

NATIONAL BUDGET FY 2021-22

BUDGET SPEECH

HON'BLE FINANCE MINISTER

“Ensuring Sustained Economic Stability

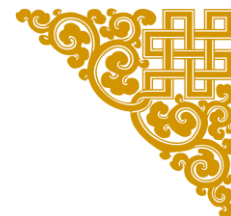
for a

Resilient Economy”

May 2021

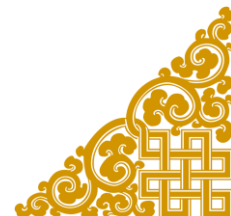
Ministry of Finance



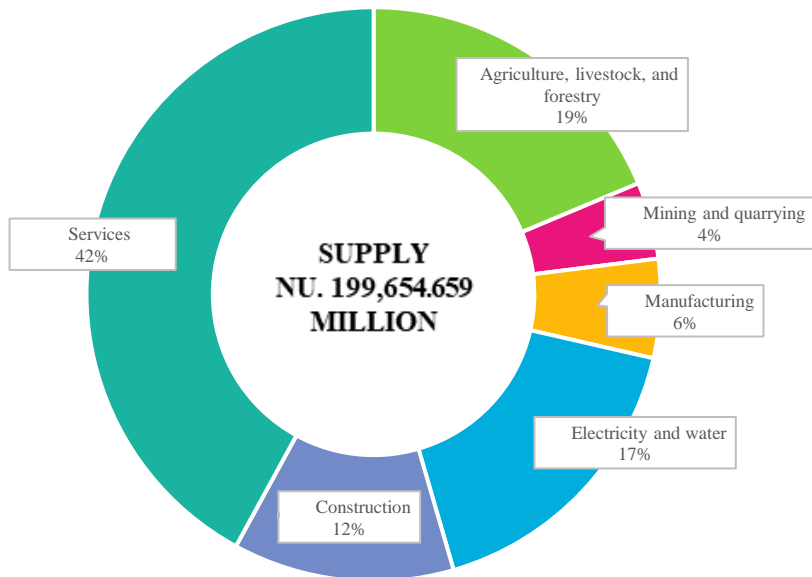
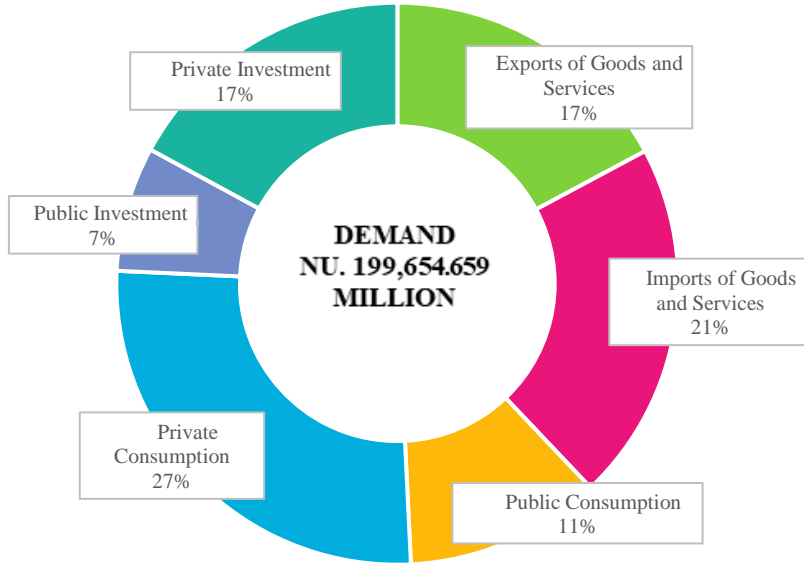


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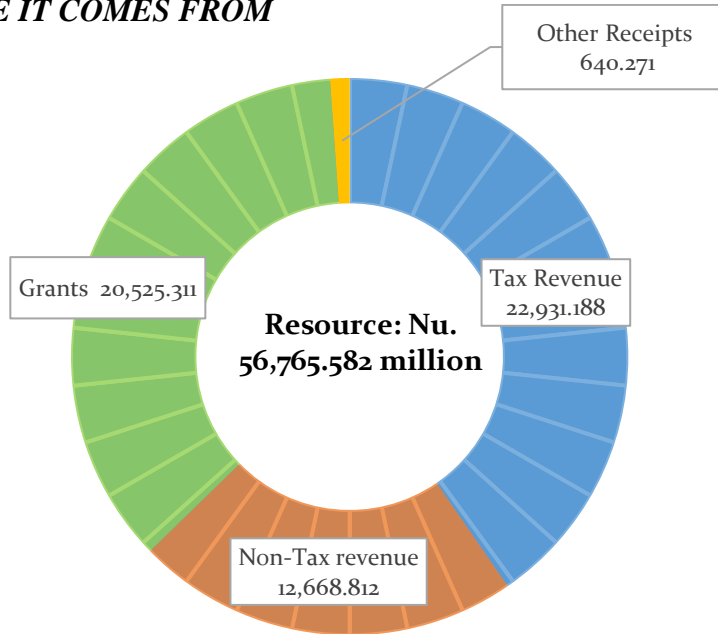


