



**NATIONAL BUDGET
FINANCIAL YEAR 2017-18**

**MINISTRY OF FINANCE
MAY 2017**

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INTRODUCTION

As the final year of the 11th Five Year Plan (FYP), the focus of the Financial Year (FY) 2017-18 is to complete the priority programs and activities to achieve the goals of the 11th FYP and fulfill the aspirations of the people, thereby ensuring “**Prosperity for All**”. It also provides an excellent opportunity for the Government to formulate a comprehensive 12th FYP encompassing the development needs and wishes of the people. Therefore, continued support and cooperation of all relevant agencies will be crucial for successful completion of the 11th FYP and formulation of 12th FYP.

During the last four years of the 11th FYP, rapid socio-economic development has been achieved. With various poverty reduction interventions such as Rural Economy Advancement Program (REAP) and Village Development Program (VDP), the Government is committed to reduce income poverty to 5% by the end of FY.

The economic growth trajectory has been restored and prospects look positive in the medium term. Most of the economic challenges that the country was grappling with have been addressed through appropriate fiscal and monetary policy measures. Among others, the implementation of Economic Stimulus Plan (ESP) also contributed to reinvigorating the growth and stability. The Economic Development Policy (EDP) and Fiscal Incentives 2016 launched recently is expected to further boost the economy thereby contributing to realizing the national objective of economic self-reliance. Nevertheless, continued policy interventions will be vital to make the economy stronger and resilient in the face of emerging challenges.

Starting from last FY, to deepen the decentralization process and to promote “**Wangtse Chhirpel**”, the Local Governments (LG) have been further empowered with full authority in the use of Dzongkhag Development Grant (DDG) for responding to the specific needs and priorities at the grassroots level. The democratic process has been further strengthened with the successful conduct of the second LG election. In recognition of the important roles played by the LG members, His Majesty the Druk Gyalpo awarded Patangs to Dzongkhag Tshogdu Thrizins. The Government established Third Pay Commission (3PC) to examine and recommend revision of pay, allowances and benefits of LG members. The 3PC Report along with the endorsement of the Lhengye Zhungtshog will be presented to the House for consideration. As committed

by the Government a utility vehicle has been provided to all the Gewogs to facilitate mobility for monitoring the development activities. Further to provide easy access to POL in rural communities and help promote rural economy, Government is committed to establish POL Retail Outlets (ROs) in all the Gowogs. Budget for 65 ROs was provided in the last FY and the balance of 140 ROs will be completed during the FY.

The 13th Round Table Meeting (RTM) was held in Thimphu from 15th to 16th March 2017 mainly to present the implementation progress of the 11th FYP and sensitize the preparation of 12th FYP. More than 150 representatives of Bhutan's development partners participated in the RTM and expressed their appreciation for the progress achieved and ensured their continued support during the 12th FYP.

The Government's Performance Management System (GPMS) has helped in optimizing the use of public resources as budget has been linked with objectives and targets of the Annual Performance Agreements (APA).

As compared to the last four years, the FY 2017-18 has the highest budget allocations. This is mainly to provide adequate resources to complete all ongoing activities. During the FY, major activities such as double-laning of Northern East-West highway, Gyalpozhing-Nganglam road, blacktopping of 42 gewog connectivity (GC) roads, construction of 3 hospitals (Gelephu, Tsirang & Haa) will be completed while 3 new central schools will be established increasing the total central schools to 63. Major renovation of Trashigang Dzong, Gasa Dzong and construction of Pema Gatshel Dzong will be completed during the FY. Further, all domestic airports will be functional and integrated livestock farm in Samrang will be completed.

The construction of National Council building and Sarpang Dzong will also be initiated during the FY.

As a new initiative, Government will establish an Endowment Fund for Crop and Livestock Conservation to compensate farmers for crops and livestock damaged by natural calamities and wildlife. In order to maintain macroeconomic stability over the medium to long term, a Stabilization Fund will be established. Since rural life insurance is one of the most useful sources of support in difficult times, the payout shall be enhanced from Nu.15,000 to Nu.30,000 and for sustainability purpose, the management of the scheme shall be transferred to RICBL.

Recognizing the important role played by *Konyers* (caretakers) in the upkeep of lhakhangs besides performing rituals in the community, all registered *Konyers* under *Zhung Dratshang* will be paid salary by the Government. As the Property Assessment and Valuation Agency (PAVA) rates used for acquiring land for Government use was not revised since 2009 and recognizing the importance of paying fair compensation to the land and property owners, the Government has revised the PAVA rates with effect from April 2017.

In order to address youth unemployment issue, the Government has launched the Overseas Education and Skills Development Program as a priority-sector lending under which Bhutanese youth can access loan without collateral to pursue higher education or develop proficiencies/skills abroad to improve their employment opportunities or business positions on return home. The participating financial institutions will receive tax waiver on the interest income for lending to the scheme under the Fiscal Incentives 2016. Similar level of support and initiatives will be considered during the FY to provide gainful employment to youth entering the job market.

In accordance to the provisions of the Public Finance Act, the Budget has been formulated based on the Budget Policy and Fiscal Framework Statement (BPFFS) and resource envelope determined by the Macroeconomic Framework Coordination Committee (MFCC). The macro-fiscal performance and outlook has been considered to ensure that fiscal deficit is contained at manageable level.

As required by the Royal Monetary Authority Act 2010, the budget for the FY 2017-18 has been vetted by RMA with regard to the level of domestic borrowing and its impact on external sector.

The Budget for FY 2017-18 is presented as follows.

- Chapter I:* *Fiscal performance/operation in FY 2015-16;*
- Chapter II:* *Revised Budget Estimates for the FY 2016-17;*
- Chapter III:* *Budget Estimates for the FY 2017-18;*
- Chapter IV:* *Tax Measures;*
- Chapter V:* *Macroeconomic Performance and Outlook;*
- Chapter VI:* *Royal Monetary Authority*
- Chapter VII:* *State Owned Enterprises;*
- Chapter VIII:* *Druk Holding and Investments;*
- Chapter IX:* *National Pension and Provident Fund (NPPF);*
- Chapter X:* *Trust Funds;*
- Chapter XI:* *Hydropower Development in Bhutan*
- Chapter XII:* *Foreign Direct Investments (FDI)*

CHAPTER 1

FISCAL PERFORMANCE/OPERATION IN FY 2015-16

The FY 2015-16 was a special year as the Nation celebrated the 60th birth anniversary of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck and the birth of His Royal Highness the Gyalsey. Further, as the mid-year of the 11th FYP more than 24% of the plan outlay was allocated to intensify implementation of the plan activities. In addition, MTR of the 11th FYP was also carried out and APA was formally introduced.

Within this backdrop, broad fiscal policies were implemented and following fiscal outcomes have been achieved:

- The fiscal deficit was 1.1% of GDP as against the target of 3.2% of GDP;
- After meeting the recurrent expenditure, 23% of capital expenditure was financed by surplus revenue;
- Non-hydro debt was 29.7% of GDP as against the target of 35% of GDP; and

The details of the fiscal outcome are as follows:

1.1 Overall Fiscal Outcomes

The original budget for the FY 2015-16 was Nu.45,504.591 million against the estimated resources of Nu.41,017.888 million with a fiscal deficit of Nu.4,486.703 million and resource gap of Nu.4,089.738 million.

During the FY, the budget was revised to Nu.48,775.540 million and the resources to Nu. 44,677.102 million. The revised fiscal deficit was Nu.4,098.438 million and the resource gap Nu.5,046.702 million.

At the close of the FY, the total actual outcome was Nu. 43,603.000 million against the total resources of Nu.42,039.298 million resulting in a fiscal deficit of Nu.1,563.702 million which is 1.1% of the Gross Domestic Product (GDP). Although the fiscal deficit was financed with external borrowing of Nu.1,818.681 million, after the repayment of Nu. 3,034.163 million, the resource gap was Nu.2,779.184 million which is about 2% of GDP.

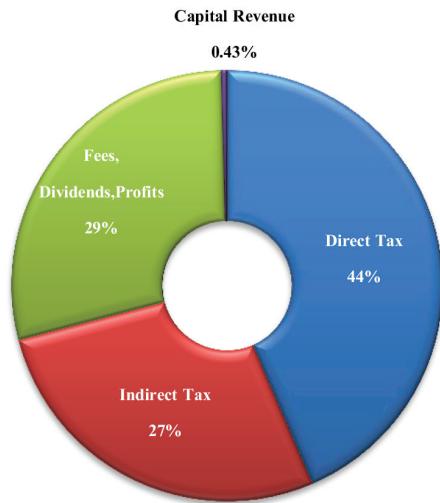
The comparative statement of the original, revised budget and actual outcome for the FY 2015-16 is presented below.

