

Statement Delivered by Honorable Finance
Minister Dr. Ram Sharan Mahat in the Legislature-
Parliament Regarding the Special Arrangement for
Revenue & Expenditure for the Fiscal Year
2008/09 on 14 July 2008

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Government of Nepal
Ministry of Finance
2008

(Unofficial Translation)

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Right Honorable Speaker,

1. In view of the current situation that did not make it possible to present the regular budget for the coming Fiscal Year 2008/09 to the Legislature-Parliament before the expiry of the current Fiscal Year, I am now standing before this august Assembly for presenting "The Bill for Authorizing Withdrawal and Expenditure from the Consolidated Fund for the Services and Works, 2008" according to the Article 96(A) of the Interim Constitution of Nepal, 2007. This Bill will enable the Government to continue spending for regular services and works in the next Fiscal Year.
2. I take this occasion to happily express my heart-felt congratulations and best wishes to all the Honorable Members of the Constituent Assembly which has been formed to write a new constitution for the Federal Democratic Republic Nepal through exercising the sovereign power vested in the people. I am confident that, together, we will be able to fulfill this great responsibility that the people have bestowed upon us.
3. The preliminary draft of the budget for the coming Fiscal Year 2008/09 had already been readied following the internal preparations begun in early January of this year drawing from the Interim Constitution of Nepal 2007, the existing laws and also the prevailing norms and practices. In particular, the process had moved ahead following the several rounds of discussion amongst the sectoral ministries and agencies, National Planning Commission and the Ministry of Finance based on the guiding principles and directives of the Three Year Interim Plan which was approved a year ago in consensus with all political parties. However, while the process was in its swing, a special circumstance took place that eventually led to our inability to present to the Parliament-Legislature in time the policies and programs as well as the budget of the Government for the coming Fiscal Year. The issues such as the need for forming a new government as per the people's mandate expressed through the Constituent Assembly elections, the announcement of the Prime Minister's resignation in the Constituent Assembly, submission of the Constitution Amendment Bill, continued disruption of the Constituent Assembly proceedings, and ceaseless

negotiations for building political consensus on electing the President and forming the new government have all impacted the creation of such a special circumstance.

4. The acceptable democratic norms and practices would require that the full-fledged and regular budget be presented only after the Government's policies and programs are deliberated and Vote of Thanks passed in the Parliament. In the present context, since we have not been able to follow this well-established practice, it has become imperative for the Government, based on political consultations and consensus, to go for an interim arrangement. As you have seen, such arrangement has been made through the fifth amendment of the Interim Constitution of Nepal, 2007 which has enabled the Government to bring in a Bill for the withdrawal of money from the Consolidated Fund and spending it for the regular government expenses as well as to impose taxes and collect revenues for the next Fiscal Year also according to the Finance Act of the current Fiscal Year. As a result, the Government has submitted this new piece of legislation titled "The Bill for Authorizing Withdrawal and Expenditure from the Consolidated Fund for the Services and Works, 2008" which will legally empower the Government for managing expenditure for regular services and works until when the Appropriation Bill, 2008 will be presented to the Legislature-Parliament.

Right Honorable Speaker,

5. Now, with the intention of sharing general information with the Honorable Members on the current status of the country's economy, I would like to highlight in brief the current economic situation as well as the economic trends and indicators.
6. During the current Fiscal Year, management of the economy remained a challenge mainly due to the political transition. However, it is my pleasure to tell you that the continued reform initiatives and adequate precautionary measures taken up by the Government contributed to maintaining most of the macro-economic indicators in a favorable situation.