THE ECONOMY FY 2021-22

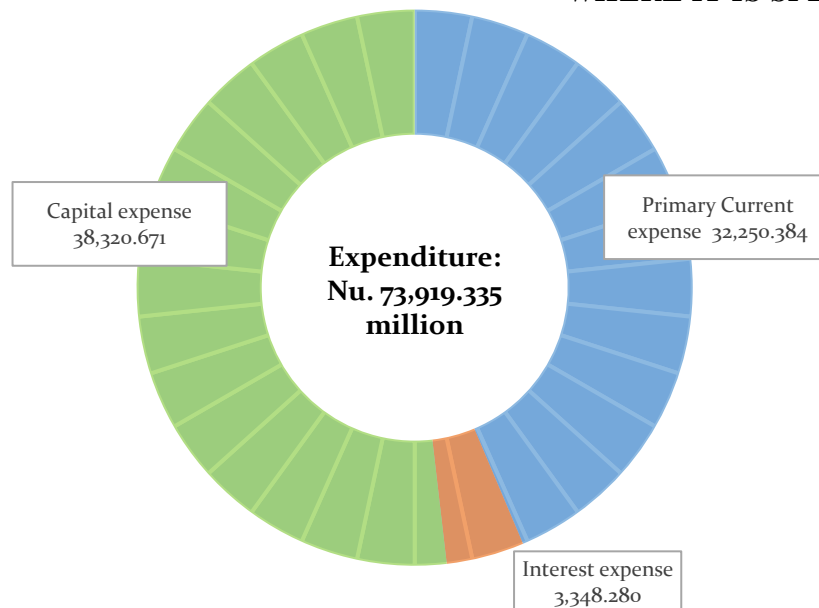


FY 2021-22 NATIONAL BUDGET

WHERE IT COMES FROM



WHERE IT IS SPENT







Hon'ble Speaker

Members of the House

On behalf of the Government, I have the honour to present the Annual Budget for FY 2021-22 to the House.

A. Introduction

1. As we all know, the current Budget Session is the second one since the onset of COVID-19 pandemic in our country. We also know that the pandemic has caused risk to public health safety, derailed economic growth, and caused negative social impacts.
2. With hope to negate the adverse impacts of COVID-19 and steer the economy on the track to recovery, we have allocated higher share of capital budget beginning FY 2020-21. The same will be continued in FY 2021-22 to offset economic loss.
3. With the unrelenting blessing and guidance of His Majesty The King, the Government over the last year has implemented series of measures to support and sustain economic activities. His Majesty continues to travel in the high-risk areas to ensure that COVID-19 containment measures are adhered to.
4. Since the beginning of the pandemic, thousands of people have lost their jobs and businesses were left without positive prospects. In order to protect public confidence, His Majesty has granted Kidu to ensure that livelihoods are secured and businesses are rescued from dipping into debt trap.
5. Similarly, the Government has also announced and implemented various fiscal and monetary measures including implementation of the Economic Contingency Plan.
6. With no sign of the pandemic easing, the principle of FY 2021-22 Budget is to save lives and sustain livelihoods, while adopting an expansionary fiscal stance.
7. As we go through unprecedented times, there is a need for innovative and realistic planning and budgeting. Therefore, the budget for the Financial Year 2021-22, has been formulated with the theme to ensure ***“Sustained Economic Stability for a Resilient Recovery.”*** The Government pursues expansionary fiscal stance with the overall objective to: ***i) Maintain Public Confidence ii) Sustain Economic Activities iii) Transform Health and Education System iv) Leverage on ICT and Innovation, and v) Enable Reform Initiatives.***

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8. The budget for the FY 2021-22 reflects the outcome of the Mid-Term Review of the 12FYP and response to COVID-19 pandemic. The Government has strengthened and deepened the linkage between the budget and Annual Performance Agreement (APA) through a rigorous process which will be further sharpened and up-scaled in the future budget.
 9. The FY 2021-22 budget is a milestone as it captures the essence of the Royal Kasha for Civil Service and Education Reforms and provides budget to embark on the reform initiatives.
 10. The Budget Report presents the economic overview, broad fiscal policies, budget policy and fiscal framework statement, budget allocation for the FY 2021-22, public debt situation, fiscal risks, and update on the financial position of the public sector institutions and investment.
 11. Along with the Budget Report for the FY 2021-22, Budget Appropriation Bill for FY 2021-22, Supplementary Budget Appropriation Bill for FY 2020-21 and Audited Financial Statements for FY 2019-20 are submitted to the House for consideration.

B. Economic Situation in FY 2020-21

Hon'ble Speaker,

May I now report on the economic performance for FY 2020-21.

1. As per the IMF estimates, the global economy in 2020 is estimated to contract to -3.3 percent, lower by 6.1 percentage points than 2019. Similarly, the Indian economy is expected to contract by 8 percent in 2020.
2. While the containment measures including two nationwide lockdowns successfully controlled the number of COVID-19 cases in the country, the economy came to a standstill.
3. As a result, the economy has experienced its largest contraction in 2020, contracting by as much as -6.3 percent. The contraction is mainly due to steep output decline in service sectors followed by Industry sector. The decline was, however, somewhat offset by exceptional performance in electricity sector.
4. The year 2020 also recorded one of the highest inflations, peaking to 8 percent in September before falling to 7.7 percent in December, mainly driven by increase in food price due to transport and logistic disruptions.

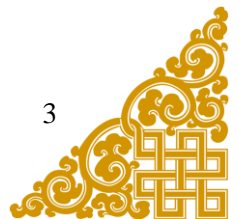




5. The unemployed rate almost doubled to 5 percent in 2020 from 2.7 percent in 2019. The youth unemployment crossed 22 percent from 11.9 percent in 2019.
6. Despite the steep decline in output and the resultant rise in unemployment, the Druk Gyalpo's Relief Kidu and Economic Contingency Plan have helped alleviate the difficulties.
7. Further, the Government also provided job opportunities through the ECP Program in tourism, agriculture and construction industries. Around 1300 individuals were deployed under tourism, and 930 under the Build Bhutan Project. In addition, the Accelerated Desuung Integrated Training Programs absorbed a large number of unemployed youth and those displaced due to the pandemic. Through this training program, about 7,922 people were trained in the general category and 3,947 in the specialized water management category.
8. With the implementation of the various initiatives to respond to COVID-19 and prospects of positive outlook, the employment situation is expected to improve.