Table 1. 1: Financing and variance as on 30th June, 2016

	Particulars	Nu. in million			% Variance	
		Original Budget	Revised Budget	Outcomes	Original Vs Revised	Revised Vs Actual
A	RESOURCES	41,017.888	44,677.102	42,039.298	8.9%	-5.9%
	I. Domestic Revenue	26,145.124	26,293.685	28,033.812	0.6%	6.6%
	i. Tax	19,197.949	18,390.779	19,884.626	-4.2%	8.1%
	ii. Non-Tax	6,947.175	7,902.906	8,149.186	13.8%	3.1%
	II. Other Receipts (Net)	-	651.189	(884.124)	-	-235.8%
	III. Grants	14,872.764	17,732.228	14,889.610	19.2%	-16.0%
	i. Programme grants	2,746.000	2,845.015	2,340.015	3.6%	-17.8%
	a) GoI	1,700.000	1,700.000	1,275.000	0.0%	-25.0%
	b) Other Donors	1,046.000	1,145.015	1,065.015	9.5%	-7.0%
	ii. Project-tied grants	12,126.764	14,887.213	12,549.595	22.8%	-15.7%
	a) GoI	9,548.657	11,067.664	9,446.698	15.9%	-14.6%
	b) Other Donors	2,578.107	3,819.549	3,102.897	48.2%	-18.8%
B	OUTLAY	45,504.591	48,775.540	43,603.000	7.2%	-10.6%
	I. Total Expenditure	47,348.166	50,443.329	44,688.447	6.5%	-11.4%
	i. Current	23,871.321	23,865.097	22,880.591	0.0%	-4.2%
	ii. Capital	23,476.845	26,578.232	21,807.856	13.1%	-17.9%
	II. Net Lending	(1,843.575)	(1,667.789)	(1,885.332)	-9.5%	13.0%
	III. Advance/Suspense (Net)	-	-	799.885	-	-
C	OVERALL BALANCE	(4,486.703)	(4,098.438)	(1,563.702)	-8.7%	-61.8%
D	FINANCING	4,486.703	4,098.438	1,563.702	8.7%	61.8%
	Net Borrowing	396.965	(948.264)	(1,215.482)	338.9%	-28.2%
	i. Borrowings	3,420.506	2,086.189	1,818.681	39.0%	12.8%
	ii. Repayments	3,023.541	3,034.453	3,034.163	-0.4%	0.0%
E	RESOURCE GAP	(4,089.738)	(5,046.702)	(2,779.184)	-23.4%	44.9%

1.2 Revenue and Grants

The total domestic revenue realized for the FY 2015-16 was Nu.28,033.812 million representing 19.73% of GDP. The domestic revenue increased by 6.62% from the revised revenue estimate and by 11.50% (Nu.2,892.782 million) as compared to the FY 2014-15. The tax revenue was Nu.19,884.626 million and non-tax revenue was Nu.8,149.186 million. The increase was mainly from corporate income tax, personal income tax, sales tax, customs duty and green tax.



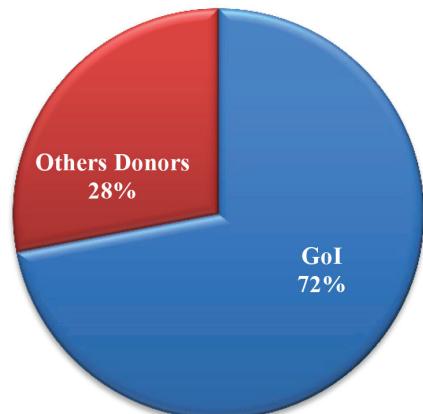
The Revenue Administration and Management Information System (RAMIS) led to a significant increase in taxes due to facilitation of effective assessment as a result of information captured in the system particularly tax deducted at source. Non-tax revenue also performed well during the year with an increase of 21% mainly from administrative fees and charges, transfer of surplus from Royal Monetary Authority and dividends and interest receipts from corporations.

Table 1.2 Summary of Revenue Comparison for FY 2014-15 and FY 2015-16

Nu. in million

Particulars	FY 2014-15	FY 2015-16	Increase/(decrease)
Tax Revenue	18,387.335	19,884.626	1,497.291
Non Tax Revenue	6,753.695	8,149.186	1,395.491
Total	25,141.030	28,033.812	2,892.782

The total external grants received in cash and in-kind during the FY 2015-16 was Nu.14,889.610 million which is 35.42% of the total resources. Of the total revised external grants, only 84% was received during the FY. As compared to the previous FY, the grants received increased by Nu. 4,934.590 million (49.60%) largely due to increase in inflow of grant from GoI by 62.6%. The grants from other external donors also increased by 24%.



1.3 Expenditures

The total expenditure for the FY 2015-16 was Nu.44,688.447 million, an increase by 22.5% as compared to the previous FY.

The current expenditure increased from Nu.21,032.044 million of the previous year to Nu.22,880.591 million mainly on account of establishment of central schools and upward revision of pay and allowances of RBP. The total current expenditure was fully financed by the domestic revenue.

The capital expenditure was Nu.21,807.856 million, an increase by Nu.6,364.052 million (41.2%) as compared to the previous FY. The increase was mainly on account of double-laning of Northern East-West Highway, hospitals (Tsirang, Gelephu, Dewathang, Samtse), public health laboratory, construction and renovation of Dzongs (Pema Gatshel, Wangdue Phodrang, Gasa, Trashigang)

1.4 Total Public Debt

The total outstanding public debt (internal and external debt) as on 30th June 2016 was Nu.160,562.057 million, which is about 113% of GDP. The debt stock increased by 33% mainly contributed by the disbursement for on-going hydropower projects from the Government of India and SAARC currency swap arrangement availed by RMA. The total principal loan repayment during the fiscal year was Nu.3,034.163 million.

1.4.1 Domestic Debt

As on 30th June 2016, the domestic debt was Nu.4,656.115 million of which Nu. 4,589.577 million pertains to loan availed from the Bank of Bhutan under overdraft facility (OD) and the balance was on account of loan availed from the NPPF for construction of staff quarters at Phuentsholing hospital.

During the FY, T-Bills with varying maturities were issued for cash management and to ensure timely release of funds for implementation of externally funded projects. The T-Bills were fully redeemed during the fiscal year.

1.4.2 External Debt

The total external debt as on 30th June 2016 was Nu.155,905.942 million, which is about 109.7% of GDP. Of the total external debt, 73% was hydro debt (80.1% of GDP) and 27% was non-hydro debt (29.70% of GDP). In terms of currency composition, 26% of total external debt was convertible currency debt and 74% was Indian Rupee debt.

The outstanding Rupee loan from the Government of India amounted to Rs.115,393.815 million as on 30th June 2016. The debt service ratio was maintained at 14.8%.

1.5 Audited Financial Statement for FY 2015-16

The operational result of the FY 2015-16 has been duly certified by the Royal Audit Authority. A copy of the audited Annual Financial Statement is distributed separately.

CHAPTER 2

REVISED BUDGET OF FY 2016-17

The outlay for the FY 2016-17 has been revised from Nu. 49,981.584 million to Nu. 54,380.432 million and total resources from Nu. 41,605.862 million to Nu. 47,890.080 million. Accordingly, the fiscal deficit improved from 5.31% to 4.06% of GDP.

The increase in the outlay is on account of incorporations of external assistance and adjustments of prior years' advances of Nu. 4,398.848 million (current-Nu.283.564 million, capital-Nu. 4,115.284 million). The domestic revenue also increased from Nu. 27,247.169 million to Nu. 29,167.933 million.

During the FY, Nu.262.808 million was approved for incorporation as per the Supplementary Appropriation Act to support employment facilitation program. The summary of revised budget for the FY 2016-17 is provided in the Table 2.1.

Table 2.1: Revised Budget Summary for FY 2016-17 as of 31st March 2017

Nu. in million

Sl. No	Particulars	Original Budget	Revised Budget
A	Resources	41,605.862	47,890.080
	I. Domestic Revenue	27,247.169	29,167.933
	i. Tax	19,599.564	21,078.490
	ii. Non-tax	7,647.605	8,089.443
	II. Other Receipts	20.000	195.469
	III. Previous Year's Advance	-	629.629
	IV. Grants	14,338.693	17,897.049
	i. Program	1,700.000	1,700.000
	ii. Project-tied	12,638.693	16,197.049
	a) GoI	9,925.441	12,688.827
	b) Others	2,713.252	3,508.222
B	Outlay	49,981.584	54,380.432
	I. Total Expenditure	51,884.364	56,283.212
	i. Current	25,387.034	25,670.598
	ii. Capital	26,497.330	30,612.614
	II. Net Lending	-1,902.780	-1,902.780
C	Overall Balance	-8,375.722	-6,490.352

Sl. No	Particulars	Original Budget	Revised Budget
D	Financing	8,375.722	6,490.352
	I. Borrowing	3,567.345	3,826.146
	i. Project tied (external)	920.745	956.139
	ii. Program (external)	2,646.600	2,870.007
	II. Repayment	2,823.098	2,823.098
	i. External	2,813.904	2,813.904
	ii. Internal	9.194	9.194
E	Resource Gap	-7,631.475	-5,487.304
	<i>Fiscal Balance % Of GDP</i>	<i>-5.31%</i>	<i>-4.06%</i>
	<i>Resource Gap % Of GDP</i>	<i>-4.84%</i>	<i>-3.43%</i>
	<i>Nominal GDP</i>	<i>157,628.098</i>	<i>159,928.353</i>

2.1 Total resources

Total resources increased from Nu.41,605.862 million to Nu.47,890.080 million, an increase of 15% from the original estimate. The increase is on account of increase in domestic revenue by Nu.1,920.764 million, incorporation of Nu.3,558.356 million (Nu.126.704 million has been rationalized during the year) from external grants, other receipts and adjustments of Nu.805.098 million.