7. Economic growth rate of 5.6 percent achieved this Fiscal Year at the basic price is the record high over the past eight years. Agriculture sector registered a growth rate of 5.65 percent, which is the highest since Fiscal Year 2050/51. Similarly, the growth rate of 5.57 percent in non-agriculture sector is also the highest achieved since Fiscal Year 2056/57. Accordingly, savings and investment rates have also increased, with the ratio of Gross Domestic Savings to the Gross Domestic Product standing at 11.5 percent against 9.7 percent in the last Fiscal Year. Such a ratio of Gross National Savings has reached 32 percent up from 28 percent a year ago. Similarly, total investment in relation to GDP went up to 32 percent from 28 percent a year ago.
8. Expansion of economic activities, reforms undertaken in the tax system, encouraging compliance by taxpayers and strengthening of the revenue administration have all contributed to the mobilization and collection of revenue at a significant level. As per the revised estimate, revenue mobilization at the end of the current Fiscal Year is expected to increase by 22 percent with a collection of around Rs.107 billion against a target of Rs. 103.66 billion. The ratio of revenue to Gross Domestic Product will thus reach 13 percent with the revenue growth rate 22 percent this year, making one of the highest since Fiscal Year 1993/94.
9. Mobilization of foreign aid, a major source of financing development projects, remained encouraging during this Fiscal Year. Agreements totaling the amount of Rs. 57.6 billion have been concluded to date compared to the agreements totaling Rs. 37.2 billion at the end of the last Fiscal Year, pointing thus to the marked increase by 54.1 percent.
10. The outstanding public debt--both domestic and external-- has decreased significantly. Till mid-February 2008, it stood at Rs. 324 billion, whereas it had totaled Rs. 329 billion at the end of Fiscal Year 2005/06. Ratio of the total public debt to the Gross Domestic Product at the end of Fiscal Year 2006/07 decreased to 44.1 percent from that of 50.3 percent at the end of earlier Fiscal Year. Showing a further decline, such a ratio is

estimated to come around 40 percent at the end of the current Fiscal Year. Ratio of outstanding foreign debt to GDP is around 26.3 percent.

11. In the first 10 months of the current Fiscal Year, the remittances received from the Nepalese working abroad has increased by 35.3 percent and reached Rs. 109 billion compared to the similar period of the last Fiscal Year. Likewise, during the same period, income from the tourism sector has increased by 83.2 percent and reached over Rs. 15 billion. Despite the sharp rise in commodity trade deficit due to the slackness in export and surge in import, the current account of the external sector has remained steadily positive. Accordingly, the balance of payment surplus has reached Rs. 20 billion in May 2008, compared to Rs. 7 billion in May 2007. As a result, the foreign exchange reserve is Rs. 197 billion in May 2008, which is sufficient to import goods for 10 months and half.
12. Private sector investment has also improved to a significant extent. The total fixed capital formation by the private sector which had increased by 0.6 percent at the real price in the last Fiscal Year is now estimated to have gone up by 5.1 percent in the current Fiscal Year. Banking Sector's lending to the private sector has reached 19.5 percent in the first 10 months of the current Fiscal Year compared to 16.7 percent in the same period of the last Fiscal Year.
13. The price hike in petroleum products, food and other commodities in the international market has naturally impacted the price situation in Nepal. The average annual inflation rate has reached 7.1 percent in June 2008, compared to 7.8 percent and 6.7 percent, respectively, in June 2006 and June 2007. Taken on point to point basis, the annual increase in inflation has reached 11 percent in June this year, compared to 4.5 percent in June 2007 and 9.1 percent in June 2006. The current trend of inflation has certainly posed us a challenge of ensuring price stability in the country.

14. Total public expenditure for the current Fiscal Year was budgeted at Rs. 169 billion. However, the revised estimate shows that such expenditure will stand at Rs. 162.6 billion with the recurrent expenditure of Rs. 95.63 billion, capital expenditure of Rs. 52.31 billion, and principal payment to Rs. 14. 7 billion. It is estimated that the recurrent expenditure and capital expenditure will increase by 24 percent and 31.6 percent respectively this Fiscal Year compared to the last Fiscal Year.
15. We have been able to maintain fiscal balance due to increased mobilization of non-borrowing instruments. The share of grant in total foreign aid has increased and reached 66.7 percent. The ratio of fiscal deficit of the government to Gross Domestic Product has stood at 3.9 percent as in the last Fiscal Year which falls well within the approved limit of 4.25 percent as targeted by the Three Year Interim Plan.
16. The Government has had to invest Rs. 6.67 billion for meeting the recurring losses of Nepal Oil Corporation which has been caused by our failure to adjust the local price of petroleum products in line with rising international prices. Similarly, the Government had to bear the additional cost of Rs. 5 billion because of the repeated expenses for the Constituent Assembly elections, increased spending for peace and security, discharging the liability created due to financial compensation, implementation of the 23-point understanding, increased relief costs, and accumulated financial liabilities passed on by the previous Governments. Despite this, we have been able to keep the rising expenditure within the budgetary limit through a careful and prudent budget management. In this context, I had also informed the then Legislature-Parliament on 16 January 2008, about the possibility of submitting a Supplementary Budget in the current Fiscal Year. Nevertheless, I would like to submit to this august House that because we have been able to manage the budget within the stipulated limit of approved total expenditure by keeping domestic borrowing within the permitted boundary, maintaining the existing revenue rates, and executing budgetary provisions within the framework of existing rules and regulations, there has occurred no need for presenting a Supplementary Budget in the current Fiscal Year.

