, thirteen Basic Health Units, forty-five Out-reach Clinics, reproductive health facilities, facilities for indigenous medicine, public health laboratory, rehabilitation centre, procurement of medical instruments and equipment. The details of expenditure allocation for the health sector's major activities are presented in **Table 4.9 a** below.

Table 4.9a: Major items of expenditure for the Health sector *Nu. in million*

Sl. No.	Activity	Amount
1	Procurement of vaccines and cold chain equipment to reduce morbidity & mortality	13.600
2	Expanding testing & counselling services to 176 BHUs & Army Units	6.700
3	Procurement of materials for school water supply and sanitation schemes	7.155
4	Treatment of patients in India	80.000
5	Procurement of essential drugs	105.000
6	Procurement of hospital expendable materials	75.000
7	Procurement of hospital equipment and instruments	103.050
8	Construction/Re-construction of hospitals	48.600
9	Construction of staff quarters	33.500

10	Up-gradation of BHUs	13.100
11	Construction of BHUs	51.613
12	Construction of Out Reach Clinics	9.915
13	Replacement of ambulances	15.000
14	Construction of RENEW Centre at Selikha	23.580
15	Procurement of insecticides and dengue kits	5.000
16	Construction of public laboratory	30.000

b. Education

As education is central to the all-round development of the nation, we are committed to continue the present policy of providing free education and further enhancing its scope to help the poorest by easing the burden of access. The highest priority is given to this sector within the limited government resources. The budget projected for this sector is Nu. 4,019.675 million, representing 16 % of the total outlay of the FY 2008-09. The budget projected will enable the Ministry of Education to implement policy decisions to address the serious concerns over the quality of education. The budget allocation also includes provisions for recruitment of temporary teachers including retired teachers to address the acute teacher shortage.

As a result of the WFP withdrawals in middle-secondary schools, budget for stipend has also been kept to reduce the burden on the parents for educating their children, especially in the remote parts of the country. An important component of education budget in the Dzongkhags and Gewogs includes construction of community schools and upgrading the infrastructures of the existing schools. This will strengthen the education system and its accessibility so that the poor and disadvantaged will also have easier and convenient access to education.

The major activities included in the budget are for school libraries, science laboratories, computer facilities in schools, construction of ministry's secretariat building, infrastructure development and establishment of the *Jigme Singye Wangchuck College of Business* at Gedu. The list of activities to be taken up during the FY 2008-09 is presented in **Table 4.9b** below.

Table 4.9b: Major capital works of the Education Sector*Nu. in millions*

Sl. No.	Activity	Amount
1	Procurement of computer and peripherals and furniture for schools	46.970
2	Construction of MoE secretariat building	30.000
3	Construction of 17 MSS and 1 LSS	373.190
4	Construction of regional stores at Garbawoong & Gelephu	24.620
5	Construction of administration and academic blocks for National Institute for Disabled	13.000
6	Development of school infrastructures	361.187
7	Community primary schools' infrastructure development under Gewogs	36.587
8	Construction of staff quarters	75.435
9	Construction of office secretariat for IT, Library and Auditorium for the RUB Secretariat	10.000
10	Setting up of video conferencing facilities for RUB secretariat	9.000
11	Infrastructure development at Sherubtse College	24.000
12	Infrastructure development of ILCS at Taktse	72.000
13	Infrastructure development at College of Science & Technology (CST), Kharbandi	36.200
14	Infrastructure development at College of Natural Resources, Lobeysa	3.850
15	Infrastructure development at Paro College of Education	7.250
16	Infrastructure development at Samtse College of Education	28.400
17	Infrastructure development at Jigme Namgyel Polytechnic	15.850
18	Infrastructure development at Gedu College of Business Studies	10.000
19	Infrastructure development at National Institute of Traditional Medicine	17.000
20	Construction of classroom, lecture theatre & laboratory at Royal Institute of Health Sciences	10.000
21	Constructions of multi-purpose hall, library, etc. for RIM	15.000

c. Human Resource Development (HRD)

The strength and prosperity of the nation depends on the quality of its people. Therefore, the Government has given high priority to invest in human capital, especially to improve the efficiency and professionalism of the civil servants. During FY 2008-09, a sum of Nu. 709.798 million has been earmarked for HRD programmes. Of the total amount, a sum of Nu. 38.658 million has been projected under RGoB financing to train doctors, nurses and technicians on

specialized courses. Major HRD provisions for various agencies are presented in **Table 4.9c** below.

Table 4.9c: Human Resource Development Budget

Nu. in millions

Sl. No.	Purpose	Amount
1	Undergraduate scholarships for students	148.197
2	Distance education and award bearing programs for teachers	22.100
3	Fellowship programs for teachers & education staff	50.410
4	Specialization/Masters, Diploma & Certificate Course for doctors, nurses & technicians	53.957
5	Capacity building of health personnel	55.564
6	Postgraduate scholarship	26.128
7	Strengthening of National Assembly Secretariat	9.020
8	Capacity building of GNHC on planning, monitoring and evaluation	4.636
9	Environment urban sector program support for NEC/ MoA/MEA	10.190
10	Diploma in financial management, national law, public administration, ICT and Gewog accountants	15.865
11	Results based planning, monitoring and evaluation for the NSB	5.200
12	Institutional and human capacity building of ACC	17.500
13	Strengthening of the Election Commission	5.000
14	Capacity development of financial decentralization at local levels	8.215
15	Support to urban sector policy, planning and legislative framework , MWHS	21.840
16	Capacity building of engineers	14.432
17	Capacity building on medicinal and aromatic plants	11.500
18	Institutional development and capacity building on land management	25.817
19	Capacity building of MoA	17.207
20	Strengthening of livestock development initiatives	14.390
21	Long term and short term courses for the Livestock officials	19.189
22	Ugyen Wangchuck Institute of Environmental & Forestry Studies	10.300
23	Institutional strengthening of energy sector Phase II	56.700

4.5.2 Agriculture

About 70% of the population still live on subsistence agricultural farming, and it has been estimated that of the almost 23 % of Bhutan's population living below the poverty line, most of them are agricultural dependent in the far-flung rural areas. Therefore, it is in the larger interest of promoting Gross National Happiness that rural life be protected and supported. Thus, budget allocation has been made for enhancing production, improving access and facilitating marketing. To this extent, the total budget estimated for this sector is Nu. 2,853.713 million or

11 % of the total outlay. The budget projected for some of the major activities under the agriculture sector is presented in **Table 4.10** below:

Table 4.10: Major capital works of the Agriculture Sector

Nu. in millions

Sl. No.	Activity	Amount	Remarks
1	Construction of BAFRA office buildings at Gasa and Tongsa	5.000	
2	Construction of animal quarantine stations at Samtse, Gelephu, S/Jongkhar & Phuentsholing	7.611	
3	Establishment of stores, farm houses and food processing units	7.777	
4	Construction of regional agricultural machinery centres at Gelephu & Khangma	7.000	
5	Construction of Dzongkhag veterinary hospitals at S/Jongkhar, P/ling and Tashigang	10.000	
6	Establishment of regional poultry breeding centre at Sarpang	15.710	
7	Strengthening of regional pig breeding centre at Lingmithang	4.000	
8	Procurement of veterinary laboratory equipment	29.378	
9	Construction of RNR Centre at Dagana	8.200	
10	Construction of standard national veterinary laboratory at Wangchhutaba, Thimphu	21.250	
11	Infrastructure development at Ugyen Wangchuck Institute of Environment and Forestry Studies, Bumthang	61.000	
12	Construction of office building at Royal Botanical Recreational Park	5.000	
13	Construction of road at Royal Botanical Recreational Park	6.500	
14	Power distribution at Royal Botanical Recreational Park	4.000	
15	Lamegonpa Dzong Shapkor renovation	7.200	
16	Construction of support staff quarters	8.550	
17	Construction of farmers training hall at RNRRC, Wengkhari, Mongar	5.500	
18	Construction of staff quarter at RNRRC, Wengkhari, Mongar	10.000	
19	Construction of farm roads	298.702	402.4 KM
20	Improvement of farm roads	15.124	123.9 KM
21	Construction / Imprvmnt of power tiller tracks	85.101	229.1 KM
23	Construction of irrigation channels	28.062	51 Channels
24	Renovation of irrigation channels	37.312	108 Channels
25	Establishment of farmers service centres	19.500	13 Centres

4.5.3 Trade, Industry and Private Sector Development

Given the nature of our rugged and mountainous terrain, infrastructure development costs are extremely high. The lack of industrial sites with basic infrastructure is a severe constraint for industrial development. In order to overcome these difficulties and also to reduce the costs for private sector investors, the Government will continue to invest in further development of this sector. Major activities proposed in the FY 2008-09 are highlighted in **Table 4.11** below:

Table 4.11: Major capital works of the Trade and Industry*Nu. in millions*

Sl. No.	Activity	Amount
1	Establishment of Pasakha industrial estate (continuation)	30.762
2	Acquisition of land at Dham Dum & Jigmeling industrial estates	20.309
3	Industrial project feasibility studies	8.960
4	Industrial investment studies	3.643
5	Improvement of essential oils extraction technique	2.000

4.5.4 Tourism Sector

Tourism has the highest potential to contribute to the nation's economic growth after the hydro-power sector. Besides being a source of foreign exchange, tourism also contributes significantly to employment generation. In order to boost this industry further, the Government has established the *Tourism Council of Bhutan* recently and earmarked Nu. 39 million for the Council to facilitate the implementation of tourism plans and policies. Further, the work on establishment of the *Hotel and Tourism Management Training Institute* in Motithang is progressing well and will be completed in the FY 2008-09. Upon its completion, Bhutan will have developed a major infrastructure which will facilitate the acceleration of tourism development in the country. Some of the major activities proposed in the new financial year are highlighted in **Table 4.12** below.