2.1.1 Domestic revenue estimates

The total domestic revenue for the FY 2016-17 has been revised to Nu. 29,167.933 million, an increase of 7% from the original estimates. Tax revenue is estimated to be Nu.21,078.490 million and non-tax to be Nu.8,089.443 million. The increase in the revenue estimates is on account of excise duty refund from GoI by Nu.896.203 million, Nu. 131.000 million from revision of royalty rates of mines and minerals, Nu. 1,178.704 million on account of increase in Green Tax on POL and Nu.374.067 million on account of increase in transfer of surplus from the RMA. In addition an amount of Nu.164.765 million is expected from DHI as dividends.

In keeping with the Income Tax Act 2016 minimum income threshold for taxation has been enhanced to Nu. 0.200 million, education expenses to Nu. 0.150 million and tax on interest income from fixed deposit has been exempted. These measures were introduced to reduce tax burden on the lower and middle income group and to inculcate saving culture, however these had the overall estimated revenue implication of Nu. 500.000 million. In addition, revenue is also projected to fall due to decline in royalty from tourism by Nu.112.855 million and Dagachhu Hydropower Corporation (DHPC) on account of CIT amounting to Nu.355.117 million.

Table 2.2 Revised Revenue summary for FY 2016-17

Nu.in million

Sources		Original	Revised	% Change
A	Tax Revenue	19,599.564	21,078.490	7.5
I	Direct Tax	12,596.453	11,819.660	(6.2)
1	Corporate Income Tax	7,100.186	7,373.103	3.8
2	Business Income Tax	1,747.487	1,232.680	(29.5)
3	Personal Income Tax	1,378.985	1,378.985	0.0
4	Other Direct Tax Revenue	2,369.795	1,834.892	(22.6)
II	Indirect Tax	7,003.111	9,258.830	32.2
1	Sales Tax	3,384.434	4,039.932	19.4
2	Excise Duty	2,546.323	3,480.261	36.7
	2.1 Excise Duty (GoI)	2,020.720	2,916.923	44.4
	2.2 Excise Duty (Domestic)	525.603	563.337	7.2
3	Customs Duty	465.476	609.312	30.9
4	Green Tax	584.626	1,107.833	89.5
5	Other Indirect Tax Revenue	22.251	21.492	(3.4)
B	Non -Tax Revenue	7,647.605	8,089.443	5.8
1	Adm. Fees & charges	386.449	728.511	88.5
2	Capital Revenue	121.344	126.472	4.2
3	Revenue from Govt. Depts.	472.517	508.447	7.6
4	Dividend	4,147.966	4,073.195	(1.8)
5	Net Surplus Transfer	500.000	874.067	74.8
6	Other Non-Tax Revenue	139.603	95.376	(31.7)
7	Interest on loan from corp.	1,879.725	1,683.374	(10.4)
	Total Revenue (A+B)	27,247.169	29,167.933	7.0

2.1.2 External grants

During the FY total grant incorporated is Nu. 3,558.356 million of which Nu. 2,763.386 million is from the Government of India, Nu. 116.817 million from the World Bank, Nu. 214.524 million from UNDP and Nu. 463.629 million from other development partners. Besides the incorporation, there was also rationalization of Nu.126.704 million.

The summary of the incorporations made during the year are shown in the Table 2.3.

Table 2.3: Summary of the external incorporation

Nu.in million

Sl. No	Name of the donor	Amount
1	Government of India	2,763.386
2	UNDP IPF	214.524
3	WORLD BANK	116.817
4	GFATM (GLOBAL FUND)	52.800
5	UNICEF	47.714
6	Swiss Development Corporation	43.582
7	WHO	39.722
8	ADB	33.039
9	BTFEC	32.053
10	HELVETAS	30.696
11	IDA, WB	29.529
12	WWF	29.180
13	SCF-USA	27.254
14	Bhutan Foundation	23.245
15	Austria	17.873
16	SDF SAARC Development Fund	17.190
17	ICIMOD	16.414
18	MHPA	15.655
19	Japan	15.581
20	European Union	14.651
21	Asian Food and Agriculture Co-operation Initiative	13.444
22	UNFPA	12.424
23	UNESCO	10.265
24	Others	65.477

2.2 Expenditure

The revised total expenditure is Nu. 56,283.212 million which is about 8% increase from the original estimate. The increase is mainly due to incorporation of external funds and adjustment of prior year's advances.

2.2.1 Current expenditure

The revised current expenditure is Nu.25,670.598 million which is about 1% increase or an increase of Nu.283.564 million from the original estimate due to incorporation of external funds and prior year's advances.

2.2.2 Capital expenditure

Revised capital expenditure is Nu.30,612.614 million which is an increase by Nu. 4,115.284 million or 16% from the original expenditure of Nu.26,497.330 million. The increase in capital expenditure is due to incorporation of external grant and loan funded projects besides incorporation of Nu.165.169 million for Employment Facilitation Program and Nu.10.000 million for Wangdue Dzong reconstruction project.

2.3 Net lending

There was no change in net lending during the Fiscal Year 2016-17

2.4 Borrowing

The external borrowing for the FY 2016-17 has increased to Nu. 3,826.146 million from Nu. 3,567.345 million. The increase is about 7.3% mainly contributed by project-tied borrowing of Nu. 35.394 million and program borrowing of Nu. 223.407 million.

For cash flow management, T-bills of varying maturities have been regularly issued through public auction. As of 31st March, 2017 T-bills outstanding is Nu.12,500.000 million which will be redeemed by the end of the FY depending on the cash balance in the Government Consolidated Account (GCA). However, for financing the revised resource gap of Nu. 5,487.304 million, issuance of debt instruments such as government bonds are being considered in addition to T-bills.

2.4.1 Debt and debt servicing

The debt service for FY 2016-17 is revised to Nu.4,915.416 million from Nu.4,815.416 million, due to additional interest payment of Nu.100.000 million for T-bills.

CHAPTER 3

BUDGET ESTIMATES FOR FY 2017-18

Since the FY 2017-18 marks the final year of the 11th FYP, the Budget has been formulated with the thrust to complete priority activities for achieving the goals of the 11th FYP to ensure “**Prosperity for All**” through “**Wangtse Chhirpel**.”

The Budget for the FY has been considered with the following broad principles:

- i. Maintain fiscal deficit at sustainable level in line with the Plan target of 3% of GDP for ensuring growth and stability.
- ii. Revenue surplus to increasingly cover part of capital expenditure.
- iii. Maintain resource gap at manageable level to avoid private sector crowding out effect
- iv. Priority accorded to complete the on-going activities.
- v. No new activities that would spill-over to 12th FYP included in the allocation.
- vi. No borrowings for recurrent expenditure and non-hydro debt be maintained at 35% of GDP.
- vii. Annual Performance Agreement targets have been considered for budget allocation.
- viii. Subsidies and transfers provided to SOEs and autonomous agencies to deliver social mandates and to cover revenue deficit.

The budget estimates for FY 2017-18 is summarized in table 3.1

Table 3.1: Budget Estimate Summary for FY 2017-18

Nu. in million

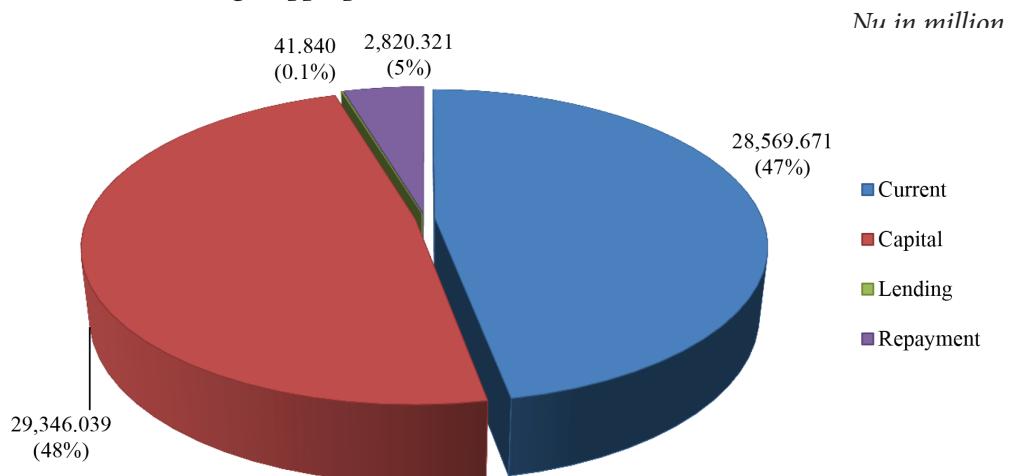
Sl. No	Particulars	Budget Estimates
A	Resources	51,402.893
	I. Domestic Revenue	34,700.355
	i. Tax	24,444.478
	ii. Non-tax	10,255.877
	II. Grants	16,702.538
	i. Program (GoI)	1,700.000
	ii. Project-tied	15,002.538
	a) GoI	12,145.368
	b) Others	2,857.170
B	Outlay	55,850.264
	I. Total Expenditure	57,915.710
	i. Current	28,569.671
	ii. Capital	29,346.039
	II. Net Lending	(2,065.446)
C	Overall Balance	(4,447.371)
D	FINANCING	4,447.371
	I. Borrowing	2,472.082
	i. Project tied (external)	1,172.082
	ii. Program (external)	1,300.000
	II. Repayment	2,820.321
	i. External	2,810.407
	ii. Internal	9.914
E	Resource Gap	(4,795.610)
	<i>Fiscal balance % of GDP</i>	<i>-2.47%</i>
	<i>Resource gap % of GDP</i>	<i>-2.66%</i>
	<i>Nominal GDP</i>	<i>180,034.695</i>

3.1 Total Budget Appropriation

Although the outlay for the FY is Nu.55,850.264 million, the total budget appropriation for the FY is Nu.60,777.871 million and it comprises of total expenditure (Nu.57,915.710 million), lending (Nu.41.840 million) and repayment (Nu.2,820.321 million).