C. Economic Outlook for FY 2021-22

Hon'ble Speaker,

1. One year into the pandemic, the growth prospects around the world and in the country still remains highly uncertain. New virus mutation and increasing human fatalities in the region is worrying, even as increasing vaccine coverage lifts sentiments.
2. As per the IMF estimates, with the anticipated availability of vaccines by summer 2021 and additional fiscal stimulus in a few large economies, the global growth is projected to rebound to 6 percent in 2021. Similarly, the IMF has also projected the Indian economy to rebound and grow at 12.5 percent in 2021.
3. In Bhutan, with the mass inoculation and the Government's expansionary fiscal stance in FY 2021-22, we expect substantial economic recovery in the short to medium term. Therefore, GDP is projected to rebound to 4.2 percent in 2021 reflecting high Government investment through capital spending.
4. The projected growth will be mainly fuelled by investments which accounts for 44 percent of GDP. In addition, Government expenditure, as the main driver of growth, accounts for 36 percent of GDP.



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5. With conviction, the Government is committed to ensuring our economy emerges from the pandemic stronger, more resilient, and creating an economy that uplifts everyone, equally.

D. National Response to COVID-19

Hon'ble Speaker,

1. Considering the exceptional circumstances and the need for unconventional strategies to build economic resilience and promote growth, the National Resilience Fund (NRF) of Nu. 30 billion has been established as announced to the nation by His Majesty on 12th April, 2020.
2. The NRF supported the grant of the Druk Gyalpo's Relief Kidu in the form of income support for individuals directly affected by the pandemic and interest payment support for individuals and business entities. Starting from April 2020 to April 2021, Nu. 12,045.704 million has been disbursed from NRF for income and interest payment support as follows:

2.1 Income Support

- The Druk Gyalpo's Relief Kidu has granted Nu. 2,863.545 million in monthly income support including De-suung skilling program.
- About 45,766 individuals received the Kidu, which also include Child Support Kidu of Nu.70.890 million.

2.2 Interest Payment Support

- As of 30th April 2021, Nu. 9,182.159 million was granted as interest payment support. In addition, Nu. 1,880 million was borne by the Financial Service Providers as interest payment support.
 - The interest payment support granted as Druk Gyalpo's Relief Kidu provided immediate economic relief to the borrowers during the pandemic and also helped financial sectors to avert the build-up of non-performing loans.
3. In view of the ongoing social and economic difficulties encountered by the people due to the pandemic and the uncertainties stemming from regional and global developments, on 22nd April 2021, coinciding with the auspicious occasion of Zhabdrung Kuchoe, His Majesty The King commanded the continuation of the Druk Gyalpo's Relief Kidu for 15 months, from April 2021 to be sourced from Kidu Fund and Sungchop Fund.



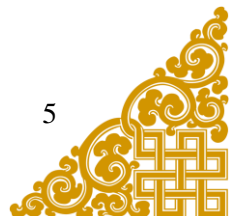
4. COVID-19 Response Fund

- In order to respond to the pandemic, individuals, agencies and development partners have expressed solidarity to combat COVID-19.
- Acknowledging the overwhelming support, the Government created a COVID-19 Response Fund Account to facilitate deposits from the voluntary contributions made by the general public, business entities and international organizations.
- As of 13th May 2021, the total deposit into the Fund is Nu. 122.833 million, of which Nu. 120 million has been used for procurement of COVID-19 test kits.

5. Fiscal and Monetary Measures

- Realizing that the costs of the pandemic will be extremely substantial for businesses and individuals, the Government announced various fiscal and monetary measures to ease some of the pressures and assist businesses in enduring the difficult period.
- The fiscal-monetary measures supported all businesses, through a combination of interventions that complemented DGRK. Such measures were implemented and rolled out in a phase manner to respond to the evolving and emerging challenges faced by the business entities.
- Under the fiscal measures, 332 CIT payers and 16,764 BIT payers benefitted from the tax deferral. The medium voltage and high voltage industries benefitted from the application of demand charges on actual consumption basis. In addition, 42 medium-voltage (MV) and 7 heavy-voltage (HV) industries benefitted from the deferment of electricity charges and waiver of penalties.
- Under the monetary measures, individuals and business entities benefitted from the bridging loan for business continuity, deferment of loan repayment, and concessional term based working capital to whole-sale distributors, tourism and related business and manufacturing industries. As of December 2020, total of Nu. 3,700 million was sanctioned as bridging and working capital.

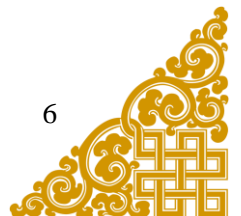
The table providing the summary of different fiscal and monetary measures are provided in the Budget Report (Table 4.3).





6. National Credit Guarantee Scheme (NCGS)

- As a counter cyclical policy measure for the COVID-19 pandemic impact on the economy, the Government launched the NCGS on 5th October, 2020.
- The Scheme is an intervention that aims to enhance access to credit. Under the scheme, the Government extends guarantee to SOE Banks to support financing of viable projects that focus on export promotion, import substitution, promote use of green and clean technology & innovation and assure social safety through employment generation.
- In principle, the Government has committed to extend guarantee up to Nu. 3,000 million in favor of participating Banks (BOBL, BDBL and NCSIDBL) for a period of three years.
- To ensure maximum success of NCGS, a dedicated Support Facility is being hosted at the NCSIDBL.
- The Support Facility will handhold, monitor and guide projects approved under NCGS.
- As of 6th May, 2021, 81 projects have received the guarantee coverage through the partner banks.
- Of the 81 projects, 30 were under Agriculture sector, followed by 29 under production & manufacturing (P&M) sector and 22 under service sector spread across 15 Dzongkhags.
- The total loan for the projects stands at Nu. 274.500 million with the Government Guarantee Coverage amounting to Nu. 174.120 million.