Table 4.12: Major capital works of Tourism Sector*Nu. in millions*

Sl. No.	Activity	Amount
1	Development of tourism infrastructure	7.000
2	Development of old trade routes from S/Jongkhar to Khengthongmani in eastern Bhutan	1.250
3	Development of bird watching and mountain biking trails	3.479
4	Construction and furnishing of HTMTI institute with seven banquet halls (continuation)	312.061

4.5.5 Vocational Training and Employment

The rising unemployment is a serious concern, which is mainly attributed to the increasing number of school leavers every year without any employable skills, knowledge or aptitude required by the labour market. To address the mismatch between the skills and the prevalent

job opportunities in the market, the Department of Human Resources has expanded its training capacity and upgraded the technical and vocational training facilities within the country. The facilities at *National Institute of Zorig Chusum* in Thimphu and T/Yangtse have been expanded. Additional training centres have been constructed, both in Chhumei and Sarpang and are functioning. The Government will establish new training institutes at Jigmeling, Gyalpoizhing, P/Gatshel (Khar) and Zhemgang besides several other programs and projects. Major activities budgeted for in the FY 2008-09 is provided in **Table 4.13** below:

Table 4.13: Major capital works of Vocational Training and Employment Service

Nu. in millions

Sl. No.	Activities	Amount	Remarks
1	Special training for school leavers	6.069	
2	Special skills development program	2.592	
3	Establishment of new VTI at Jigmeling, Zhemgang, Gyalpoizhing & P/Gatshel (Khar),	85.872	
4	Rural skills development	43.629	
5	Construction of administration block at Zorig Chusum Institute, T/Yangtse	6.000	
6	Infrastructure development at VTI, Rangjung	18.900	
7	Skills competitions – 2009	1.422	
8	Training of assessors	4.910	
9	Youth rural self employment programmes	8.600	

4.5.6. Roads

Bhutan being a land-locked country with mountainous terrain, roads are a necessary pre-condition for growth and development. Recognizing this, the Government has adopted the policy of “*Road to every Gewog*”. Therefore, the development of road network is taken as one of the main priorities and Nu.2,592.750 million, representing 10% of the total budget, has been earmarked for this sector. Some of the major works to be taken up during the FY 2008-09 will be the continuation of the construction of Samtse-Phuentsholing Highway in the south, and the completion of the Gomphu-Panbang Road in addition to regular improvement, widening and maintenance works on the existing infrastructure. The lists of major works are presented in **Table 4.14** below:

Table 4.14: Construction of roads & bridges in the FY 2008-09 *Nu. in millions*

Sl. No.	Type of Work/Stretch	Amount	Target	Remarks
A	Construction of highways			
1	Gyalpoizhing-Nganglam Road	150.000	20 KM	Spill over
2	Nangar-Ura Road	50.000	27 KM	Spill over
3	Gomphu-Panbang Road	50.000	10 KM	
4	Realignment of road from Sarpang to Hilay check post	15.000	3 KM	
5	Tingtibi-Wangdigang Road	80.360	10 KM	
6	Samtse-P/ling Highway	100.560	69 KM	Spill over
7	Double laning of Chhudzom-Phuentsholing road	300.000	140 KM	In kind
B	Construction of approach/Feeder Roads			
1	Mirchim-Bongo feeder road, Chhukha	26.010	3 KM	
2	Gorbagtang-Chhali Road, Mongar	37.870	5 KM	
3	Autsho-Gumrang Road, Lhuentse	46.110	7 KM	
4	Kharungla-Kangpara Road, Tashigang	46.880	5 KM	
5	Tekizam-Bjena Road, W/Phodang	19.910	3 KM	
6	Const. of Jangchhuchheoling-Tashidikha road, Tongsa	36.000	13.80 KM	
7	Const. of Dugyelgang-Balung, Dagana	62.680	11.2KM	
8	Khar-Tsebar Road, P/Gatshal	60.000	10 KM	
9	Piloting of OTTA sealing on Dametse Feeder Road, Mongar	8.000	17 KM	
C	Construction of District Roads			
1	Chamkhar – Dekiling Road, Bumthang	26.110	3 KM	Spill over
2	Halay-Dorokha Road, Samtse	20.490	12 KM	
3	Damji-Zameychhu road, Gasa	30.000	10 KM	Spill over
4	Approach road in Upper Motithang and Thimphu	12.700	10 KM	
5	Ngabeyphu Road, Thimphu	4.680	3 KM	Spill over
6	Kuenselphodang Road, Thimphu	8.610	4.2 KM	Continuation
7	Base course on Sunkosh-Daga road	27.000	10 KM	
8	Realignment of Chengala slide area (Dagana)	13.610	3 KM	
D	Construction of bridges and river training works			
1	Construction of RCC bridge	110.500	10	Bridges
2	Construction of bailey bridges	101.850	13	Bridges
3	Survey and investigation of new bridges	14.500	4	Bridges
4	River protection works at various sites	24.000		

While there are numerous other roads including those mentioned by the Honourable Members of the NA in their respective constituencies, it has not been possible to include them all in the first year of the Plan. As mentioned before, a number of pre-construction works are required to be carried out and funding sought. Moreover the government is in the process of redefining the various types of road, conditions for maintenance etc. Therefore they will be rationalized based

on equity and implemented in the course of the plan period. The farm roads are also being redefined but a good number have been included in the budgets of the local governments.

4.5.7 Urban Development, Housing and Public Amenities

Urban population accounts for 31% of the total population, and it is projected that more than 50% will be dwelling in the urban areas by the year 2020. With the rapid expansion of urban population, there has been a huge strain on urban public amenities and services, which calls for substantial input of resources. The budget projected for construction, renovation and maintenance of public amenities and services is Nu. 951.768 million. **Table 4.15** below shows the major activities included in the FY 2008-09 budget.

Table 4.15: List of major activities of urban development sector in the FY 2008-09

Nu. in millions

Sl. No.	Activity	Amount	Remarks
1	Development of urban infrastructures at Thimphu	59.491	
2	Development of urban infrastructures at Damphu, Gelephu, Gyalpoizhing, Tashigang & Samtse	150.731	
3	Development of Thimphu extended municipal area (road), Thimphu city	14.330	
4	Development of urban infrastructures at Phuentsholing	34.127	
5	Development of urban infrastructures, Chhukha	21.408	
6	Development of urban infrastructures at Haa town	29.300	
7	Maintenance of urban road & drainage Paro town	5.950	
8	Flood protection and road widening works at Samtse town	23.670	
9	Reconstruction of Diana suspension bridge in Samtse	9.000	
10	Development of urban infrastructures at Dagana town	8.500	
11	Development of urban infrastructures at Tsirang, Punakha, W/Phodang, Bumthang, Sarpang, Zhemgang, Tongsa, Mongar, S/Jongkhar, Tashigang, Gasa and Tashi Yangtse	117.318	
12	Re-development of Changlingmithang ground	15.000	

4.5.8. Communications and Transport

Recognizing the need for efficient and reliable communications and transport system in place, a budget of Nu. 759.109 million has been earmarked to this sector. The major activities included in the budget are as shown in **Table 4.16** below:

Table 4.16: Major capital works of the Communications and Transport Sector *Nu. in millions*

Sl. No.	Activity	Amount	Remarks
1	Extension of MIC building	2.500	
2	Installation of LAN for the Department of Civil Aviation (DCA)	3.500	
3	Construction of office for maintenance Section for the DCA	8.747	
4	River protection works at Paro Airport	4.300	
5	Construction of runway turn pad	18.977	
6	Construction of restaurant cum telephone booth at Paro Airport	5.814	
7	Development of Flight System	4.060	
8	Construction of fire station at Paro Airport	13.400	
9	Construction of bus terminal at Tashigang, Mongar & Paro	13.018	
10	E-Governance project	41.094	
11	Broadband master plan	94.150	
12	Establishment of IT Park at Wangchhutaba	8.500	
13	Feasibility study of introducing second public broadcast station	2.400	
14	Subsidy to Druk Air Corporation	132.678	
15	Subsidy to Bhutan Post	11.644	
16	Subsidy to BBSC	225.000	

4.5.9. Energy

Hydropower is the backbone of our economy, given our potential due to the fast flowing perennial rivers and also the existing market for clean energy. The Government has declared a goal of achieving power generation of 10,000 MW by the year 2020 in order to accelerate the growth of the national economy. Therefore, budget has been earmarked for the preparation of the Detail Project Report (DPR) for several hydropower projects.