Total budget appropriation is presented in the chart.

Chart 3.1: Total budget appropriation



3.2 Resources

The total resources estimated for the FY 2017-18 is Nu. 51,402.893 million of which domestic revenue is Nu. 34,700.355 million and external grants is Nu. 16,702.538 million.

3.2.1 Domestic Revenue

The total domestic revenue for the fiscal year is estimated to be Nu. 34,700.355 million, which is an increase of 19% from the previous year. Of the total domestic revenue, Nu. 24,444.478 million is tax revenue and Nu. 10,255.877 million is non-tax revenue.

During the FY, Nu.2,655.972 million is estimated on account of royalty energy from various hydropower plants and Nu.284.506 million is anticipated from power tariff revision.

Additional revenue of Nu.15.844 million is also projected from tourism with the implementation of the Bhutan-Korea friendship offer scheduled to be launched in July-August 2017. The growth in non-tax revenue by 26.8% is mainly on account of expected increase in the net surplus transfer from RMA. Further, the RMA has decided to close the MoF Revaluation Reserve account and transfer the balance of Nu.1,648.118 million to MoF after fulfilling all statutory requirements. The details of domestic revenue is given in the Table 3.2.

Table 3.2: Revenue Summary for FY 2017-18

Sources			<i>Nu.in million</i>
		Original	% to total revenue
A	Tax Revenue	24,444.478	70.4
I	Direct Tax	14,603.074	42.1
1	Corporate Income Tax	7,178.397	20.7
2	Business Income Tax	1,294.314	3.7
3	Personal Income Tax	1,524.894	4.4
4	Other Direct Tax Revenue	4,605.469	13.3
II	Indirect Tax	9,841.404	28.4
1	Sales Tax	4,355.614	12.6
2	Excise Duty	3,622.288	10.4
	2.1 Excise Duty (GoI)	3,033.600	8.7
	2.2 Excise Duty (Domestic)	588.688	1.7
3	Customs Duty	622.318	1.8
4	Green Tax	1,218.617	3.5
5	Other Indirect Tax Revenue	22.567	0.1
B	Non -Tax Revenue	10,255.877	29.6
1	Administration Fees & charges	764.937	2.2
2	Capital Revenue	132.796	0.4
3	Revenue from Govt. Depts.	518.616	1.5
4	Dividend	4,260.454	12.3
5	Net Surplus Transfer	2,648.118	7.6
6	Other Non-Tax Revenue	104.914	0.3
7	Interest on loan from corp.	1,826.043	5.3
	Total Revenue (A+B)	34,700.355	100

3.2.2 External grants

The external grant for the FY is estimated to be Nu.16,702.538 million which includes GoI program grant of Nu.1,700.000 million and project-tied grant of Nu. 12,145.368 million. The other major external grants are Nu. 749.528 million from ADB, Nu. 191.056 million from UN agencies, Nu.282.771 million from the Government of the Netherlands (ORIO), Nu. 243.042 million from EU, Nu.20.412 million from WHO, Nu. 181.629 million from World Bank and balance are from various other development partners.

In addition, external grant is expected to increase during the FY as financing agreements have been signed with EU for a grant of Euro 42.000 million as program budget support. Further, project proposals have been also submitted for accessing grant financing from Green Climate Fund (GCF) and Least Developed Countries Fund (LDCF).

3.3 Total Expenditure

The total estimated expenditure is Nu.57,915.710 million of which 49% is current and 51% is capital expenditure. With negative net lending of Nu.2,065.446 million, the outlay for the FY is Nu.55,850.264 million. Economic classification of expenditure is provided in *Annexure 5*.

3.3.1. Current expenditure

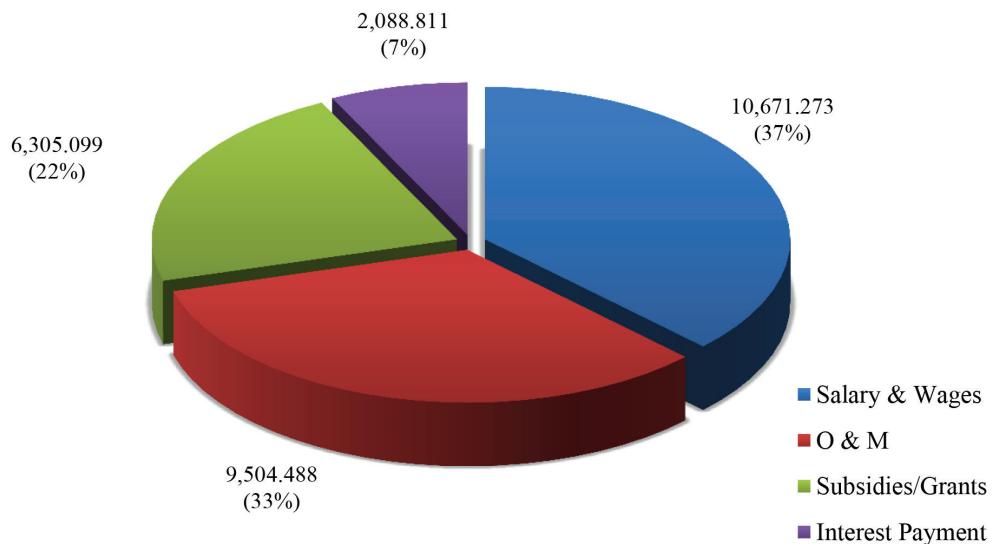
The current expenditure is Nu.28,569.671 million which is an increase of 11.3% as compared to the previous FY. The increase in current expenditure is on account of payment for electricity subsidy through budgetary process, provisions for National Council election and revision of pay, allowances and benefits for LG members.

The current expenditure accounts for about 82% of the domestic revenue and 16% of the GDP.

The composition of current expenditure is as provided in the chart 3.2.

Chart 3.2: Composition of current expenditure

Nu.in million

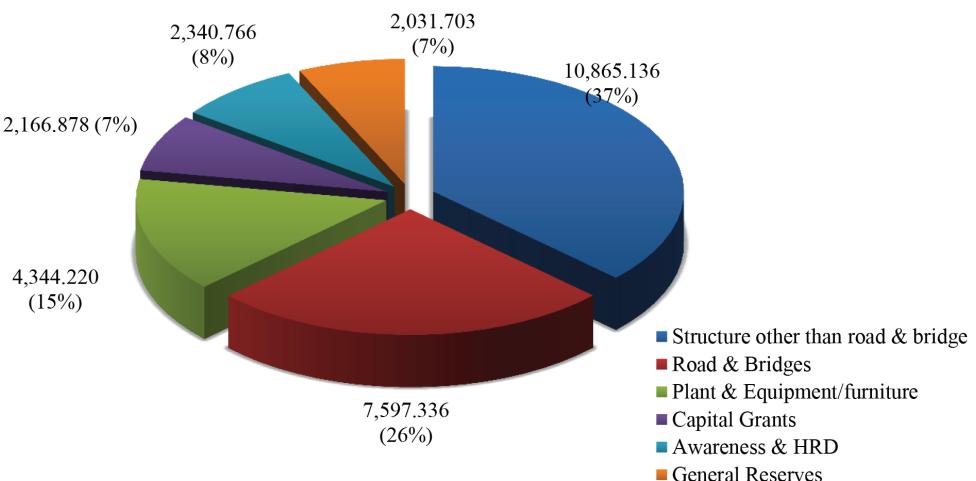


3.3.2 Capital expenditure

The total capital expenditure is Nu.29,346.039 million which is about 51% of the total expenditure. About 21% of the capital expenditure will be financed by revenue surplus, 57% through external grants, 8% from external borrowings, and the balance through domestic borrowings.