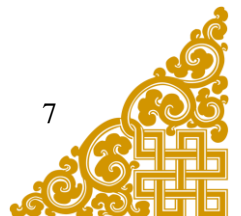
7. Budget for COVID-19

- As the pandemic continued to pose serious risks to health and livelihood of people, the Government provided necessary budget for ensuring public health and safety, maintaining public confidence and macro-economic stability.
- Total cumulative expenditure for COVID-19 related activities amounts to Nu. 4,644.256 million. The Government also received generous support from development partners such as GoI, UN agencies, JICA, ADB, World Bank and others.

The details of budget allocated for COVID-19 related activities are shown in Table 4.2 of the Budget Report.

8. Economic Contingency Plan

- The Economic Contingency Plan (ECP) seeks to address the issues confronted by the pandemic in various sectors. Amongst them, tourism and allied sectors, in particular, have been disproportionately impacted as evidenced by the sharp decline in revenue, followed by the construction sector with its heavy reliance on foreign labor.
- With ECP, the above issues are expected to be addressed through initiating reforms and systemic changes. Therefore, to achieve the objectives, the Government has allocated Nu. 1,040 million to Build Bhutan Project, Nu. 232 million has been allocated to Tourism sector, and Nu. 2,557 million to Agriculture sector.





E. Public Finance

Hon'ble Speaker,

May I now present on the performance and outlook of our Public Finance.

I. **Actual Fiscal performance FY 2019-20 (Audited AFS)**

1. As required by section 13 (a) of the Public Finance (Amendment) Act 2012, the Audited Annual Financial Statement for the FY 2019-20 has been tabled along with the budget report for consideration by the House.

II. **Revised Fiscal Performance FY 2020-21**

1. The total resource for FY 2020-21 is revised to Nu. 56,995.029 million from Nu. 53,822.073 million. The revision is mainly due to increase in external grants.
2. The total budget excluding Lending and Repayments has been revised from Nu. 69,151.122 million to Nu. 70,549.915 million.
3. With this revision, the fiscal deficit is estimated at 7.26 percent of GDP amounting to Nu. 13,554.886 million.

III. **Supplementary Budget Appropriation Bill**

Hon'ble Speaker,

As required by section 57 of the Public Finance (Amendment) Act 2012, the **Supplementary Budget Appropriation Bill** for FY 2020-21 amounting to Nu. 2,783.703 million is submitted to the House for consideration.




IV. **Fiscal Statement and Targets for FY 2021-22**

Hon'ble Speaker,

1. The government shall maintain sustainable fiscal balance through effective management of public finance, while pursuing an expansionary fiscal stance.
2. As a prudent financing strategy and to ensure debt sustainability, the Government shall resort to borrowings at lowest possible costs only after exhausting the possibilities of obtaining the required financing in the form of grants.
3. In keeping with the fiscal policy statement, maintaining appropriate fiscal support remains critical to ensure that the recovery does not unravel, but with an eye toward sustainability and longer-term objectives.
4. Hence, FY 2021-22 Budget aims to fulfil the fiscal objectives by setting the following fiscal targets:
 - i) Contain fiscal deficit below 5 percent of GDP
 - ii) Minimum GDP growth of 3 percent;
 - iii) Tax to GDP ratio of at least 11 percent
 - iv) Recurrent expenditure to be covered by domestic revenue; and
 - v) Non-hydro debt maintained below 35 percent.

V. **Resource for FY 2021-22**

1. During FY 2021-22, the domestic revenue is estimated to grow by 7 percent from a drop of -8 percent in FY 2020-21.
2. Domestic revenue is estimated at Nu. 35,600 million of which 64 percent is tax revenue and 36 percent is non-tax revenue.
3. The positive revenue projection is based on the expected increase in tax revenues mainly attributed to improved direct tax performance.
4. Besides improved performance in direct taxes, indirect taxes such as sales tax, domestic excise duty, and green tax are also expected to grow proportionately.



VI. Budget for FY 2021-22

Hon'ble Speaker,

1. May I now present the Budget for FY 2021-22 which has been formulated based on the theme of ensuring '*Sustained Economic Stability for a Resilient Recovery.*'
2. As stated earlier, the budget for the FY 2021-22 reflects the outcome of the Mid-Term Review of the 12FYP and response to COVID-19 pandemic, and it captures the essence of the Royal Kasha for Civil Service and Education Reforms and provides the budget to embark on the reform initiatives.
3. In relation to this, the FY 2021-22 budget has been formulated based on **five objectives** to achieve the theme:
 - i. *Maintaining Public Confidence*
 - ii. *Sustaining Economic Activities*
 - iii. *Transforming Health and Education System*
 - iv. *Leveraging on ICT and Innovation*
 - v. *Enabling Reform Initiatives*

Hon'ble Speaker, allow me to elaborate on the objectives and strategies to achieve the overall budget theme.

Objective 1: Maintaining Public Confidence

Strategy 1: Spending on containment measures and purchase of vaccines

The recent detection of community transmission in several Dzongkhags is a cause of concern. Therefore, the Government will continue extending emphasis on the surveillance, early detections, control and preventive measures.

- For this FY, Nu. 3,000 million has been allocated for COVID-19 response.
- Of the total, Nu. 2,000 million is provisioned under the General Reserve and Nu. 1,000 million is being mobilised from external sources.
- The allocation will be used to meet quarantine expenses, procurement of test kits, PPE, vaccines, and to support economic recovery measures.