Further, to achieve our target of illuminating every village with electric lights by the end of the 10th Plan, a budget of Nu. 656.787 million has been earmarked in this financial year. About 44,000 households will be covered in order to fully realize the target. This is three times the target for the 9th plan. The Government is already in the process of finalizing funding for about 25,000 households from ADB and JBIC sources, while another 3,500 households will be connected through off-grid power. Since this is a programme that has a major impact on poverty alleviation, besides the social benefits of better health and education, I would like to assure the Honourable Members that all efforts will be made to mobilize more funding. The major activities under this sector to be taken up are listed in **Table 4.17** below.

Table 4.17: Major capital budget for the Energy Sector*Nu. in millions*

Sl. No.	Activity	Amount	Remarks
1	Detailed Project Report (DPR) for Mangdechhu Hydropower Project (672 MW)	25.047	
2	DPR for Punatsangchhu II Hydro-eletric Project (992 MW)	37.676	
3	DPR for Chamkharchhu I (Digala) Hydro-power Project (670 MW)	30.000	
4	DPR for Chamkharchhu II (Kheng Shingkar) Hydropower Project (570 MW)	25.000	
5	DPR for Kholongchhu (Gomkora) Hydropower Project (486 MW)	30.000	
6	DPR for Rodpazhong (Kurichhu) Hydropower Project (400 MW)	30.000	
7	Updating Sunkosh 4060 MW DPR & EIA including preparation of Pre-Construction Survey Report	5.000	
8	Diesel power generation subsidy to BPC for Panbang Dungkhag	8.000	
9	220 KV Double Circuit (D/C) Transmission Line from Birpara to Samtse via Gomtu	80.000	
10	Preparation of National Transmission Grid Development Master Plan & Integration with Indian Grid	80.000	
11	Tintibi-Tongsa/Bumthang Line & Substation	69.728	
12	Rural Electrification	270.759	
13	Integrated Energy Master Plan	13.270	
14	National Solar Home Lighting Programme	21.160	

4.5.10 Cultural Services

The conservation and promotion of religion and cultural traditions, heritage and institution is one of the four pillars of Gross National Happiness. A sum of Nu. 612.374 million is provisioned during the FY 2008-09. The major component of the budget is for renovation and construction of Lhakhangs. The further break-down is given in **Table 4.18** below:

Table 4.18: Major Capital works of the Culture Sector*Nu. in millions*

Sl. No.	Activity	Amount	Remarks
1	Maintenance of Kuenga Rabten branch library, Tongsa	1.110	
2	Renovation of Wangditse Lhakhang, Thimphu	3.770	
3	Renovation of Dechhenphu Lhakhang, Thimphu	2.100	
4	Expansion of Tango Buddhist College, Thimphu	20.000	
5	Construction of Aqua Privy latrine, health and hygiene program for monasteries	20.090	
6	Religious/mask items, etc. for Rabdeys & Lobdas	10.650	
7	Construction and renovation of Lhakhangs in Dzongkhags	175.237	
8	Construction of Tashichheo Dzong Tshechu ground and re-laying of <i>doleps</i>	20.000	Spill-over

4.5.11 Law and Order

The Government is committed to ensuring that all citizens have equal access to justice and also to create awareness of the fundamental rights and duties of citizens as enshrined in the Constitution. In this regard, a sum of Nu.1,969.079 million has been earmarked. The budget includes provisions for the Judiciary, Ministry of Home & Cultural Affairs, Office of the Attorney General, Royal Bhutan Police (RBP) and the civil sector of Dzongkhags and Gewogs. The major activities included in the FY 2008-09 budget of these agencies are given in **Table 4.19** below:

Table 4.19 Major capital works of the Law & Order Services *Nu. in millions*

Sl. No.	Activity	Amount	Remarks
1	Construction of Supreme Court Secretariat building at Hejo, Thimphu	150.000	Spill-over
2	Construction of Court building at Gelephu	11.140	Spill-over
3	Construction of Court building at Mongar	13.965	Spill-over
4	Construction of Court buildings in 12 Dungkhags	24.000	
5	Construction of border security wall	5.258	
6	Construction of immigration regional office building at S/Jongkhar & Gelephu	13.500	
7	Construction of Dzongs at Tsirang and Chhukha	65.000	Spill-over
8	Construction of 21 Gups' offices	29.640	
9	Infrastructure development of RBP	132.015	

4.5.12 General Public Services

The budgets included under this section are for finance and audit services, foreign services, election and anti-corruption offices, parliamentary services, and the services of the *National Land Commission, GNH Commission, National Environment Commission* etc. The major capital budgets included under this sector are presented in **Table 4.20** below:

Table 4.20: Major Capital works for the General Public Services *Nu. in millions*

Sl. No.	Activities	Amount	Remark
1	Establishment and furnishing of National Council Office	20.000	
2	Constructions of sports facilities (BOC)	12.051	
3	Construction of office building for the ACC	25.000	
4	Nation-wide cadastral re-survey (cadastral)	53.936	
5	Construction of officers apartment, New Delhi Embassy	9.215	
6	Construction of training centre cum office for the RAA at Tsirang	1.817	
7	Construction of National Council building and seating gallery	14.200	
8	Construction and furnishing of housing for Constitutional post holders	273.000	Spill over
9	Construction of temporary office for Cabinet Secretariat	5.000	

PART II: BUDGET AND APPROPRIATION BILL

Having outlined the budget estimates, I would now like to present the Budget and Appropriation Bill, 2008-09, in accordance with the *Public Finance Act, 2007*. The Budget for the FY 2008-09 has been prepared based on the availability of resources using the MTFF. The Budget and Appropriation Bill sets the expenditure limit, and deviations if any will be reported to the Parliament. Henceforth, this will become a regular feature in the June session of the Parliament. The bill is presented hereunder.

BUDGET AND APPROPRIATION BILL, 2008-09

Having due regard to the principles of Gross National Happiness encompassing all aspects of development of the nation and its people, the Parliament of Bhutan hereby enacts the Budget and Appropriation Bill, 2008-09.

1. Title

This Act may be cited as the *Budget and Appropriation Act, 2008-09*.

2. Purpose

This Act is to authorize the appropriation of money for the requirements of the State as outlined in the estimates for the budget 2008-09.

3. Commencement and Validity

The Budget and Appropriation Bill upon enactment shall come into effect from 1st July, 2008 to 30th June, 2009.

4. Application

The Budget and Appropriation Act shall apply to all the agencies receiving resources from the Government Consolidated Account as per the provisions of the *PFA 2007*.

5. Appropriation

The Act hereby authorizes the government to draw money from the Government Consolidated Account and allocate them to the spending agencies as per the schedule in Section 8 below.

6. Execution

The Budget and the Appropriation shall be executed strictly as per this Appropriation Act and the *PFA 2007*.

7. Publication

The Ministry of Finance shall publish the Budget and Appropriation Act once passed by the Parliament.