Chart 3.3: Composition of capital expenditure

Nu.in million



3.3.3 Subsidies, equities and transfers

A total of Nu.5,647.143 million is allocated as subsidies, equities and transfers to be provided to State Owned Enterprises, Thromdes and Universities (RUB and KGUMSB). Of the total, Nu.2,561.614 million is provided as subsidies, Nu.486.639 million as equity and Nu.2,598.890 million as transfers.

Table 3.3 Details of subsidies, equities and transfers

Nu.in million

Sl. No	Name of Agency	Current	Capital	Total
Subsidy				
1	Bhutan Broadcasting Service Corporation	132.604	43.735	176.339
2	City Bus Services-Bhutan Post	43.101		43.101
3	Interest Subsidy for 3rd Aircraft, Drukair	147.024		147.024
4	Rural House Insurance (RICBL)	16.000		16.000
5	Rural Life Insurance (RICBL)	52.670		52.670
6	Maintenance of Government quarters in Dzongkhag, NHDCL	25.000		25.000
7	Development of ancillary facilities and interest component of the loan availed for construction of housing complex in Phuentsholing, NHDCL	29.750	9.060	38.810
8	Interest subsidy for OD facility, FCBL	7.870		7.870
9	Domestic Power Tariff- BPC	1,927.500		1,927.500
10	Bhutan Chambers of Commerce and Industries	10.500		10.500
11	Interest component of the loan availed to establish integrated agro-processing plant at Lingmethang, Mongar - BAIL	9.000		9.000
12	Bhutan Indigenous Sports Association	2.800		2.800
13	Support to FMCL for Hiring of Power Tillers		30.000	30.000
14	Bhutan Olympic Committee	75.000		75.000
A	Total	2,478.819	82.795	2,561.614
Equity				
1	Support to Bhutan Lottery limited		20.000	20.000
2	Revolving Fund I, ESP, BDBL		334.229	334.229
3	Revolving Fund II, ESP, REDCL		102.410	102.410
4	Establishment of integrated agro-processing plant at Lingmethang, Mongar , BAIL		30.000	30.000
B	Total	-	486.639	486.639
Transfer				
1	Druk Gyalpo Relief Fund		10.000	10.000
2	Contribution to Bhutan Health Trust Fund		500.000	500.000

3	Establishment of Stabilization Fund		100.000	100.000
4	Endowment Fund for Research and Culture,		20.000	20.000
5	Endowment Fund for Crop and Livestock Conservation		50.000	50.000
6	Khesar Gyalpo University of Medical Sciences of Bhutan, KGUMSB	54.180		54.180
7	Royal University of Bhutan	646.300		646.300
8	Phuentsholing Thromde	4.000	200.575	204.575
9	Samdrup Jongkhar, Thromde	26.000	175.463	201.463
10	Thimphu, Thromde	31.000	512.975	543.975
11	Gelephu, Thromde	23.397	245.000	268.397
C	Total	784.877	1,814.013	2,598.890
D	Grand Total	3,263.696	2,383.447	5,647.143

3.4 Net-Lending

During the FY, Nu.41.840 million will be on-lent to BPC to complete the rural electrification activities. Recoveries from the corporations is estimated to be Nu.2,107.286 million. As a result, net lending is negative Nu.2,065.446 million. The details of the on-lending and recoveries are in the following Table 3.4.

Table 3.4: Net lending for FY 2017-18

Nu. in millions

I	On-lending	Amount
1	Rural Electrification V - BPC (RREDP) - ADB	32.640
2	Rural Electrification (RE - II) - JICA	9.200
	Total on-lending (A)	41.840
II	Recoveries – external	
1	THPA	1,342.591
2	BDFC Loan BHU-934/1566/0088-89/512/659	27.269
3	BPC - RE I/II/III (1375/1712/2009/JICA-P1)	162.581
4	Green Power Development Project (2463/2464-BHU OCR/ADF)	118.480
5	Basochhu Hydropower Projects (Upper & Lower Stage)	145.325
6	Dagachhu Hydropower Project	277.228
III	Recoveries – domestic	
1	Purchase of aircraft for Drukair	33.811
	Total Recoveries (External + Domestic) (B)	2,107.286
	Net Lending (A-B)	-2,065.446

3.5 Financing

During the FY, the Government will continue to mobilize concessional loans from multilateral development banks and bilateral development partners to finance the fiscal deficit while the resource gap shall be financed through domestic borrowings.

3.5.1 External borrowings

During the FY, Nu.2,472.082 million will be mobilized through external borrowing in the form of program borrowing and project-tied borrowing. The details of external borrowings are shown in the Table 3.5.

Table 3.5: External borrowings for FY 2017-18

Sl. No	Lender	Program Borrowing	Project-tied Borrowing	Nu. in million
				Total
1	ADB	-	457.050	457.050
2	World Bank	1,300.000	576.846	1,876.846
3	IFAD	-	128.986	128.986
4	JICA	-	9.200	9.200
	TOTAL	1,300.000	1,172.082	2,472.082

3.5.2 Domestic borrowings

For financing the estimated resource gap of Nu.4,795.610 million and cash flow management, the Government will resort to domestic borrowings in the form of issuance of T-bills and Government bonds.

3.6 Public debt stock

3.6.1 External debt stock

Based on the planned disbursements for the ongoing and pipeline projects, the external debt stock is estimated at Nu.178,672.862 million by the end of FY 2017-18, which is about 99.2% of GDP. The external debt stock is projected to increase by 7.6% on account of expected disbursement for ongoing hydropower projects (Puna I, Puna II, Mangdechhu, Nikachhu and Kholongchhu). Of the total external debt, Nu.146,010.484 million (81.1% of GDP) is on account of hydropower projects and the balance of Nu.32,662.378 million (18.1% of GDP) is non-hydro debt.

3.6.2 Domestic debt stock

The domestic debt stock is estimated at Nu.47.430 million by the end of FY 2017-18. It was availed from NPPF for construction of staff quarters at Phuentsholing hospital which will be liquidated by 1st April 2022. Domestic debt stock will increase if estimated resource gap of Nu.4,795.610 million for the FY is financed through domestic borrowings.

3.6.3 Debt servicing

For the FY 2017-18, the debt service is estimated at Nu.4,909.132 million. The principal repayment is estimated at Nu.2,820.321 million including Nu.2,810.407 million on account of external loans and Nu.9.914 million on domestic loan. The principal repayment for hydropower loans (GoI) is Nu.1,342.592 million constituting about 47.6% of the total principal repayment through the budget.

The interest payment is estimated at Nu.2,088.811 million comprising of Nu.1,833.780 million on account of external loans and Nu.255.031 million on domestic loan. The interest payment for GoI hydropower loan is estimated at Nu.1,243.714 million which is about 59.5% of the total interest payment through budget.

The debt service ratio is estimated at 23.5% and debt service as percentage of revenue is about 14.9% in FY 2017-18. The statement of debt service for the FY2017-18 is shown in the table 3.6.

Table 3.6: Statement of debt service for the FY 2017-18.

Nu.in million

Sl. No	Lender	Principal	Interest	Total
1	ADB	591.382	242.945	834.327
2	IDA	213.383	149.077	362.460
3	IFAD	74.950	20.906	95.856
4	GoA	503.924	173.511	677.435
5	JICA	84.176	3.627	87.803
6	GoI	1,342.592	1,243.714	2,586.306
	External	2,810.407	1,833.780	4,644.187
7	NPPF	9.914	4.981	14.895
8	Banks (interest on Ways & Means Advances and T-bills)	-	250.050	250.050
	Domestic	9.914	255.031	264.945
	Total	2,820.321	2,088.811	4,909.132

3.7 Sector allocation

Sector allocation for the FY 2017-18 is provided in the Table 3.7.

Table 3.7: Sector allocation for the FY 2017-18

Nu.in million

Sectors	Current	Capital	Total	Percent
Social Services	10,215.100	5,720.511	15,935.611	26%
Health	2,987.267	2,016.657	5,003.924	8%
Education	7,227.833	3,703.854	10,931.687	18%
Economic and Public Services	4,888.460	15,843.654	20,732.114	34%
Agriculture	2,514.028	2,925.795	5,439.823	9%
Mining & Manufacturing	430.087	1,146.910	1,576.997	3%
Roads	522.172	7,054.118	7,576.290	12%
Housing & Community	654.793	3,429.200	4,083.993	7%
Communications	639.191	960.262	1,599.453	3%
Energy	128.189	327.369	455.558	1%
Cultural Services	797.293	1,499.581	2,296.874	4%
Law and Order Services	1,949.419	714.534	2,663.953	4%
General Public Services	8,630.588	5,567.759	14,198.347	23%
National Debt Services	2,088.811	2,862.161	4,950.972	8%
Repayment	2,088.811	2,820.321	4,909.132	8%
Lending		41.840	41.840	0%
Total	28,569.671	32,208.200	60,777.871	100%

3.7.1 Health sector

The Government accords high priority to health sector and spends about 8% of the total budget annually. During the FY, the health sector aims to deliver health care services by *i) improving access to equitable and quality health care services ii) strengthening diagnostic capacity iii) reducing morbidity and mortality due to communicable & non-communicable diseases iv) strengthening traditional medicine services and v) consolidation and expansion of health infrastructure service amongst others.*

In order to achieve above objectives, Nu.5,003.924 million is allocated in FY 2017-18. The allocation includes Nu.1,102.333 million to support the ongoing construction of 20 bedded hospital in Haa, 150 bedded hospital in Gelephu, 40 bedded hospital in Tsirang, 40 bedded hospital in Dewathang and 150 bedded Gyaltsuen Jetsuen Pema Mother and Child Hospital in Thimphu. In addition, Nu.104.427 million has been allocated

to combat communicable and non-communicable diseases, Nu.687.240 million to purchase essential drugs, non-drugs, reagents, equipment and Nu.16.500 million is allocated for purchase of three ambulances. To continue supporting professional development in the health sector, Nu.171.912 million is allocated for capacity building while Nu.14.209 million is provided to promote traditional medicines as an alternative health care to the people.