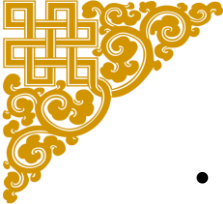

Strategy 2: Sustaining livelihood through creation of diverse economic activities in all sectors

The Government will continue to invest on infrastructures to stimulate economic activities and encourage private sector participation. Such activities will encompass the following:

- Road connectivity is critical for economic diversification and balanced regional development. Therefore, the Government will continue investing in construction, maintenance and blacktopping of roads.
- During the FY, the Government will construct 36 Chiwog roads, 27 farm roads, blacktop 22 Gewog Centre Roads, and continue to improve existing farm roads (GSB and drainage).
- The Government will invest Nu. 515.893 million for construction and maintenance of irrigation channels.
- With rapid urbanisation, it is important that cities have adequate infrastructure. In FY 2021-22, Nu. 2,975.971 million has been allocated for development of housing and public amenities.
- Water shortage has been an issue across the country. Therefore, in this FY, Nu. 1,360.919 million has been allocated for water supply schemes. This includes allocation for Water Flagship program of Nu.712.335 million.

Strategy 3: Creating gainful employment

- Creating gainful employment for all Bhutanese is the Government's foremost priority. Therefore, the Government has allocated Nu. 1,557.111 million under the Ministry of Labour and Human Resources.
- For the Build Bhutan Project, Nu. 416.578 million has been allocated under the Economic Contingency Plan.
- To support critical skills development and Youth Engagement for Livelihood and Leadership Program (YELP), Nu. 175.042 million has also been allocated.
- The Government will also continue to expand Technical Training Institutes for which Nu. 226.244 million has been allocated.

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- In addition, the Government has also allocated Nu. 44.320 million for training of 500 youths and grant support to Youth Enterprise Development.
 - The Government has also initiated TVET reforms with the aim to transform the TVET system into attractive learning and career choice. The reform is expected to adequately equip Bhutanese youth with 21st century skills and competencies.
 - To a large extent, the unemployment situation has been eased by the Accelerated De-suung Integrated Training Programs initiated under His Majesty's leadership, as many unemployed youths were engaged in various specialized programs.

Objective 2: Sustaining Economic Activities

Strategy 1: Ensuring better access to financing

The access to finance is critical for economic development. However, the access to finance still remains a challenge for cottage and small industries, which affects their growth and expansion. Therefore, the Government will ensure better access to financing to CSIs.

- The Government will continue supporting CSIs through subsidies and capital injection.
- Further, to narrow the gap in availing financial support for start-ups and entrepreneurs, the Government will continue to support Community Service Centres and National Credit Guarantee Support Facility.
- In order to address the persistent NPL issue, the three-tier NPL Resolution Committee has been established. With the implementation of the NPL resolution framework, Nu. 9 billion was reviewed out of Nu. 24 billion.
- The Government in close consultation with RMA is reviewing the existing measures to support targeted interventions for providing adequate credit to the borrowers by exploring the possibility of enhancing the value of collateral, uniform application of asset valuation, and application of differentiated interest rate. In addition, special treatment of interest deferrals during the pandemic are also being considered.



Strategy 2: Promoting export



Bhutan has been running consistent current account deficits over the years due to narrow export-based businesses in the country. Therefore, the government will promote and support in broadening the export base.

- In FY 2021-22, the government has allocated Nu. 975.834 million under Trade Support Facilitation Programs. The activities under this Program includes development of dry ports at Pasakha, Nganglam, and Gelephu.
- The budget allocation under Trade Support Facilitation Programs also includes Nu. 250 million for CSI start up development programs.
- For the development of industrial parks at Jigmeling, Dhamdum, Bjemina and Motanga, Nu. 531.272 million has been provisioned.
- Hydropower is one of the largest export sectors in the economy. The Government will continue to invest in this sector to enhance exports. Therefore, various feasibility studies of potential hydro-electric projects will be carried out. In addition, a study on hydrogen economy will be initiated.

Strategy 3: Import substitution

In light of the widening trade deficits and increasing reliance on imports for meeting domestic demand, the Government will promote domestic production and diversify activities to cater to domestic needs.

- The Government has provisioned Nu. 92.358 million for National Organic Flagship Program, which aims to enhance rural income through increasing organic production.
- To support commercial organic farming through investment in technology for producing organic bio-fertilisers in large scale, Nu. 22.100 million has been provisioned for Farm Machinery Corporation Limited.
- For construction of warehouses and cold storages to reduce import and facilitate storage of agriculture produce, Nu.140.500 million has been allocated to Food Corporation of Bhutan Limited.
- In addition, the Ministry of Agriculture has been allocated Nu. 32 million for supporting organic crop production and promoting climate resilient agriculture products.

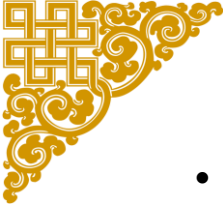

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- The Government will continue to emphasize on winter vegetable production to ensure food security during lean seasons.
 - In order to ensure food security and import substitution, the RNR sector has been allocated Nu. 8,677.532 million in FY 2021-22.
 - In order to facilitate marketing of agricultural produce, the Government provides interest subsidy on the overdraft facility availed by the FCBL. Such arrangement facilitates timely payment to the farmers and supports buyback schemes.

Objective 3: Transforming Health and Education

Strategy 1: Developing Resilient Health System

The Government continues to accord highest priority to provision quality and equitable access to healthcare for everyone. Therefore, in FY 2021-22, Nu. 9,236.045 million has been allocated under the health sector.