8. Schedule

Schedule of Expenditure Budget: *(As charged to the Government Consolidated Account).*

Sl.No.	Agency	Nu. in millions		
		Appropriations		Total
		Current	Capital	
	Total Autonomous Services	1,313.683	1,006.740	2,320.423
1	Royal Secretariat Services	42.970	4.295	47.265
2	National Assembly of Bhutan	42.821	34.329	77.150
3	National Council of Bhutan	25.459	24.350	49.809
4	Cabinet Secretariat	11.908	7.382	19.290
5	Council for Religious Affairs	231.097	69.487	300.584
6	Judiciary	120.363	225.485	345.848
7	Gross National Happiness Commission	31.517	25.474	56.991
8	Royal Audit Authority	52.830	4.584	57.414
9	Royal Civil Service Commission	15.994	42.378	58.372
10	Bhutan Olympic Committee	28.720	12.251	40.971
11	National Environment Commission	14.261	37.128	51.389
12	Royal Institute of Management	23.615	46.008	69.623
13	Centre for Bhutan Studies	7.871	1.854	9.725
14	Office of the Attorney General	9.373	1.640	11.013
15	Royal University of Bhutan	279.330	298.000	577.330
16	National Statistical Bureau	23.617	15.963	39.580
17	Office of the Anti-Corruption Commission	11.820	47.000	58.820
18	Office of the Election Commission	21.986	6.125	28.111
19	Bhutan Narcotics Control Agency	4.122	3.216	7.338
20	Bhutan Information Communications Media Authority	6.839	0.350	7.189
21	Dzongkha Development Commission	14.522	6.863	21.385
22	National Land Commission	115.295	61.077	176.372
23	Thimphu Thomdey Schools	175.546	28.884	204.430
24	Drug Regulatory Authority	3.132	3.382	6.514
25	Ministry of Home and Cultural Affairs	715.572	218.428	934.000
A	Secretariat Services	35.358	7.785	43.143
B	Royal Bhutan Police Services	559.806	159.205	719.011
C	Registration and Census Services	23.518	3.455	26.973
D	Immigration Services	41.188	22.220	63.408
E	Cultural Services	52.293	18.863	71.156
F	Local Governance Services	3.409	6.900	10.309

Sl. No.	Agency	Current	Capital	Total
26	Ministry of Finance	4,004.334	630.556	7,125.975
A	Secretariat Services	189.868	88.155	278.023
B	Revenue & Customs Services	131.549	29.862	161.411
C	National Property Services	47.960	23.220	71.180
D	National Budget Services	1,469.582	238.959	1,802.541
E	Public Accounts Services	2,164.050	244.595	2,408.645
	Lending			286.267
	Repayment			2,110.818
27	Ministry of Foreign Affairs	232.548	17.951	250.499
A	Secretariat Services	70.803	5.585	76.388
B	Foreign Relations Services	161.745	12.366	174.111
28	Ministry of Agriculture	793.434	912.287	1,705.721
A	Secretariat Services	130.390	92.284	222.674
B	Agriculture Services	175.339	231.578	406.917
E	Livestock Services	125.079	297.958	423.037
H	Forestry Services	268.442	238.038	506.480
K	RNR Research Services	94.184	52.429	146.613
29	Ministry of Economic Affairs	183.441	1,083.652	1,267.093
A	Secretariat Services	45.459	24.633	70.092
B	Trade Services	11.097	6.181	17.278
C	Geology and Mines Services	40.511	10.527	51.038
D	Energy Services	41.813	614.974	656.787
E	Industries Services	16.070	68.772	84.842
F	Tourism Services	28.491	358.565	387.056
30	Ministry of Works and Human Settlement	313.429	2,991.257	3,304.686
A	Secretariat Services	41.265	14.953	56.218
B	Roads & Bridges Services	216.531	2,317.686	2,534.217
C	Urban Development and Engineering Services	41.151	379.408	420.559
D	National Housing Development Services	14.482	284.210	298.692
31	Ministry of Information and Communications	102.292	280.306	382.598
A	Secretariat Services	16.855	2.136	18.991
B	Civil Aviation Services	34.275	92.903	127.178
C	Road Safety and Transport Services	26.583	20.113	46.696
D	Information and Technology Services	21.162	149.984	171.146
E	Information and Media Services	3.417	15.170	18.587

Sl. No.	Agency	Current	Capital	Total
32	Ministry of Health	741.848	528.302	1,270.150
A	Secretariat Services	62.047	101.721	163.768
B	Public Health Services	133.714	198.025	331.739
C	Medical Services	546.087	228.556	774.643
33	Ministry of Education	158.550	876.986	1,035.536
A	Secretariat Services	85.460	151.933	237.393
B	Adult and Higher Education Services	9.588	159.192	168.780
C	School Education Services	38.246	547.513	585.759
D	Youth, Culture and Sports Services	25.256	18.348	43.604
34	Ministry of Labour and Human Resources	129.842	233.346	363.188
A	Secretariat Services	12.602	3.601	16.203
B	Human Resources Services	97.837	192.509	290.346
C	Occupational Standard Services	2.952	19.360	22.312
D	Labour Services	5.716	2.330	8.046
E	Employment Services	10.735	15.546	26.281
35	Dzongkhag Administration, Chhukha	251.084	152.579	403.663
36	Sampheling Gewog, Chhukha	0.548	6.877	7.425
37	Bongo Gewog, Chhukha	0.486	10.846	11.332
38	Chapchha Gewog, Chhukha	0.489	4.566	5.055
39	Dungna Gewog, Chhukha	0.403	1.173	1.576
40	Geling Gewog, Chhukha	0.419	3.267	3.686
41	Darla Gewog, Chhukha	0.574	3.779	4.353
42	Getana Gewog, Chhukha	0.432	2.240	2.672
43	Bjabchho Gewog, Chhukha	0.432	4.412	4.844
44	Lokchina Gewog, Chhukha	0.487	3.020	3.507
45	Metakha Gewog, Chhukha	0.398	1.465	1.863
46	Phuentsholing Gewog, Chhukha	2.207	8.632	10.839
47	Dzongkhag Administration, Haa	84.603	70.946	155.549
48	Bji Gewog, Haa	0.484	3.711	4.195
49	Katsho Gewog, Haa	0.480	2.345	2.825
50	Sombay Gewog, Haa	0.467	1.983	2.450
51	Sama Gewog, Haa	0.485	2.320	2.805
52	Isu Gewog, Haa	0.527	2.829	3.356
53	Gakiling Gewog, Haa	0.579	2.541	3.120

Sl. No.	Agency	Current	Capital	Total
54	Dzongkhag Administration, Paro	180.653	76.427	257.080
55	Dobshari Gewog, Paro	0.443	3.140	3.583
56	Dogar Gewog, Paro	0.491	2.775	3.266
57	Dotey Gewog, Paro	0.421	2.447	2.868
58	Hungray Gewog, Paro	0.420	1.885	2.305
59	Lango Gewog, Paro	0.479	3.255	3.734
60	Lugyni Gewog, Paro	0.467	3.085	3.552
61	Naja Gewog, Paro	0.565	3.435	4.000
62	Shaba Gewog, Paro	0.515	4.587	5.102
63	Tsento Gewog, Paro	0.555	4.685	5.240
64	Wangchang Gewog, Paro	0.435	4.525	4.960
65	Dzongkhag Administration, Samtse	178.220	135.745	313.965
66	Bara Gewog, Samtse	0.591	4.744	5.335
67	Biru Gewog, Samtse	0.532	4.021	4.553
68	Chargharay Gewog, Samtse	0.489	4.146	4.635
69	Chengmari Gewog, Samtse	0.570	5.623	6.193
70	Denchukha Gewog, Samtse	0.505	2.129	2.634
71	Dorokha Gewog, Samtse	0.611	5.293	5.904
72	Dumtoed Gewog, Samtse	0.491	3.406	3.897
73	Ghumauney Gewog, Samtse	0.501	6.654	7.155
74	Lahreni Gewog, Samtse	0.504	4.072	4.576
75	Nainital Gewog, Samtse	0.494	6.964	7.458
76	Pugli Gewog, Samtse	0.608	5.954	6.562
77	Samtse Gewog, Samtse	0.588	5.036	5.624
78	Sipsu Gewog, Samtse	0.465	4.097	4.562
79	Tading Gewog, Samtse	0.566	5.560	6.126
80	Tendu Gewog, Samtse	0.518	6.203	6.721
81	Dzongkhag Administration, Tsirang	101.875	58.691	160.566
82	Beteni Gewog, Tsirang	0.499	2.085	2.584
83	Dunglagang Gewog, Tsirang	0.439	2.000	2.439
84	Barshong Gewog, Tsirang	0.471	2.445	2.916
85	Goseling Gewog, Tsirang	0.472	1.955	2.427
86	Rangthangling Gewog, Tsirang	0.454	2.815	3.269
87	Kikhorthang Gewog, Tsirang	0.466	2.405	2.871
88	Mendalgang Gewog, Tsirang	0.472	1.915	2.387
89	Patalay Gewog, Tsirang	0.436	7.057	7.493
90	Phuentenchhu Gewog, Tsirang	0.460	4.035	4.495
91	Shemjong Gewog, Tsirang	0.436	2.965	3.401