Towards realization of the vision of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck to make Bhutan self-reliant in terms of essential drugs and vaccines, Nu.500.000 million is kept as contribution to Bhutan Health Trust Fund to achieve its target of Nu.3.000 billion.

Another important objective is to provide safe and clean drinking water through construction and maintenance of RWSS and water source protection in Dzongkhags and Gewogs. For this, Nu.358.439 million is provided during the FY. Of the total health sector allocation, Nu.1,190.281 million is allocated under Dzongkhags and Gewogs.

Table 3.8: Major activities in the Health Sector

Nu.in million				
Sl. No.	Objectives	Name of Activity	Amount	Funding Source
1	To improve HR administration & Management	Long term courses (New) for doctors, nurses and technologists.	12.578	RGoB
		Continuation of long term HRD programs for doctors, nurses and technologists	38.581	RGoB
2	To provide effective and efficient direction and operational services	Procurement of ambulances	16.500	RGoB
3	To improve access to equitable and quality curative & palliative healthcare services.	Professional services	11.100	RGoB
4	To reduce morbidity and mortality due to communicable diseases.	Communicable disease	9.732	UNICEF
			15.720	GLOBAL FUND
5	To control morbidity and mortality due to non-communicable diseases inclusive of maternal and child health improvement.	Non communicable Disease	11.940	UNICEF
			12.531	WHO
			7.417	UNFPA

Sl. No.	Objectives	Name of Activity	Amount	Funding Source
6	To strengthen traditional medicine services in the country	Capacity building of Drungtshos and Menpas and procurement of plant and equipment	8.081	RGoB
7	To improve functionality of medical equipment in health facilities	Procurement of spare parts/ accessories of medical equipment	10.000	RGoB
8	To improve quality and efficiency in the management of medical supplies	Procurement of medical equipment	90.000	RGoB
9	To consolidate and expand health infrastructure and services	Construction of 20 Bedded Districts Hospital, Haa	55.416	RGoB
		Construction of 150 Bedded Central Regional Referral Hospital, Gelephu	339.081	GoI
		Construction of 40 Bedded District Hospital, Tsirang	126.255	GoI
		Construction of 40 Bedded District Hospital, Dewathang, Samdrup Jongkhar	50.000	GoI
		Construction of 150 Bedded Gyaltsuen Jetsuen Pema Mother and Child Hospital, Thimphu	507.888	GoI
10	To enhance efficiency and effectiveness of G2C services	Procurement of medical equipment for Biomedical services.	6.000	RGoB
		Procurement of non-drugs	63.000	RGoB
		Development of parking space into a disaster rescue hall.	5.000	RGoB
		Construction of Bio Medical MTC and procurement Unit	20.000	RGoB
		Construction of additional Hospital Wing, JDWRNRH	40.000	RGoB
11	To develop Eco-friendly and resilient infrastructure	Construction of secretariat building, KGUMSB	24.948	GoI
		Construction of post graduate hostel, KGUMSB	3.000	GoI

3.7.2 Education sector

Education sector will continue its pursuit to provide equitable, inclusive, quality education and lifelong learning opportunities to all children. Government accords high priority to education sector and has been allocating about 18% of the total budget annually.

During the FY, Nu.10,931.687 million constituting about 18% of total budget has been allocated to Education Sector to improve *i) access and sustainability of education ii) relevance and quality of education and iii) health and wellbeing of school children* amongst others.

Major activities include development of additional infrastructure and facilities for central schools with an allocation of Nu. 1135.100 million of which Nu.670.947 million is kept under Dzongkhags.

For scholarship programs Nu.337.547 million has been allocated. To support development of model Early Childhood Care & Development (ECCD) and establishment of additional 45 ECCD centers with Water, Sanitation and Hygiene (WASH) facilities Nu.49.640 million is provided.

Further, Nu.107.640 million for professional development of teachers through ‘Transformative Pedagogy’, Nu.30.000 million for Program for International Student Assessment (PISA-D), Nu.20.000 million for supply of fortified rice to address the micro-nutrient deficiency among school children and Nu.90.941 million for Non-Formal Education (NFE) program has been allocated.

In order to improve curriculum, Nu.49.877 million is also allocated to the Royal Education Council.

Table 3.9: Major activities in the education Sector

Nu.in million				
Sl. No	Objectives	Activities	Amount	Funding Source
1	To improve access and sustainability of higher education	Student Loan Scheme for tertiary education	79.620	GoI
		Scholarship programs for undergraduates/cultural/medical students	337.547	RGoB
		Construction & development of infrastructure for Central Schools	761.777	GoI

Sl. No	Objectives	Activities	Amount	Funding Source
		Construction & development of infrastructure for Central Schools	373.323	RGoB
		Infrastructure development at Martshala PS/MSS (Samdrup Jongkhar), Norbugang MSS (Samtse), Gelephu MSS, Motithang HSS (Thimphu) and Tsirang Toed MSS(Tsirang)	246.104	GoI
2	To improve access and sustainability of education	Establishment of 45 new community ECCD centers with water sanitation and hygiene facilities	47.600	UNICEF
3	To improve relevance & quality of education	Training of teachers at Paro & Samtse College of Education	46.922	RGoB
		Professional development of teachers	107.640	RGoB
		Program for International Student Assessment (PISA-D)	30.000	RGoB
		Supply/Setting up of computer labs	10.000	RGoB
4	Enhance quality and relevance of tertiary education	Development IT based Management System Integrated Software for RUB	8.703	GoI
		Procurement of Laboratory Equipment for Civil/Electrical/Mechanical/IT Departments, Jigme Namgyel Engineering College	7.000	RGoB
5	Enhance access to tertiary education	Construction of academic block, Media & EVS lab and site development works at Sherubtse College	48.824	GoI
		Construction of hostels(150 Capacity) at Sherubtse College	59.070	GoI
		Construction of staff quarter, landscaping and remodeling of existing building at Sherubtse College	54.740	GoI
		Furnishing of hostels at Sherubtse College	20.000	GoI
		Construction of 48 capacity self-catering hostel (4 Blocks), Taktse	30.000	GoI
		Construction of science laboratory, classrooms, office for lecturers, IT Labs, lecture theater at College of Natural Resources, Lobesa	99.608	GoI

Sl. No	Objectives	Activities	Amount	Funding Source
		Remodeling of girls hostel, Science Block & Auditorium, Samtse College of Education	16.000	RGoB
		Construction of classrooms, Labs & offices with Modern Teaching Aids at Jigme Namgyel Engineering College	18.620	GoI
		Construction of dining hall, hostel to accommodate 96 additional students and staff quarter, Gyelpozhing College	56.682	RGoB
		Construction of hostel & fencing at Yonphula college	20.216	RGoB
6	Ensure relevance and quality of Master/ Post Graduate/ Diploma Programs	Conducting MBA courses at RIM	12.760	RGoB
		Course ware Development , RIM	11.000	AUS-AID
		PhD Program for RIM Faculties	5.260	AUS-AID
7	Thromde Education	Construction of administrative with 8 classroom block at Jungshina PS	12.000	RGoB
		Construction of 12 classroom block at Loselling MSS	15.720	RGoB
		Construction of classroom, staff room and play field at Dechencholing HSS	15.880	RGoB
8	To enhance the standard, efficiency and credibility of Bhutanese examination & assessment system	Test development training for 4 levels of examinations, BCSEA	7.500	RGoB
9	To enhance adult literacy and primary enrollment with higher learning outcomes	Construction of additional structure and site development in Gaselo HSS	48.130	GoI
		Construction of 96 bedded hostels at Jampeyling HSS, Kanglung	17.060	RGOB
		Construction of 64 bedded hostels at Bikhar LSS	16.900	RGOB
		Construction of additional facilities and site development at Kabesa MSS, Punakha	18.008	GoI
		Construction of 2 blocks of six unit classrooms at Khar PS	13.210	RGOB

3.7.3 Renewable Natural Resources (RNR) sector

The RNR sector continues to promote food and nutrition security besides ensuring sustainable management and conservation of natural resources.