17. As a result of continuing improvement in the security situation, procedural restructuring and enhancement causing the efficiency of project management and increasingly conducive investment climate, capital expenditure has arisen satisfactorily.

18. While preparing the budget for the current Fiscal Year, priority was given to connecting six districts with the motorable roads, building agricultural and rural infrastructure, and embarking on rural electrification, rural telecommunication and employment promotion. In addition, programs were formulated to increase the access of health and education as basic human rights of the people. The overall evaluation of the budget implementation attests that the achievements made so far have been satisfactory. Three districts are already connected with the motorable roads while three additional districts are going to be connected in a few months. Massive expansion of the rural infrastructure has contributed to the creation of additional employment opportunities. Some preliminary works have been completed for the new big projects in the hydro power sector while a number of such projects of small and medium scale are under implementation. Construction works of the Middle Marsyangdi Hydroelectricity project is at the final stage of completion. Some projects developed and constructed by the private sector have been connected to the central grid. Rural Water Supply projects have contributed to the availability of additional safe drinking water. Construction of the main access road of the Melamchi Water Supply Project has been completed and the bidding process for the construction of the tunnel has reached its final stage.

19. Telephone services have been extended to most of the Village Development Committees of all seventy five districts. Access of general public to the health service has increased due to the expansion of health posts, hospitals, and distribution of free medicines. Quality of the public schools has improved due to the extension of the teachers' quota, school buildings and classrooms including the extension of other physical facilities. Significant achievements have been made in the areas of

poverty alleviation through targeted programs, women empowerment, tourism development, foreign employment, financial sector reform, extension of alternative energy, reconstruction, rehabilitation and relief. Agreements have been concluded with Qatar, Bahrain, United Arab Emirates and Korea for enhancing the safety and dignity of overseas employment. The insurance of Rs. 500 thousand has been made mandatory for those leaving for overseas employment. These Sectoral achievements, which I have given a glimpse of here, are detailed in the Economic Survey, 2007/08

Right Honorable Speaker,

20. Now, let me highlight major features of "The Bill for Authorizing Withdrawal and Expenditure from the Consolidated Fund for the Services and Works, 2008":

- a) As provided for in this Bill, the Government will have authority to withdraw and incur expenditure up to one third of the total expenditure proposed for the current Fiscal Year from the Consolidated Fund until the time of the presentation of the Appropriation Bill 2008/09 to the Constituent Assembly.
- b) For monies charged to the Consolidated Fund, according to the provision of the Interim Constitution of Nepal 2007, Rs. 26.6 billion has been earmarked for the whole year while I have proposed Rs. 46.94 billion, which is one third of the actual expenditure of the current Fiscal Year, for amounts to be appropriated from the Consolidated Fund. Thus, the total expenditure proposal is Rs. 73.54 billion. Since a detailed statement of actual expenditure was not readily available, the proposal for the one-third amount has been based on the revised expenditure estimate.

- c) The proposed Bill will enable the completion of the remaining works of the ongoing projects without any hindrances within the budgetary limit.
 - d) The expenditures incurred under this Bill will be included in the Appropriation Bill to be presented by the Government later on.
 - e) The amount authorized for withdrawal and spending from the consolidated Fund shall be utilized by the Government agencies for the continuation of services and works which they are currently carrying out.
 - f) The amount authorized as advance under this Bill can be spent under the same budget sub-heads as of the current Fiscal Year.
 - g) With regard to the foreign-aided projects, the advance amount released from the Consolidated Fund will be allowed to be spent even for the new programs and projects that are required to be implemented as per the agreements.
 - h) The Ministry of Finance will issue expenditure authorizations for unconditional local grants directly to the local bodies.
21. A number of external assistance agreements with various external development partners have been concluded during the current Fiscal Year in order to provide relief to the conflict-affected people and carry out reconstruction of the infrastructure damaged during the conflict. For instance, the Emergency Peace Support Project has been agreed with the World Bank which, among others, will facilitate the implementation of the Government decision to provide Rs.100 thousand to the dependants of all those who lost their lives during the past conflict. Similarly, Rural Reconstruction and Rehabilitation Sector Development Project which has already come into operation with the support from the Asian

Development Bank and other development partners will directly benefit the people in the conflict affected areas. Therefore, I have arranged to implement these programs from the very beginning of the next Fiscal Year.