Sl. No.	Agency	Current	Capital	Total
92	Tsholingkhar Gewog, Tsirang	0.460	3.040	3.500
93	Tsirangteod Gewog, Tsirang	0.428	2.987	3.415
94	Dzongkhag Administration, Dagana	104.625	87.631	192.256
95	Dorona Gewog, Dagana	0.401	9.000	9.401
96	Dujefgang Gewog, Dagana	0.416	2.090	2.506
97	Gesarling Gewog, Dagana	0.398	1.825	2.223
98	Goshi Gewog, Dagana	0.393	1.883	2.276
99	Kana Gewog, Dagana	0.424	5.051	5.475
100	Khebisa Gewog, Dagana	0.400	3.010	3.410
101	Lajab Gewog, Dagana	0.411	2.670	3.081
102	Tashiding Gewog, Dagana	0.651	1.950	2.601
103	Tsendagang Gewog, Dagana	0.379	2.000	2.379
104	Tsangkha Gewog, Dagana	0.451	2.010	2.461
105	Tseza Gewog, Dagana	0.373	2.650	3.023
106	Deorali Gewog, Dagana	0.531	1.660	2.191
107	Lhamoidzingkha Gewog, Dagana	0.486	1.990	2.476
108	Nichula Gewog, Dagana	0.429	2.030	2.459
109	Dzongkhag Administration, Punakha	139.174	100.617	239.791
110	Chhubu Gewog, Punakha	0.515	2.025	2.540
111	Goenshari Gewog, Punakha	0.457	1.365	1.822
112	Guma Gewog, Punakha	0.498	3.535	4.033
113	Kabjisa Gewog, Punakha	0.517	2.020	2.537
114	Lingbukha Gewog, Punakha	0.501	2.050	2.551
115	Shengana Gewog, Punakha	0.515	2.590	3.105
116	Talo Gewog, Punakha	0.512	3.500	4.012
117	Teowang Gewog, Punakha	0.607	2.730	3.337
118	Zomi Gewog, Punakha	0.513	1.990	2.503
119	Babi Gewog, Punakha	0.590	3.495	4.085
120	Toebe Gewog, Punakha	0.650	1.970	2.620
121	Dzongkhag Administration, W/Phodang	140.430	71.904	212.334
122	Bjena Gewog, W/Phodang	0.490	2.320	2.810
123	Dangchhu Gewog , W/Phodang	0.449	6.310	6.759
124	Daga Gewog , W/Phodang	0.449	3.330	3.779
125	Gangtey Gewog , W/Phodang	0.440	1.210	1.650
126	Gasetshogom Gewog, W/Phodang	0.589	1.845	2.434

Sl. No.	Agency	Current	Capital	Total
127	Gasetshowom Gewog , W/Phodang	0.430	4.890	5.320
128	Kazhi Gewog, W/Phodang	0.466	3.175	3.641
129	Nahi Gewog , W/Phodang	0.525	5.546	6.071
130	Nyisho Gewog, W/Phodang	0.416	1.975	2.391
131	Phangyul Gewog, W/Phodang	0.454	5.370	5.824
132	Phobji Gewog , W/Phodang	0.476	1.430	1.906
133	Ruebisa Gewog , W/Phodang	0.449	4.870	5.319
134	Sephu Gewog , W/Phodang	0.486	3.092	3.578
135	Athang Gewog , W/Phodang	0.466	13.385	13.851
136	Theedtsho Gewog , W/Phodang	0.454	2.130	2.584
137	Dzongkhag Administration, Bumthang	98.782	55.231	154.013
138	Chhoekhor Gewog, Bumthang	0.502	12.250	12.752
139	Chhumey Gewog, Bumthang	0.539	4.349	4.888
140	Tang Gewog, Bumthang	0.473	5.969	6.442
141	Ura Gewog, Bumthang	0.474	4.210	4.684
142	Dzongkhag Administration, Sarpang	143.638	85.805	229.443
143	Bhur Gewog, Sarpang	0.526	1.451	1.977
144	Chhuzagang Gewog, Sarpang	0.473	1.933	2.406
145	Dekiling Gewog, Sarpang	0.537	3.619	4.156
146	Doeban Gewog, Sarpang	0.439	2.115	2.554
147	Gelephu Gewog, Sarpang	0.432	1.582	2.014
148	Hilay Gewog, Sarpang	0.486	1.729	2.215
149	Jigmechheoling Gewog, Sarpang	0.509	2.050	2.559
150	Sarpangtar Gewog, Sarpang	0.418	2.340	2.758
151	Serzhong Gewog, Sarpang	0.447	4.830	5.277
152	Sengey Gewog, Sarpang	0.394	2.803	3.197
153	Umling Gewog, Sarpang	0.476	1.799	2.275
154	Tareything Gewog, Sarpang	0.391	2.105	2.496
155	Dzongkhag Administration, Zhemgang	128.728	67.856	196.584
156	Bardo Gewog, Zhemgang	0.454	2.015	2.469
157	Bjokar Gewog, Zhemgang	0.391	2.215	2.606
158	Nangkor Gewog, Zhemgang	0.480	9.597	10.077
159	Ngangla Gewog, Zhemgang	0.479	4.240	4.719
160	Phangkhar Gewog, Zhemgang	0.546	3.795	4.341
161	Shingkhar Gewog, Zhemgang	0.441	2.047	2.488

Sl. No.	Agency	Current	Capital	Total
162	Tong Gewog, Zhemgang	0.434	8.335	8.769
163	Goshing Gewog, Zhemgang	0.398	3.305	3.703
164	Dzongkhag Administration, Tongsa	92.693	57.743	150.436
165	Dagteng Gewog, Tongsa	0.451	4.315	4.766
166	Korphu Gewog, Tongsa	0.432	17.539	17.971
167	Langthel Gewog, Tongsa	0.511	10.742	11.253
168	Nubi Gewog, Tongsa	0.603	14.500	15.103
169	Tangbi Gewog, Tongsa	0.451	4.057	4.508
170	Dzongkhag Administration, Lhuentse	98.590	94.497	193.087
171	Gangzur Gewog, Lhuentse	0.461	4.827	5.288
172	Jarey Gewog, Lhuentse	0.475	3.150	3.625
173	Khoma Gewog, Lhuentse	0.490	4.719	5.209
174	Kurtoe Gewog, Lhuentse	0.430	3.067	3.497
175	Minjay Gewog, Lhuentse	0.418	4.775	5.193
176	Minbi Gewog, Lhuentse	0.470	4.395	4.865
177	Metsho Gewog, Lhuentse	0.460	2.460	2.920
178	Tsankhar Gewog, Lhuentse	0.421	8.161	8.582
179	Dzongkhag Administration, Mongar	171.033	136.329	307.362
180	Balam Gewog, Mongar	0.365	2.326	2.691
181	Chhali Gewog, Mongar	0.394	3.950	4.344
182	Chaskhar Gewog, Mongar	0.406	3.724	4.130
183	Dametse Gewog, Mongar	0.394	4.752	5.146
184	Daypung Gewog, Mongar	0.394	3.513	3.907
185	Gongdue Gewog, Mongar	0.406	6.030	6.436
186	Jurmey Gewog, Mongar	0.406	5.000	5.406
187	Kengkhar Gewog, Mongar	0.442	4.802	5.244
188	Mongar Gewog, Mongar	0.442	5.816	6.258
189	Ngatshang Gewog, Mongar	0.404	5.002	5.406
190	Saleng Gewog, Mongar	0.464	2.822	3.286
191	Sherimuhung Gewog, Mongar	0.404	7.375	7.779
192	Silambi Gewog, Mongar	0.406	5.960	6.366
193	Thangrong Gewog, Mongar	0.408	3.050	3.458
194	Tsakaling Gewog, Mongar	0.417	4.113	4.530