During the FY, Nu.5,439.823 million constituting about 9% of the total budget has been allocated to agriculture sector to achieve its objectives of *i) increasing field crop production for enhancing cereal self-sufficiency ii) improving and functional agricultural infrastructure iii) enhancing food and nutrition security and iv) promoting sustainable management and conservation of natural resources among others.*

Major activities include development and improvement of irrigation channels (Nu.342.440 million), construction and rehabilitation of farm roads (Nu.814.848 million) and establishments of farm shops in Dzongkhags and Gewogs (Nu.56.450 million). In addition, Nu.23.470 million is allocated for strengthening FCBL for value chain development and marketing, Nu.104.218 million for commercial farming initiatives and land rehabilitation. Further, Nu.19.552 million is allocated for formation and training of Farmers Groups/Cooperatives & Entrepreneurs.

The Government has consistently focused on research aspect for the development in the RNR sector, hence Nu.336.079 million is kept for six RNR Research and Development Centers.

Under the livestock program, Nu.253.075 million is allocated for completion of integrated Livestock Farm at Samrang, Nation Yak Breeding Farm at Chanaphu, Haa, Livestock Commodity support programs and procurement of medicines, vaccines and equipment.

In an effort to maintain 60% forest coverage as required by the Constitution of the Kingdom of Bhutan, Nu.240.934 million is allocated for development and management of 10 National Parks and Reserves.

Under the forestry program, Nu.102.930 million is allocated for promoting sustainable management and conservation of natural resources and bio-diversity (REDD+ Strategy Projects), Nu.37.450 million for afforestation and reforestation programs and Nu.68.719 million for National Biodiversity Center.

For construction of bio-security office at Samdrupcholing in Samdrup Jongkhar, BAFRA office in Trashigang and fumigation facility in Nganglam, Nu.15.500 million is allocated.

Crop failure and damages due to wildlife, climate change and natural disaster have become major sources of anxiety for our rural communities. In order to compensate farmers for such damages, Government studied the possibility of starting crop and Livestock Insurance Scheme. Since premium based insurance proved to be very expensive for the farmers, Government proposes to establish an Endowment Fund for Crop and Livestock Conservation during the FY. Under this arrangement, interest income from the fund will be used for compensating farmers for crops and livestock damages without having to pay any premium. Such initiative is expected to have impact in increasing agriculture productivity besides ensuring predictable level of income.

Table 3.10: Major activities in the RNR Sector

Sl. No.	Objectives	Activities	Amount	Nu.in million Funding Source
1	To increase field crop production for enhancing cereal self sufficiency	Commercial Farming initiatives in Phuntshothang, Nichula, Kana, Dechenphu, Trendrelthang, Tashiyangtse, Tangmachu & Zhemgang.	48.660	RGoB
		Land utilization at Chimipang, Lobesa	12.459	RGoB
		Support to National Seed Centre, Paro	43.099	RGoB
2	To increase field and horticulture crop production for enhancing nutrition and income	Commercialization of winter chili, cauliflower and beans	15.000	RGoB
		Integrated Horticulture Promotion Project	4.164	RGoB
3	To have improved and functional agriculture infrastructure in place	Major renovation of Irrigation schemes	27.000	RGoB
		Rehabilitation of Irrigation channel in Chukha , Dagana, Haa, Samtse, Trongsa, Wangdue	66.671	IDA
		Resilient & Efficient water use Irrigation Development	21.200	IFAD
		Construction of Sherubling-Bukha Farm road , Tading Gewog, Samtse	44.935	IDA
		Support towards the Improvement of Rural Poor Livelihoods, Zhemgang	13.292	HELVETAS
4	To enhance food and nutrition security	Establishment of National Integrated Livestock Farm at Samrang	76.300	RGoB
5	To promote breed improvement			

Sl. No.	Objectives	Activities	Amount	Funding Source
6	To promote green livestock farming practices to adapt and mitigate climate change	Livestock Commodity Support Program (Dairy/Poultry/Feed & Fodder/ Fisheries/Sheep)	96.415	GoI
7	To enhance food and nutrition security	Up scaling of Brown Swiss Dairy and Goat Farming	35.000	GoI
8	To enhance production efficiency and livestock service delivery	National Animal Health Construction (Spill-over)	11.000	GoI
		Establishment of Integrated National Yak Breeding Farm at Chanaphu, Haa (Spill-over)	2.800	BTFEC
		Procurement and distribution of veterinary medicines , vaccines and equipment	31.560	RGoB
9	To ensure water security and ecosystem services through development of effective IWM practices in selected watersheds	REDD+ Readiness REDD+ Himalayas	102.930	W/BANK
10	To enhance service delivery & information management	Construction of Reserve Head Office at Chumpa, Bjee Gewog, Haa (Spill-over)	5.000	BTFEC
11	To enhance National Bio-Security and Bio-Safety	Bio-Security Office at Samdrupcholing (Spill-over)	7.000	GoI
		Construction of Fumigation facility at Nganglam	4.000	GoI
12	To provide effective and efficient direction and operational services	Construction of BAFRA office in Trashigang (Spill-over)	4.500	RGoB
13	To increase markets for RNR produce/ products produce/ products	Establishment of farm shops	19.500	RGoB
		Supply of equipment for farm shop	35.000	EU-TCP
		Construction/Renovation of farm shops	1.950	IFAD
		Strengthening FCB for value chain development and marketing	23.470	IFAD
14	To Promote and Develop Efficient FGs/Coops and other Stakeholders	Formation and training of FGs/ Coops & Entrepreneurs	19.552	IFAD

3.7.4 Mining and manufacturing industries

Mining and manufacturing industries play an important role in the economy. During the FY, the mining and manufacturing sector strives to *i) enhance exports, ii) carry out mineral exploration and geological mapping in sustainable and environment friendly manner iii) create enabling environment for business sector and to develop small and cottage industries among others.* In order to achieve these objectives Nu.1,576.997 million is allocated.

The major activities include development of industrial estates in Bondeyma (Mongar), Dhamdum (Samtse), Jigmeeling (Sarpang) and Motanga (S/Jongkhar) for which Nu.374.288million has been allocated. For development of mini-dry port in Phuentsholing Nu.73.000 million has been kept. These will enhance economic expansion and diversification through development of special economic zones and mini-dry port.

In order to support establishment of fuel depots in 140 Gewogs, Nu.50.000 million is provided and Nu.211.012 million is allocated to complete the on-going relocation of fuel depot from Dechencholing to Thinchupangkha.

For promotion and development of indigenous craft industry, Nu.88.420 million is allocated. Nu.10.000 million is allocated for construction of business incubator center. Under geology and mines, Nu.10.497 million is allocated for mineral explorations, geological surveys, revision of mines and mineral act and conduct advocacy programs.

Table 3.11: Major activities in the Mining and manufacturing industries

Nu.in million

Sl. No	Objectives	Name of the activity	Amount	Funding Source
1	Smooth and efficient distribution of POL products	Relocation of fuel depot from Dechencholing to Thinchupangkha, Paro	211.012	GoI
		Set up of POL retail outlets in Gewogs	50.000	RGoB
2	To enhance export	Development of Mini-Dry Port in Phuentsholing	13.870	RGoB
			59.130	ADB
		Development of SEZ, Bondeyma, Mongar	82.269	GoI
		Development of SEZ, Motanga, S/Jongkhar	25.580	RGoB
		Development of SEZ, Jigmeeling, Sarpang	131.000	GoI
		Development of SEZ, Dhamdum, Samtse	135.439	GoI
3	To develop cottage and small industries in Bhutan	Promotion & development of indigenous crafts	88.420	GoI
		Construction of Business Incubator Center	10.000	GoI

Tourism

Tourism is one of the important sectors that generates revenue, employment and earns convertible currency. For the FY, the Tourism Council of Bhutan aims to *i) promote Bhutan as an exclusive travel destination ii) develop and upgrade tourism infrastructure, iii) promote cooperation with regional and international organizations among others.* In order to achieve these targets, Nu.109.344 million is allocated to the sector.

Among others, Nu.20.550 million is allocated for organizing road shows, travel fairs, and development of online promotional programs. In addition, Nu.8.483 million is allocated for construction of roadside amenities, development and maintenance of trekking routes, campsites and trail bridges and Nu.1.650 million is allocated for development of “Bhutan Tourism Monitor.”

Table 3.12: Major Activities in the Tourism industry

Sl. no	Objectives	Name of Activity	Amount	Funding Source
1	To develop and implement sustainability standards.	Development of Bhutan Tourism Monitor	1.650	RGoB
2	To enhance effectiveness and efficiency of Public service delivery.	Conduct tourism and hospitality related training	3.500	RGoB
		Maintenance of tourism system	0.800	RGoB
3	To promote Bhutan as an exclusive travel destination	Promotional Collaterals	0.530	RGoB
		Development of promotional films	0.450	RGoB
		Promotional events	10.100	RGoB
		Broadcast, Print and online media familiarization promotion	3.000	RGoB
		Digital media marketing	1.000	RGoB
		Targeted source market promotion	4.370	RGoB
		Joint marketing	1.100	RGoB
4	To develop and upgrade tourism infrastructure	Construction/renovation/maintenance of bridges, restrooms etc.	2.000	RGoB
		Development of roadside amenities	6.483	RGoB
		Development of new home stays/farm stays	0.805	RGoB

Vocational training and employment

The Government has been taking various initiatives to provide gainful employment especially to address youth unemployment. During the FY, the Vocational training and employment sector shall strive to: *i) encourage youth to undertake entrepreneurship as a preferred career option, ii) enhance quality of Technical Vocational Education Training (TVET) and iii) enhance employability and placement of registered job seeker.* In order to achieve these objectives Nu.1,038.080 million is allocated.