- The government continues to implement the Health Flagship program for which Nu. 484.562 million has been allocated. Some of the major activities under this program includes screening of Gastric, Cervical and Breast cancer.
- To ensure uninterrupted supply of essential medicines, Nu. 900 million has been allocated for procurement of drugs and non-drugs, and Nu. 512.065 million for procurement of medical equipment.
- To improve access to health care services, the Government will continue to invest on health infrastructure, which includes ongoing construction of 150-bedded Gyaltshuen Jetsuen Pema Mother and Child Hospital in Thimphu.
- In addition, Nu. 200 million has been allocated for construction of 65-bedded Mother and Child Hospital at Mongar.
- The primary health care being the foundation of healthcare system, the Government will continue spending on construction and upgradation of BHUs. Since disease prevention through enhanced public health outreach is essential for resilient health system, the Government will continue to accord higher priority into strengthening public health services.

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- In order to reduce referral costs and provide timely curative health care services, a budget of Nu. 71.670 million has been provided for introduction of new services at the Jigme Dorji Wangchuck National Referral Hospital. The service includes bronchoscopy, minimally invasive surgery, joint replacement, extra corporeal lithotripsy, urological services in children, etc.
 - Based on the revenue situation, the possibility of implementing the Accelerated Mother and Child Health program will be considered during the fiscal year.

Strategy 2: Supporting Education Reform

Hon'ble Speaker,

The Royal Kasho for Education Reform provides a renewed vision for further strengthening our education system through strategic reform processes. The Government on its part will continue supporting education reforms to fulfil the Royal Vision. As a result, Nu. 15,288.063 million, constituting 19 percent of the total allocation, has been provisioned under the education sector.

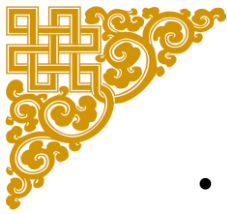
- The Education flagship program has been allocated Nu.151 million to support ICT laboratory, procurement of computers and LAN equipment.
- A budget of Nu. 336 million has been provisioned with the respective Dzongkhags and Thromdes for procurement of stationaries.
- The Government will continue granting undergraduate scholarship for which Nu. 240.030 million has been allocated.

Objective 4: Leveraging on ICT and Innovation

The effective use of ICTs has become prerequisite for increasing productivity and economic competitiveness. Therefore, to leverage the benefits of ICT, the Government has identified Digital Drukyl as one of the flagship programmes to be implemented in the 12FYP.

Strategy 1: Ensuring enhanced public service delivery through ICT and innovation

- The communication sector has made a significant progress in digitalization such as e-learning platforms for students, virtual meetings, Druk-trace App, check post management system, Bhutan vaccine system, and quarantine management and security system.



- During the FY 2021-22, the Government will continue leveraging ICT in enhancing public service delivery, by enhancing the capacity of ICT sector for developing products and services.
- The Digital Drukyul aims to harness the power of ICT to transform Bhutan into smart and inclusive society. The Government has allocated Nu. 1,009.580 million for the Digital Drukyul Flagship program in FY 2021-22.
- In FY 2021-22, Nu. 82.960 million has been earmarked for development of electronic customs system, Nu. 44.906 million for Bhutan Integrated Taxation System, Nu. 22.739 million for electronic Government procurement system (e-GP), Nu.32.970 million for the data science project, Nu. 194 million for National Digital Identity and Nu. 160 million for e-PIS.

Objective 5: Enabling Reform Initiatives

- The Royal Kasho on the civil service reform was issued to transform the civil service into a robust organization that is apolitical, meritorious, innovative, resilient, and driven by a culture of research and state-of-the-art technology, enabling legislations and indeed the highest ethical standards of its leaders and personnel.
- In order to realize the Royal vision and the Royal Kasho on the civil service reform, Nu. 19 million has been allocated to Royal Civil Service Commission for professional services.
- As a part of education reform, the Ministry of Education has piloted the curriculum of The Royal Academy in two schools, which will be replicated to another 22 schools during the FY. For this, Nu. 68 million has been allocated.
- As a key initiative towards education reform, Curriculum development under REC has been allocated Nu. 82.900 million.





VII. Sectoral Allocation

Hon'ble Speaker,

During the FY 2021-22, Social Services have been allocated with the highest budget allocation of Nu. 24,524.108 million, constituting 30 percent of the total allocation followed by 11 percent to RNR sector and 13 percent to public infrastructure. In terms of functional allocation, central agencies are 66 percent and 34 percent for the Local Government. However, considering the centrally executed activities amounting to Nu. 6,460 million at the LG level, the actual share of LGs is estimated at 51 percent of the total allocation.

The major list of capital activities under each of the sectors are provided in the Annexure 5.

VIII. Budget Appropriation Bill

Hon'ble Speaker,



1. Based on the resources and the priorities of the Government, a total budget of Nu. 80,483.150 million is submitted to the House as a Budget Appropriation Bill for FY 2021-22 for consideration.
2. The Budget Appropriation Bill includes Nu. 35,598.664 million for current expenditure, Nu. 38,320.671 million for capital expenditure, Nu. 5,654.415 million for repayment, and Nu. 909.400 million for on-lending.

IX. Public Debt Situation

Hon'ble Speaker

Now I would like to present a brief status of the country's public debt situation and the financing need for FY 2021-22.

1. The total public debt stock as of 31st March 2021 is Nu. 224,909.609 million, accounting for 120.5 percent of GDP. Of the total public debt, the external debt is Nu. 215,822.826 million and domestic debt is Nu. 9,086.783 million.
2. The hydropower debt stock is Nu. 160,035.778 million which accounts for 74.2 percent of total external debt. The non-hydro debt is Nu. 55,787.048 million and is about 29.9 percent of GDP.