Sl. No.	Agency	Current	Capital	Total
195	Tsamang Gewog, Mongar	0.384	5.000	5.384
196	Narang Gewog, Mongar	0.369	2.175	2.544
197	Dzongkhag Administration, P/Gatshal	138.127	103.766	241.893
198	Chongshing Gewog, P/Gatshal	0.412	2.150	2.562
199	Chhimong Gewog, P/Gatshal	0.471	0.870	1.341
200	Dungmin Gewog, P/Gatshal	0.398	1.264	1.662
201	Khar Gewog, P/Gatshal	0.431	4.548	4.979
202	Shumar Gewog, P/Gatshal	0.449	3.308	3.757
203	Yurung Gewog, P/Gatshal	0.407	1.722	2.129
204	Zobel Gewog, P/Gatshal	0.410	1.900	2.310
205	Dechheling Gewog, P/Gatshal	0.442	4.735	5.177
206	Norbugang Gewog, P/Gatshal	0.403	1.030	1.433
207	Nanong Gewog, P/Gatshal	0.440	2.545	2.985
208	Chheokhorling Gewog, P/Gatshal	0.382	2.397	2.779
209	Dzongkhag Administration, S/Jongkhar	145.714	159.873	305.587
210	Phuentshothang Gewog, S/Jongkhar	0.484	7.380	7.864
211	Pemathang Gewog, S/Jongkhar	0.450	5.560	6.010
212	Gomdar Gewog, S/Jongkhar	0.451	2.568	3.019
213	Langchhenphu Gewog, S/Jongkhar	0.423	4.918	5.341
214	Lauri Gewog, S/Jongkhar	0.476	5.090	5.566
215	Martshala Gewog, S/Jongkhar	0.485	1.660	2.145
216	Orong Gewog, S/Jongkhar	0.425	4.140	4.565
217	Samrang Gewog, S/Jongkhar	0.156	0.100	0.256
218	Serthi Gewog, S/Jongkhar	0.463	1.882	2.345
219	Deothang Gewog, S/Jongkhar	0.415	3.435	3.850
220	Wangphu Gewog, S/Jongkhar	0.398	3.655	4.053
221	Dzongkhag Administration, Tashigang	251.247	183.907	435.154
222	Bartsham Gewog, Tashigang	0.462	4.788	5.250
223	Bidung Gewog, Tashigang	0.458	8.270	8.728
224	Kanglung Gewog, Tashigang	0.451	4.768	5.219
225	Kangpara Gewog, Tashigang	0.477	7.463	7.940
226	Khaling Gewog, Tashigang	0.466	2.958	3.424
227	Lumang Gewog, Tashigang	0.471	6.080	6.551
228	Merag Gewog, Tashigang	0.432	2.265	2.697
229	Phongmey Gewog, Tashigang	0.477	6.400	6.877

Sl. No.	Agency	Current	Capital	Total
230	Radi Gewog, Tashigang	1.447	9.540	10.987
231	Sagteng Gewog, Tashigang	0.414	2.640	3.054
232	Samkhar Gewog, Tashigang	0.487	2.155	2.642
233	Shongphu Gewog, Tashigang	0.460	10.430	10.890
234	Thimshing Gewog, Tashigang	0.469	5.480	5.949
235	Uzorong Gewog, Tashigang	0.484	4.910	5.394
236	Yangnyer Gewog, Tashigang	0.455	9.203	9.658
237	Dzongkhag Administration, Thimphu	84.546	97.307	181.853
238	Chang Gewog, Thimphu	0.548	4.455	5.003
239	Dagala Gewog, Thimphu	0.440	2.151	2.591
240	Genyey Gewog, Thimphu	0.580	2.415	2.995
241	Kawang Gewog, Thimphu	0.526	5.305	5.831
242	Lingzhi Gewog, Thimphu	0.444	2.129	2.573
243	Mewang Gewog, Thimphu	0.622	4.944	5.566
244	Naro Gewog, Thimphu	0.405	1.555	1.960
245	Soe Gewog, Thimphu	0.442	2.435	2.877
246	Dzongkhag Administration, Gasa	38.293	22.618	60.911
247	Khame Gewog, Gasa	0.525	1.195	1.720
248	Khatoe Gewog, Gasa	0.501	1.195	1.696
249	Laya Gewog, Gasa	0.578	2.452	3.030
250	Lunana Gewog, Gasa	0.619	3.104	3.723
251	Dzongkhag Administration, T/Yangtse	112.220	63.962	176.182
252	Bumdeling Gewog, T/Yangtse	0.434	5.810	6.244
253	Jamkhar Gewog, T/Yangtse	0.415	7.080	7.495
254	Khamdang Gewog, T/Yangtse	0.440	3.420	3.860
255	Ramjer Gewog, T/Yangtse	0.390	2.070	2.460
256	Toetsho Gewog, T/Yangtse	0.402	2.296	2.698
257	Tongzhang Gewog, T/Yangtse	0.440	4.065	4.505
258	Yalang Gewog, T/Yangtse	0.440	4.276	4.716
259	Yangtse Gewog, T/Yangtse	0.427	7.026	7.453
	Total Local Governance	2,782.462	2,697.217	5,479.679
	T O T A L (including lending and repayments)	11,471.435	11,477.028	25,439.548

CHAPTER V: PROJECTIONS FOR FYs 2009-10 AND 2010-11

As presented in the chapter under Budget Policy and Fiscal Framework, the probable fiscal situation in the two subsequent FYs are as summarised in the **Table 5.1** below.

	2006/07	2007/08	2008/09	2009/10	2010/11
	<i>Actual</i>	<i>Revised</i>	<i>Est.</i>	<i>Proj.</i>	<i>Proj.</i>
Total Revenue & Grants	16,083	20,481	15,081	15,348	15,526
Domestic Revenue	10,082	11,608	11,933	12,513	12,954
Grants	6,001	8,333	3,148	2,835	2,572
Project-tied Grants	4,359	7,071	2,277	2,049	2,306
India	2,741	4,589			
Others	1,618	2,482	2,277	2,049	2,306
Programme Grants	1,641	1,262	871	786	266
India	1,100	1,100			
Others	541	162	871	786	266
Other Receipts	0	540	0	0	0
Expenditure + Net Lending	15,795	22,223	21,585	22,935	23,647
Total Expenditure	15,166	24,015	23,042	24,516	25,287
Current expenditure	7,636	10,591	11,471	12,015	12,419
Capital expenditure	7,530	13,424	11,571	12,502	12,868
Net lending (NL)	87	-1,792	-1,458	-1,581	-1,640
Advance/Suspense (Net)	542	0	0	0	0
Fiscal Balance (including Grants)	288	-1,742	-6,504	-7,587	-8,121
Financing, net	-288	1742	6504	7587	8121
Resource gap, net	-642	2231	6805	5390	5191
	2006/07	2007/08	2008/09	2009/10	2010/11
	<i>Actual</i>	<i>Revised.</i>	<i>Est.</i>	<i>Proj.</i>	<i>Proj.</i>
	<i>(as a percentage of nominal GDP)</i>				
Total Revenue & Grants	35.0	39.6	26.5	24.5	22.3
Total Expenditure	33.1	46.5	40.6	39.1	36.3
Fiscal Balance	.6	3.4	11.4	12.1	11.67
Resource gap, net	-1.4	4.3	12.0	8.6	7.5
Memorandum Items:					
Total government debt	67.7	73.7	72.7	72.3	75.9
Foreign debt	64.2	60.9	58.5	59.3	65.0
Of which hydropower debt	42.5	37.4	34.1	35.4	42.6
Domestic debt (percent of GDP)	2.0	12.7	14.1	13.0	11.0
External debt service (% of exports of G&S)	3.3	11.6	10.5	9.5	8.7
<i>Nominal GDP at market prices (Nu. in millions)</i>	<i>45,888</i>	<i>51,658</i>	<i>56,821</i>	<i>62,719</i>	<i>69,566</i>

5.1 Projection

5.1.1 Domestic Revenue

Domestic revenues are projected to increase at the rate of 4.9 % and 3.5 % for the FY 2009-10 & FY 2010-11 respectively. Projections for Revenue from the hydro-power sector are based on the information from the Department of Energy, while others have been based on past trends. Domestic revenues are expected to fully cover the projected current expenditure and generate a modest current surplus of about 4%.

5.1.2 Grants

Grants are projected on the basis of annual commitments of the respective development partners. As for the grants from the *Government of India (GoI)*, no projections have been made because the break-up of the total commitment of Nu. 100 billion has not yet been finalised.

5.1.3 Expenditure and Net Lending

The current expenditure projections for the two following years are based on past trends (average of 4.5% per annum). For the capital expenditure and net lending, the tentative 10th plan expenditure projections have been used.

5.1.4 Fiscal Balance and Resource Gap

Fiscal balance is obtained as total revenue and grants less expenditure and net lending. As the *GoI* grant has not been included, the fiscal balances appear high. However, once the *GoI* grant break-up is finalised, the fiscal balances will be adjusted accordingly and are expected to remain below the 5 % of estimated GDP ceiling. Similarly, the resource gaps will be lower.

5.1.5 Public Debt

Public debt projections are based on the projected disbursements of the committed loans and scheduled repayments.