22. With regard to the salaries and benefits of civil servants, the government is committed to implementing the recommendations of the High Level Pay Commission 2004 and also those of the Salary and Allowances Review Committee, along with duly addressing the demands placed by civil servants' organizations on the same issue. Nevertheless, since the present budgetary arrangement is only for continuing the services and works already undergoing in the current Fiscal Year, I believe that this issue will be addressed with priority by the new government while formulating the full-fledged budget.

Right Honorable Speaker,

23. I have already mentioned that the Fifth Amendment of the Interim Constitution of Nepal, 2007 has authorized the Government of Nepal to impose taxes and collect revenue in the next Fiscal Year 2008/09 pursuant to the Finance Act of the current Fiscal Year 2007/08. This provision will prevail only until the Government will present Finance Act, 2008 before the Legislature-Parliament.
24. As regards the expenditures to be incurred under this Bill, I would like to inform that in case of a shortfall in the revenue collection thereby making it difficult to manage expenses within the approved expenditure limit, the Government will manage such expenditure by using overdraft facility permitted under the Nepal Rastra Bank Act, 2001. The Government is entitled to using overdraft facility not exceeding the limit of the amount that equals five percent of the revenue income of the current Fiscal Year. If and when such overdraft will be taken by the Government, it will be included in the amount of the domestic borrowing during the formulation of the full-fledged budget.

25. I would like to extend thanks to all friendly countries and development partners for their continued support to economic and social development of our country. The way they have come forward responding to our request for managing the peace process and especially for the completion of the Constituent Assembly elections and helped us generously is something that we will never forget. I believe that this goodwill and support will continue in the days to come as well.
26. I would like to extend my sincere thanks to the business community along with all taxpayers who have contributed to the growth of the revenue at a significant scale.
27. Thanks to a wiser political understanding and consensus that we were able to formulate and implement the budget for the current Fiscal Year and also to launch the economic reforms programs without any problems. This would not have been possible without the support from all the members of the then Parliament-Legislature, and I remain thankful to them for this. Similarly, I also thank the leaders of all political parties who in a good spirit of cooperation lent their support for amending the Constitution in order to avoid a budget crisis which was being seen imminent because of the delay in formation of the new Government and with no policies and programs of the Government presented to the House. I greet the members of this House for accepting the amendment which paved the way for coming up with this interim budgetary arrangement today. This proves that we are committed to addressing all problems through consensus and collaboration even in an uncomfortable and difficult political setting. I hope that the country can and will move forward on economic front as well only through political consensus and stability.
28. "The Bill for Authorizing Withdrawal and Expenditure from the Consolidated Fund for the Services and Works, 2008", which I have submitted here today is only an interim arrangement for expenditure management. The bitter reality that we are currently facing is that

political issues are getting prominence over the economic agenda which has sadly been put in the back seat. The political progress that we have achieved so far would not last long if we could not accelerate the pace of development and deliver its fruits equitably to the backward and marginalized section of the people. There are always some technicalities inherent in the governance system which, if not addressed in time, will make us pay a high price. Only a full-fledged budget can address economic issues and thus direct the overall economy. In this connection, several important and mega projects, which have passed through all phases of preparation along with the contract award, are awaiting construction. It is clear that in the absence of budget, the fate of such projects will be negatively impacted, resulting in huge cost and time overrun in the implementation. As this may eventually lead to creating excessive liabilities for the government and even cause wastefulness, I feel that there is a need for presenting and approving a full-fledged budget as early as possible in a responsible way so that resources to such projects are allocated without any interruption.

29. Lastly, I have the confidence that the economic stability that we built over the last two years applying a sense of prudence, ceaseless carefulness and hard work, the balance between resource mobilization and public expenditure and also a favorable position of most of the economic indicators will remain a strong basis for the future economic development as well as for the full-fledged regular budget that we hope will soon be presented in the Legislature-Parliament.

Jaya Nepal !