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3. The gross financing need (GFN) which is the sum of fiscal deficit, principal repayments, and net lending for FY 2021-22 is estimated at Nu. 19,722.582 million.
 4. The Government will finance the Gross Financing Need through borrowings from the external concessional windows and domestic market.

F. Tax Reforms

Hon'ble Speaker,



As a measure to negate the impact of the pandemic, the Government also introduced key tax reforms to stimulate economic activities and improve aggregate demand.

1. To simplify and restructure the customs duty to promote trade, the Government has decided to rationalize the customs duty rates. The customs duty rationalization will enhance compliance, eliminate direct human interface and improve revenue collection over the medium term.
2. Coincidentally, the tax measures that have been implemented has helped in increasing the disposable income through the increase in the PIT exemption threshold, reduction in CIT from 30 percent to 25 percent, reduction of ownership transfer tax, and exemption on energy-saving devices and digital equipment.
3. Further, the Government also extended the Fiscal Incentives Amendment Act 2017 and Income Tax exemptions to small and micro businesses in rural areas till December 2023.

G. Financial Positions of Public Sector Institutions and Investments

Hon'ble Speaker,

As required by the Public Finance Act, I would like to briefly present the annual reports on the State-Owned Enterprises and other Public Sector Institutions. There are 14 State Owned Enterprise (SOEs) under the Ministry of Finance. The Government reviewed the mandates and relevance of the SOEs and transferred the community centres, initially under the Bhutan Development Bank Limited (BDBL) to the National CSI Development Bank Limited (NCSIDBL). This has contributed to economic activities through financial inclusion and improving access to financing rural agriculture and cottage & small industry (CSIs) sectors.

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1. To promote good corporate governance culture, the Annual Performance Compact was introduced in the year 2020. The compact agreement is intended to achieve the set targets, fix accountability to the management and boards in fulfilling their mandates. The Annual Performance Compact is linked to Performance-Based Variable Incentives (PBVI).
 2. The Government will study the feasibility of divestment of SOEs to encourage private sector participation.

I. Performance of SOEs under MoF



1. During the year 2020, the SOEs contributed Nu. 43.236 million in the form of tax and dividend.
2. The performance of the SOEs was affected by the pandemic and the contribution declined by 77.1 percent as compared to previous year.
3. The Government provided subsidies to SOEs in meeting the revenue deficit and equity injection for capital investments. Total subsidies approved for the FY 2020-21 amounted to Nu. 399.694 million, which was an increase of 18.4 percent as compared to the previous year.

II. Performance of DHI

1. In 2020, DHI earned a gross revenue of Nu. 7,443.526 million, an increase by 3 percent from Nu. 7,224.176 million in 2019.
2. The increase in revenue is mainly contributed by dividend income from its subsidiaries (increase of Nu. 131 million from Bank of Bhutan Limited (BOBL), Nu. 633 million from Druk Green Power Corporation (DGPC) and Nu. 252 million from State Mining Corporation Limited (SMCL).

III. Performance of DHI Subsidiary Companies

1. In 2020, the subsidiary companies under DHI generated a gross revenue of Nu. 34,676.510 million, which was a decline of 12.5 percent from Nu. 39,632.930 million in 2019.
2. The decline is attributed mainly due to revenue loss in Drukair Corporation Limited (DACL), Bhutan Power Corporation Limited (BPCL) and Dungsam Cement Corporation Limited (DCCL). The expenditure and profit after tax also declined by 3.5 percent and 45.5 percent respectively.

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3. The debt of SOEs under DHI has increased by 7.5 percent from Nu. 37,039.323 million in 2019 to Nu. 39,821.749 million in 2020.

IV. **Sovereign Guarantee**

1. In keeping with the relevant provisions of the Constitution and the PFA, the Government provides sovereign guarantee to SOEs to facilitate borrowings at concessional terms.
2. The support is to finance priority sectors like CSI, hydro-power, rural electrification, rural credits, and affordable housing.
3. As on date, the Government guaranteed the borrowing of Nu. 4,912.390 million to the SOEs.

V. **Performance of National Pension and Provident Fund**


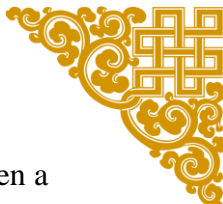
1. The NPPF recorded a total membership of 65,414 as of 30th June 2020, representing about 8.5 percent of the population.
2. Against the contributions, a total of Nu. 605.630 million was paid out as a monthly pension payment and Nu. 891.220 million was paid as a refund of provident fund contributions and other benefits.
3. NPPF recorded a growth of 12.5 percent in its fund size. The total fund grew from Nu. 36,146.220 million to Nu. 40,822.080 million and it is estimated to reach Nu. 44,148.210 million by June 2021.
4. The government is committed to increase pension coverage and ensure sustainability.

VI. **Hydropower: Main driver of economic growth**

Hon'ble Speaker,

I would now like to take the privilege to report on the Hydropower sector, which is the only sector that has remained resilient during the pandemic.

1. With the addition of the 720-megawatt (MW) Mangdechu Hydro Power Plant, the total installed capacity of the country stands at 2,334 MW, which is 6.3 percent of the total estimated hydro-power potential of the country.

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2. The year 2020 has been an unprecedented year due to the pandemic. While it has been a good hydrological year that has benefitted the hydropower sector, with the onset of COVID-19 pandemic in the early months of the year, it has impacted the performance of power utilities and the construction of ongoing hydropower projects adversely. Bhutan Power Corporation's tariff collection declined by about Nu. 888.36 million due to provision of demand charges on actual consumption basis and waiver of penalties besides deferment in payment of electricity charges in respect of MV and HV consumers. In addition, BPC also provided electricity free of charge to hotels which were used as quarantine facilities.
 3. The Druk Green Power Corporation was able to generate 11,360.52 MU of electricity in 2020, of which 2,051.35 MU was consumed domestically and 9,189.13 MU was exported to India.