(a) External debt and debt servicing

The **debt outstanding** for the FYs 2009-10 & 2010-11 are projected to grow to around 59 % and 65 % of estimated GDP respectively as presented in **Table 1.2** below:

Table 5.2: External Debt Stock

	<i>Nu. in millions</i>				
	2006-07 (Actual)	2007-08 (Revised)	2008-09 (Est.)	2009-10 (Proj.)	2010-11 (Proj.)
External Outstanding Debt (Nu)	29,478.68	31,484.00	33,254.00	37,221.00	45,194.00
Indian Rupee Loan	18,369.93	16,840.30	16,720.36	18,705.44	24,051.32
Convertible Currency (USD)	290.08	366.80	412.49	460.49	523.80
External Debt as % of GDP	64.24	60.95	58.52	59.35	64.97
Exchange rate US\$/Nu (Avg. of FY)	40.90	39.90	40.20	40.40	40.50

These are due to the initiation of new hydro-power projects. However, as the debt stock increase will be mainly on account of self-liquidating project loans, the burden of debt servicing on the Government will be within sustainable levels. Currently, of the total external debt portfolio of the Government, bilateral loans for hydro-power projects account for about 62 %. Without the hydro-power project loans, the debt to GDP ratio is around 21 %, and that accounts for loans from International Financial Institutions (IFIs) which are borrowed on highly concessionary terms.

Debt service ratio is projected to decline from estimated 10.5 % in FY 2008-09, to 9.5 % in FY 2009-10 and 8.7 % in FY 2010-11 with no large loan servicing required other than the *THPA* loan.

(b) Domestic Debt

The change in domestic debt stock in the two years will depend on the quantum of grant assistance from the *GoI*.

5.2 Balance of Payments (BoP) and Foreign Exchange Reserves

In the FY 2008-09, trade deficit is expected to increase substantially due largely to imports for new mega-projects. Current account deficit is expected to increase to 8 % of estimated GDP in FY 2008-09, 12.9 % in FY 2009-10 and to 16.8 % in FY 2010-11. However, the inflows on

account of grant assistance and borrowings from abroad are expected to finance the current account deficit. The capital account balance is expected to be positive to the extent of 12 % of estimated GDP in FY 2008-09, 17 % in FY 2009-10, and 23 % in FY 2010-11. While the BoP is projected to be positive in the medium term, and the gross international reserves are also projected to increase, maintenance of reserves to at least 12 months of imports are likely to be a challenge. This will depend on the exchange rate of the reserve currencies which is largely US dollars and the trend for the US dollars in the recent past has been a downward decline. This will also depend on the size of the Government's budget as it largely translates into imports.

5.3 Inflation

Inflation has been on the rise in India, our major source of imports. As a result, our inflation has increased from 4.3 % to 6.03 % in the recent past. Further, with the rise in the fuel prices - petrol, diesel and cooking gas and its resulting impact on other sectors, inflation is expected to rise further.

5.4 Gross Domestic Product (GDP)

Our economy expanded by about 14 % in the FY 2006-07 as compared to 7.77 % in FY 2005-06. This was mainly due to commissioning of the *THPA* project. It is estimated to decline to about 12 % in the FY 2007-08 due to completion of the Tala construction works. The full commissioning of Tala project in 2007 gave the major impetus to the electricity sector, where the growth rate rose sharply from 35.3 % with partial commissioning in 2006 to 106.4 % in 2007. The GDP growth is projected to return to normal trend in FY 2008-09. However, with the constructions of some of the mega projects the real growth for the medium-term is estimated at about 9 % per annum.

CHAPTER VI: REPORT ON TRUST FUNDS

Trust Funds:

As required by the *PFA 2007*, the Ministry of Finance is pleased to provide the status and a brief report on the Trust Funds, viz. *Bhutan Trust Fund for Environmental Conservation* (BT FEC), the *Health Trust Fund*, *Cultural Trust Fund* and *Universal Service Fund for ICT*.

The table below shows the summary of the funds.

Table 6: Summary of Trust Funds

Sl. No.	Trust Fund	Amount (2007-08 National Budget)	Amount (present level)
1.	Bhutan Trust Fund for Environmental Conservation	US \$ 32.664 million	US \$ 32.653 million
2.	Health Trust Fund	US \$ 19.992 million	US \$ 22.5 million
3.	Cultural Trust Fund	Nu. 39.882 million	Nu. 40.780 million
4.	Universal Service Fund for ICT		Nu. 263.77 million

A brief operational status of the funds is presented below:

6.1 BT FEC

With an initial fund of US \$ 21 million, it was established in 1991 as the World's first *Environmental Trust Fund* with the assistance of *GEF*, the *World Bank* and *WWF*. At present, the total balance is US\$ 32.653 million. The increase in the balance is mainly from the income accumulated from investments. Besides Bhutan, the Fund is invested in the United States of America, with 60 % in bonds and 40 % in stocks. Till date, the fund has contributed around Nu. 60 million to various programs related to environmental conservation activities.

6.2 Health Trust Fund

It was established in 1998, basically to ensure sustainable financing for the priority components of primary health care services. The initial fund was US \$ 1 million from the Royal Government. Today it stands at US \$ 22.5 million, with contributions from within and abroad and income from interest accumulation. The Fund is invested in two kinds; the Ngultrum component is in fixed deposits with the *Bank of Bhutan* and in Druk Air bonds, and the foreign exchange component is invested through the RMA. The fund till date has financed around Nu

4.223 million on vaccines and drugs. It has achieved 96.11% of the target capital of US \$ 24 million.

6.3 Cultural Trust Fund

The fund was established in 1999, to enable the Government to preserve and promote the nation's cultural heritage and traditions. It was started with an initial fund of Nu. 31.267 million with contributions from the Royal Government and abroad. The Fund balance is currently at Nu. 40.780 million, while the target operating fund is US \$ 5 million. Therefore the Fund is not yet operational. It is maintained in fixed deposits with the Bhutan National Bank.

6.4 Universal Service Fund - ICT

The *Bhutan Information, Communication and Media Act, 2006* requires that a Universal Service Fund be established. The Fund is used mainly to compensate any ICT facility provider or ICT service provider who is required to provide universal service by virtue of their license conditions. The universal service includes but is not limited to, the building of national ICT infrastructure, making public voice telephony services with free calls to emergency services and directory assistance to all Bhutanese, provisions of free internet access for schools and hospitals. Currently, the sources of funds are license fees from telecom service providers. *Tashi Infocom* bid an amount of Nu. 777 million for *TashiCell* of which 25% has been paid and the remaining 75 % will be paid in equal instalments over the next fifteen years. *Bhutan Telecom Ltd.* has been asked to pay a similar amount for operating BMobile.

Presently, there is an amount of Nu 263.77 million available under this fund. An amount of Nu.27.6 million has been released for the installation of optical ground wire fibre cable for Tingtibi-Tongsa- Bumthang transmission. The future activities in the pipeline are: installation of the optical ground wire between Tsirang and Gelephu, installation of the optical ground wire on the eastern transmission grid, and rural telecommunication.

CHAPTER VII: REPORT ON STATE-OWNED ENTERPRISES

The *Public Finance Act 2007* requires that the annual report of State-owned enterprises as a whole be presented to the Parliament. However, as no detailed reports were ready, I can only present a brief report. As of now, the Ministry of Finance holds shares in 20 companies ranging from 13.65 % to 100 %. The overall State Enterprises' contribution to the economic and social development of Bhutan has been immense in the past, contributing almost 22 % of the total national revenue (in the form of dividends alone), ensuring employment opportunities and acting as a catalyst for other industrial activities.

During the year, major changes in the ownership and management system of State-Owned Enterprise had taken place. The three power corporations namely the *CHPC*, *KHPC* and *BHPC* have been merged into one corporation to reap the benefits of economies of scale through improved synergies, resource pooling, knowledge/manpower sharing and cost reduction to maximize benefit to the nation. The new entity is known as the *Druk Green Power Corporation*.

Three new project authorities were also established during the year to oversee the implementation of two hydropower projects, namely Puna-Tsangchhu and Dagachhu, and the Dungsum Cement project. Pre-construction activities of these projects have already started. Once completed, these projects would immensely benefit the nation to achieve the goals of Gross National Happiness.

A new entity called the *Druk Holding and Investments Limited* (DHIL) was established through a Royal Charter, issued on 11th November 2007. It is a wholly-owned Government company to hold and manage the Government's interest in the companies for the long term benefit of the country. Seven major corporations now fall under *DHIL*'s wings as subsidiary companies. In addition, seven other corporations, not wholly-owned by the Government also fall under the control of the *DHIL* as "*DHIL-linked companies*".

7.1 Report on DHIL-owned and DHIL-linked companies

The main functions of *DHIL* are as follows:

- To improve corporate governance;
- To revitalize and restructure companies which are not performing well financially;
- To promote and encourage entrepreneurship and business development through venture capital and other institutional support;
- To act as incubator and initiate businesses that can later be taken over by interested entrepreneurs;
- To invest in new technologies where the risk is too high for private funding or where the private enterprise is not forthcoming.