Annex – 1
Annual Estimate of Expenditure
Chargeable to Consolidated Fund
FY 2008/09

S. N.	Budget Head	Description	Amount Chargeable to Consolidated Fund (Rs.000)
1	11	President	25,00
2	12	Vice President	20,00
3	13	Constituent Assembly/Legislatature-Parliament	49,63
4	14	Courts	9,59,75
5	15	Commission for Investigation of Abuse of Authority	6,90,90
6	16	Office of the Auditor General	10,51,57
7	17	Public Service Commission	8,92,66
8	18	Election Commission	11,56,63
9	21	National Human Rights Commission	4,82,62
10	81	Ministry of Finance – Repayment of Domestic Debt	13,03,07,34
11	82	Ministry of Finance – Repayment of Foreign Debt -Multilateral	9,77,04,16
12	83	Ministry of Finance – Repayment of Foreign Debt -Bilateral	3,16,25,68
13	95	Ministry of Finance – Miscellaneous	10,30,00
		Total	26,59,95,94

Annex – 2
Appropriation of the Amount
equivalent to one-third of the Revised Estimate
of the Expenditure of FY 2007/08

FY 2008/09

1	2	3	4	5	6
S. N.	Budget Head	Description	One-third of the Revised Estimate of the Recurrent Expenditure (Rs. 000)	One-third of the Revised Estimate of the Capital Expenditure (Rs. 000)	Total of the One-third of the Revised Estimate (Rs. 000)
1	13	Legislature-Parliament	11,87,08	90,50	12,77,58
2	14	Courts	20,45,75	7,62,50	28,08,25
3	15	Commission for Investigation of Abuse of Authority	39,20	10,00	49,20
4	16	Office of the Auditor General	24,65	32,92	57,57
5	17	Public Service Commission	12,92	22,73	35,65
6	18	Election Commission	52,27,15	21,78	52,48,93
7	19	Office of the Attorney General	5,04,47	84,64	5,89,11
8	20	Council of Justices	22,40	73	23,13
9	21	National Human Rights Commission	62,00	1,68	63,68
10	27	National Vigilance Centre	88,88	0	88,88
11	30	Office of the Prime Minister and Council of Ministers	8,49,56	57,14,10	65,63,66
12	35	Ministry of Finance	32,04,43	13,27,82	45,32,25
13	38	Ministry of Industry, Commerce and Supplies	35,64,75	9,09,90	44,74,65
14	39	Ministry of Law, Justice and Parliamentary Affairs	1,26,05	56,13	1,82,18
15	40	Ministry of Agriculture and Cooperatives	1,10,59,52	15,09,96	1,25,69,48
16	45	Ministry of Home Affairs	4,29,25,80	40,86,37	4,70,12,17
17	47	Ministry of Water Resources	17,85,51	1,21,31,29	1,39,16,80
18	48	Ministry of Physical Planning and Works	37,89,53	3,67,58,14	4,05,47,67
19	49	Ministry of Culture, Tourism & Civil Aviation	9,63,14	8,55,46	18,18,60
20	50	Ministry of Foreign Affairs	41,03,56	2,23,31	43,26,87
21	55	Ministry of Land Reform and Management	26,96,21	2,85,72	29,81,93

1	2	3	4	5	6
S. N.	Budget Head	Description	One-third of the Revised Estimate of the Recurrent Expenditure (Rs. 000)	One-third of the Revised Estimate of the Capital Expenditure (Rs. 000)	Total of the One-third of the Revised Estimate (Rs. 000)
22	56	Ministry of Women, Children and Social Welfare	15,05,89	97,18	16,03,07
23	58	Ministry of Defense	3,46,93,52	26,67,36	3,73,60,88
24	59	Ministry of Forest & Soil Conservation	65,73,93	7,34,18	73,08,11
25	61	Ministry of Environment, Science and Technology	8,65,30	22,73,49	31,38,79
26	62	Ministry of Peace and Reconstruction	5,00,77	33,01,20	38,01,97
27	65	Ministry of Education and Sports	8,49,14,31	98,30,41	9,47,44,72
28	66	Ministry of General Administration	5,51,07	34,84	5,85,91
29	67	Ministry of Information and Communication	46,20,39	10,83,40	57,03,79
30	69	Ministry of Local Development	1,05,73,46	2,79,83,54	3,85,57,00
31	70	Ministry of Health and Population	2,90,32,17	94,81,16	3,85,13,33
32	71	Ministry of Labour and Transport Management	6,67,19	1,40,84	8,08,03
33	72	National Planning Commission Secretariat	8,99,59	2,12,59	11,12,18
34	87	Ministry of Finance – Investments- Public Enterprises	0	4,75,96,63	4,75,96,63
35	90	Ministry of Finance – Staff Retirement and Other Facilities	3,27,07,86	0	3,27,07,86
36	95	Ministry of Finance - Miscellaneous	26,18,67	40,50,68	66,69,35
		Total	29,50,06,68	17,43,73,18	46,93,79,86