VII. Royal Monetary Authority

1. The primary objective of the RMA is to formulate and implement monetary policy with a view to achieve and maintain price stability in the economy.
2. For the period ending June 2020, the RMA's overall financial position stood at Nu. 103,138.120 million, which is a 32.7 percent increase from Nu. 77,713.300 million in 2019.

VIII. Foreign Direct Investment (FDI)

1. FDI is received mostly from Asia with 64 percent. India remains the major source of investment in Bhutan with 47 percent followed by Singapore (19 percent) and Thailand (11 percent).
2. As of 31st December 2020, there are 92 FDI projects worth Nu. 37,134.600 million including 10 new projects worth Nu. 3,527.420 million approved during the year 2020. Unlike the previous years, the year 2020 saw only one project in the Hotel Industry.

IX. Trust Funds

Hon'ble Speaker,

To report on the Trust Funds which is referred as the Non-Budgetary Funds. There are eight Government Non-Budgetary Fund Accounts established under the Royal Charter and other relevant laws, rules and regulations.



1. While the details of the Fund's position are provided in the National Budget Report, may I inform the August House that the Bhutan Health Trust Fund (BHTF) has a fund balance of Nu. 3147.927 million as of 31st March 2021. During the FY, the BHTF has contributed Nu. 289.421 million for purchase of essential drugs and vaccines. Health contribution of 1 percent on gross salary is also channeled through BHTF.
2. As of 31st March 2021, Bhutan Trust Fund for Environmental Conservation had a fund balance of USD 58.824 million which includes interest income of USD 1.181 million.
3. The Universal Service Fund balance as of 31st March 2021 was Nu. 276.105 million of which Nu. 87.412 million was received in FY 2020-21 from telecom companies as an annual license payment fee. The fund has also incurred an expenditure of Nu. 59.653 million in FY 2020-2021 for final tranche payment to telecom companies to complete Rural Communication Programme (RCP).
4. The fund balance of Bhutan Economic Stabilization Fund as of 31st March 2021 was Nu. 584.541 million of which Nu. 20.566 million pertains to the interest from the deposits.





H. Conclusion

1. The Budget for the FY is a testament of the government's resolve in ensuring '***Sustained Economic Stability for a Resilient Recovery***' amidst economic fallout due to the pandemic.
2. Due to continuing socioeconomic challenges, under enlightened leadership and benevolent guidance of His Majesty, the Government has reinforced effective containment measures to minimize the spread of the virus.
3. The Royal Command to continue the DGRK for another 15 months is a testimony of His Majesty's concern for the wellbeing of the people. The continuation of the DGRK secures livelihood during such difficult times.
4. For the FY 2021-22, the domestic revenue is estimated to grow marginally by 7 percent. However, as the increase in revenue is not able to support the growth in recurrent expenditure, it is important for all budgetary bodies to rationalize their recurrent expenditure within the allocated block grant to remain within the constitutional provision of meeting the recurrent expenditure by internal resources.
5. Since high level of capital budget has been allocated, Government urges all the budgetary bodies to ensure optimal utilization of the allocated budget to stimulate growth, generate employment and encourage private sector participation.
6. Based on the resource envelope, the Budget Appropriation Bill for FY 2021-22 and Supplementary Budget Appropriation Bill for FY 2020-21 is submitted for the expeditious consideration of the House.
7. The Government, on behalf of the people would like to pay tribute to His Majesty The King, His Majesty the Drukgyal Zhipa, Her Majesty the Gyaltsuen, and members of the Royal Family for their concern with respect to the welfare of the Bhutanese people and continued guidance to safeguard the nation from the pandemic.
8. The Government would also like to pay deepest respects to His Majesty for granting Royal Kashos on Civil Service and Education Reforms.
9. The Government would like to submit immense gratitude to His Holiness the 70th Je Khenpo, Zhung Dratshang and other religious organizations for the special prayers and kurims and invoking sangay menlha and other protecting deities to prevent the spread of the virus and keep our country safe.



10. The Government also offers felicitations to His Holiness for his selfless 25 years of service in steering the nation to peace through his blessings and Kurims.
11. The Government would like to acknowledge the services rendered by the Health professionals, Armed Forces, Desuups and Volunteers serving in the forefront to protect the Bhutanese people from COVID-19.
12. The Royal Government of Bhutan (RGoB) would like to thank the Government of India for all the assistance and support, in particular granting of COVID-19 vaccines which has helped to achieve 94 percent vaccine coverage of the eligible population. The Government would also like to thank all multilateral and bilateral development partners. In addition, the Government would also like to express appreciation to all the individuals and entities who have made contribution to the COVID-19 Response Fund.
13. The Government acknowledges all the multi-sectoral task forces for ensuring effective containment measures, uninterrupted supply of essential food and non-food items during this unprecedented time.
14. Lastly, the Government would like to thank the community at large for spontaneous outpouring of support in the form of cash and kind and volunteering of services. It bears testimony of our deep-rooted values and principles of compassion, unity and service to the nation in times of need.
15. The COVID-19 has brought the country together to overcome one of the greatest challenges of our times. All this has become possible due to the outstanding leadership and steadfast resolve of His Majesty The King, who continues to remain at the forefront of all endeavors in these difficult times.
16. May the guardian deities of the glorious Palden Drukpa forever bless and protect the people and the nation with perpetual peace, prosperity and happiness.