In compliance with the *Royal Charter*, the shares held by the Ministry of Finance in 14 companies amounting to Nu. 15,998.982 million with total net worth of Nu. 19,336.43 million was transferred to *DHIL* in December 2007 as presented below.

Table 7.1.A: Performance of Corporations fully-owned by DHIL for 2007 *Nu. in Millions*

	Shares	Profit	Assets	Reserves	Net Assets	CIT	Dividend	Total Rev
1 Chukha Hydro Power Corporation Limited	100%	2,833.72	5,923.14	595.90	2,899.46	868.92	1,783.23	2,652.150
2 Basochhu Hydro Power Corporation Limited	100%	57.69	3,725.56	140.09	1,399.70	18.46	36.74	55.200
3 Kurichu Hydro Power Corporation Limited	100%	47.88	5,615.42	0.00	3,152.72	10.19		10.190
4 Natural Resource Development Corporation Limited	100%	138.84	530.06	378.36	408.36	43.31	15.75	59.060
5 Bhutan Telecom Ltd	100%	584.35	3,113.57	1,218.85	2,072.93	178.74	41.824	220.564
6 Bhutan Power Corporation Ltd	100%	573.16	10,933.61	1,410.28	7,771.42	117.54	80.94	198.48
7 Druk Air Corporation Ltd	100%	31.15	4,069.81	-	1,631.84	-	-	-
Total "A"		4,266.79	33,911.17	3,743.48	19,336.43	1,237.16	1,958.484	3,195.644

Table 7.1.B: Performance of DHIL linked companies for 2007*Nu. in Millions*

	Shares	Profit	Assets	Reserves	Net Assets	CIT	Dividend	Total Rev	
1	Bhutan Board Products Limited	47.74%	44.04	271.75	55.66	202.67	14.33	10.025	24.355
2	Bhutan Ferro Alloys Limited	25.73%	1.57	1,364.01	297.99	447.99	0.45	5.789	6.239
3	Penden Cement Authority Limited	47.73%	463.68	1,391.02	787.77	1,014.43	142.54	76.184	218.724
4	State Trading Corporation of Bhutan	51%	(12.64)	467.34	36.76	56.76	3.13	-	3.130
5	Bhutan National Bank Ltd	13.61%	362.14	10,481.06	950.31	1,021.72	112.60	16.198	128.798
6	Royal Insurance Corporation of Bhutan Limited	39.25%	151.91	2,022.99	435.54	531.54	45.57	1.613	47.183
7	Bank of Bhutan Ltd	80%	255.68	19630.17	1248.20	1,348.20	72.34	42.200	114.540
Total "B"			1,266.38	35,628.34	3,812.21	4,623.31	390.96	152.009	542.969
TOTAL (A+B)			5,533.17	69,539.51	7,555.69	23,959.74	1,628.12	2110.49	3,738.610

DHIL-owned companies (Table 7.1 A) contributed Nu. 1,237.16 million in the form of corporate tax and Nu. 1,958.484 million as transfer of dividend in the FY 2007-08. *DHIL-linked companies* contributed Nu. 390.96 million in the form of corporate tax and Nu. 152.009 million as transfer of dividends through the *DHIL* as shown in **Table 7.1B** above.

7.2 Report on the Companies in which Government Shares are held directly by the Ministry of Finance

With the transfer of 14 companies to *DHIL*, effectively 9 companies are left with the direct shareholdings by the Ministry of Finance. The list of such companies along with their assets and reserves is presented below in **Table No.7.2**:

Table 7.2: List of companies retained with MoF for the year ending 2007*Nu. in Millions*

	MoF Shares	Profit	Asset	Reserves	Net Assets	Dividend	
1	Army Welfare Project		62.02	410.55	211.79	236.79	
2	Bhutan Agro Industries Limited	100%	3.47	62.34	27.81	56.88	-
3	Wood Craft Centre Limited	100%	2.26	44.80	-	33.43	-
4	Food Corporation of Bhutan	100%	2.89	278.63	167.29	245.83	0.75
5	Bhutan Broadcasting Service Limited	100%	(34.36)	351.19	325.95	324.00	
6	Bhutan Postal Corporation	100%	10.77	179.12	66.17	89.76	
7	Kuensel Corporation	51%	6.65	169.02	94.23	144.23	3.50
8	Bhutan Development Finance Corporation	87%	69.63	1,921.46	643.51	743.51	-
9	Druk Seed Corporation	100%	(0.30)	42.60	2.43	29.97	-
			123.02	3,459.72	1,539.18	1,904.41	4.25

Note: Construction Development Corporation and National Housing Corporation are yet to be registered and therefore not included in the table.

Most of these companies have social obligations and therefore their contributions in terms of revenue do not usually match the investments. Overall, the net worth of the State-Owned Enterprises under the Ministry of Finance has grown from Nu. 1,767.69 million to Nu. 1,904.41 million, during the year as compared to the previous year. The total profits earned during the year 2007 was Nu. 123.02 million compared to Nu. 162.49 million in the previous years. The decline in profitability is mainly due to the increase in expenditure on personnel and other costs. The contribution in terms of taxes and dividend by these companies was Nu. 26.49 million. Most of the profits are retained to cover their social obligations and also to strengthen the capital bases of these companies.

7.3 Overall

The combined total tax and dividend contribution by companies held by the Ministry of Finance as well as *DHIL-owned* and *DHIL-linked companies* was **Nu. 3,742.86** million during the year, which is 32 % of the total revised domestic revenue of the FY 2007-08. This revenue is expected to increase in the future with the incorporation of *THPA* as a company and with the stabilization of its generation, as well as with increase in efficiency of the corporations' performance.

CHAPTER VIII: CHALLENGES

Despite achieving rapid pace of unprecedented development, there are several challenges ahead. One of the key challenges will be maintaining the overall fiscal balance at sustainable levels in view of the rising recurrent costs and the increasing demand for infrastructure developments. With narrow revenue base and limited grant assistance, the Government has to resort to borrowings which could lead to unsustainable levels of debt. Coupled with this is the strain on the Balance of Payments given the rising levels of government expenditure and the concomitant increase in imports. However, given the strong commitment of our development partners, the inflow of aid and concessionary loans are expected to help us to overcome these difficulties. The completion of major hydro-power projects should largely enable us to be self reliant.

The rising inflation rate is another constant challenge. As a large part of our demand is met through imports from India, our inflation rate also reflects those of India. While inflation has been relatively stable in the past, recent trends in India indicate that it will be on the rise. Given the rapid rise of fuel prices in the international market and its resulting impact on transportation and other costs, the outlook unfortunately is not encouraging. There will be need to monitor and control public expenditure as higher demands can trigger further cost escalations. However, the Government will ensure that development is not undermined by excessive expenditure control.

Providing gainful employment to our rapidly increasing educated youth is yet another challenge. Nevertheless, with the Government's strong emphasis on, and the large budget outlays for programmes in support of private sector development, and vocational skills development, the current unemployment rate of 3.7 % is expected to be reduced during the course of the 10th plan.

CONCLUSION:

In concluding the budget presentation of the first democratically elected government and also the first budget of the 10th Plan, I am confident that the Honourable members will find the budget acceptable and pass it expeditiously. Although there has not been much time for the new government to prepare the budget in a more comprehensive manner taking into account all the pledges of the new government, we have made efforts to ensure a workable budget. Given the dynamics of the situation, the budget will undergo substantial changes over the coming months with the finalisation of *GoI* assistance. We will incorporate all the changes and submit a revised budget to Parliament.

Over the coming months, the resource mobilization exercise shall be pursued in earnest with our development partners. All our development partners have been forthcoming in the past, and now that the political transition to a constitutional democracy has been successfully made, I am confident that development partners will provide us greater support.

Our close friend and neighbour India, has already shown tremendous good-will towards the Government and people of Bhutan as recently witnessed by the offer of Nu. 100 billion for our 10th socio-economic development plan. We remain ever grateful to His Excellency Dr. Manmohan Singh, the Prime Minister of India, for visiting our country, the first head of government to do so upon the election of the government under the new system and for this most generous assistance. I also take this opportunity to thank our other development partners and we look forward to the successful completion of all our 10th plan activities.

Finally, I pray that with the blessings of our guardian deities of the Palden Drukpa, the unsurpassed leadership of our great monarchs, and the steadfast solidarity of thoughts and action of our people, our country will continue to enjoy peace, prosperity and happiness for all time to come.

With this, I commend the budget to the Honourable members.