Major activities include Employment Facilitation Program with Nu.303.367 million and skills development at various levels with Nu. 105.917 million. For on-going construction of Jigme Wangchuck Power Training Institute in Jigmeling, Nu.230.600 million is allocated. Further, Nu.8.000 million is kept for private sector HR development.

Table 3.13: Major activities in Vocational Training and Employment

Nu.in million				
Sl. No	Objectives	Activity	Amount	Funding
1	To Enhance Quality of TVET	Improvement and Quality Assurance Programs	14.000	Helvetas
		Integration of programs in Bhutan vocational Qualification Framework	3.000	Helvetas
		Procurement of tools, furniture, computer and office equipment for Jigme Wangchuck Power Training Institute	54.000	GoI
		Procurement of Training Materials	3.000	RGoB
		Implement National Assessment & Certification System	5.000	RGoB
2	To encourage Youth to Undertake Entrepreneurship as a preferred Career Option	Employment environment enabling framework conditions	2.450	Helvetas
		ToT-occupational skill development for Jigme Wangchuck Power Training Institute	3.900	GoI
		Employment Guaranteed Program/ Implement Direct Employment Scheme	237.597	RGoB
		Implement Overseas Employment Program	65.770	RGoB
		Private sector HR Development Program	8.000	GoI
3	To enhance employability and Placement of Registered Job seeker.	Skills Development Training Program (STP)	94.000	GoI
		Hydropower related Trainings	9.700	GoI
		Construction of additional infrastructure for Jigme Wangchuck Power Training Institute	176.600	GoI

3.7.5 Roads sector

The road sector strives to *develop, improve and maintain quality road infrastructure that is safe reliable and well connected for improved transportation*. In order to achieve this objective, Nu.7,576.290 million accounting for 12% of the total budget has been allocated during the FY.

Major allocation includes Nu.2,725.029 million to complete ongoing double-laning of Northern East-West Highway and Nu.1,115.163 million for ongoing construction of Dalbari-Dagapela, Haa-Samtse, Samtse-Phuentsholing, Refe-Khosala, Pasakha access road and northern bypass road at Phuentsholing. For monsoon restoration works, Nu.187.000 million has been allocated.

Further, Nu.203.000 million is allocated for resurfacing/improvement of roads and Nu.1,188.405 million for blacktopping of Gewog connectivity (GC) roads.

Table 3.14: Major activities in the Road Sector

Nu.in million				
Sl. No	Objectives	Activity	Amount	Funding
1	Develop Improved and Maintain Quality Road Infrastructure that is Safe Reliable and well Connected for Improved Transportation	Monsoon restoration works	187.000	RGoB
		Construction of bottom arch bridge and approach road near RAPA	80.000	GoI
		Construction of Pasakha access roads	20.000	RGoB
			166.113	ADB
		Construction of Northern bypass road, Phuentsholing,	129.050	ADB
			20.000	RGoB
		Construction of Dalbari-Dagapela SNH	160.000	RGoB
			270.000	ORIO
		Construction of Refe-Khosala bypass road	156.530	GoI
		Up-gradation of Trongsa-Nangar Primary National Highway (PNH)	1148.000	GoI
			664.000	GoI
		Improvement works on Ura-Serpang PNH	20.000	RGoB
		Resurfacing works on Gelephu-Trongsa highway	10.000	RGoB
		Blacktopping of Korphu GC roads 19.5km	68.480	GoI
		Blacktopping of Nubi GC road from Bji Zam to Nubi (17km).	34.300	GoI
		Improvement works along Metsina-Punakha	20.000	RGoB

Sl. No	Objectives	Activity	Amount	Funding
		Up-gradation of Wangdue-Chhuserbu.	500.000	GoI
		Black topping of Punakha-Gasa , Paaniko to Gaenteygang	30.000	RGoB
		Blacktopping of Punakha-Gasa ,Secondary National Highway Gaenteygang to Baychhu	30.000	RGoB
		Black topping of Chuzomsa-Baylangdra	130.441	GoI
		Construction of Gyalpozhing Nganglam highway	150.810	GoI
		Up-gradation of Yadi-Lingmethang	413.029	GoI
		Up-gradation/Improvement of Yongkola-Serpang	80.000	GoI
		Blacktopping of Drepong GC road	30.160	GoI
		Blacktopping of Metso GC road from Seli-bi-Gortsum	31.850	GoI
		Blacktopping of Balam GC road from Kafu-Balam	28.960	GoI
		Blacktopping of Jurmey GC road from Yudi-ri-Jurmey	34.990	GoI
		Improvement works on Menchugang-Nagor	44.622	GoI
		Construction of baily bridge on Mochu river	20.000	RGoB
		Up-gradation of Jenkana-Khamena road	250.000	RGoB
		Construction of Mangdichu bridge	65.000	GoI
		Resurfacing works on Tingtibi-Wangdigang bypass road	25.000	RGoB
		Improvement works on Tingtibi-Praling & Goling bypass road	75.000	GoI
		Blacktopping works and permanent structures on Therang-Bardo GC road	25.000	RGoB
		Blacktopping on Dakpai-Buli-Nimshong GC	30.000	GoI
		Blacktopping works and permanent structures on Nimshong-Therang	40.000	RGoB
		Construction of multi cell culvert on Gelephu Trongsa PNH	30.000	RGoB
		Pavement strengthening works on Sar-pang-Tsirang	25.000	RGoB
		Realignment of disaster affected area at Sar-pang Town	50.000	RGoB
		Construction of Sisty Khola bridge on Singye GC road	35.000	GoI

Sl. No	Objectives	Activity	Amount	Funding
		Construction / realignment of Umling GC road	30.000	RGoB
		Blacktopping of Semjong GC road from Chachey-Bararey	85.028	GoI
		Blacktopping of Karmaling GC road from Lhamoizingkha-Karmaling	26.100	GoI
		Blacktopping of Samtse-P/ling highway	25.000	RGoB
		Construction of Namchukhola-Phutsuna road	40.000	RGoB
		Construction of Halhalay - Phuentsho Pelri GC road	43.214	GoI
		Construction of Geling GC road	34.806	GoI
		Blacktopping of Halaley-Dophuchen GC road	24.000	RGoB
		Blacktopping of Dungna GC road (Ganglakha Dungna-15km)	93.740	GoI
		Blacktopping of Drukdingkha-Metakha GC road	47.288	GoI
		Construction of bailey bridge at Yudhiri on Radhi-Phongmey GC road	28.500	GoI

3.7.6 Urban development, housing and public amenities sector

The urban sector continues to play an important role in socio-economic development by providing proper urban infrastructure and amenities in the urban centers. During the FY, the sector aims to *i) promote livable and environmentally sustainable urban centers ii) ensure access to potable water supply and sustainable sanitation and iii) develop and promote new construction technologies to reduce and prevent natural disaster impacts*. To achieve these objectives, Nu.4,083.993 million constituting about 7% of the budget is allocated.

The allocation includes Nu.405.000 million for infrastructure development at lower Taba and construction of intake and transmission line from Dodena to Taba. In addition, Nu.453.000 million is allocated for construction of treatment plant at Babesa and rehabilitation of water supply at Samdrup Jongkhar Thromde, Nu.205.000 million for completion of the ongoing construction of integrated check post at Rinchending and Bumpagang and Nu.188.900 million to improve urban roads under Thimphu Thromde.

In order to promote the housing sector, the National Housing and Development Corporation Limited will receive a subsidy of Nu.63.810 million of which Nu.38.810 million is on account of interest subsidy and Nu.25.000 million for maintenance of government quarters in Dzongkhags.

Table 3.15: Major activities in Urban Development, Housing and Public Amenities
Nu.in million

SL. No	Objectives	Activities	Amount	Funding
1	To provide effective and efficient direction and operational services	Preparation of Spatial Planning ACTS and Standards	5.000	World Bank
		Digitization of database and asset register for Gelephu and Samdrup Jongkhar Thromdes	10.000	World Bank
		Development and implementation of Human settlement strategy	10.000	World Bank
		Preparation of city Development plan/ manuals and institutional strengthening of Gelephu and Samdrup Jongkhar Thromdes.	8.000	World Bank
2	To Prepare Urban Development Plan for Dzongkhags and Thromdes to Promote Livable and Environmentally Sustainable Urban Center.	Infrastructure Development in lower Taba	120.000	World Bank
		Waste water treatment Plant at Langjophakha	2.400	World Bank
		Construction of intake, transmission main from Dodena to Taba, trunk lines and distribution reservoirs.	160.000	World Bank
		Construction of water treatment plant at Taba,	110.000	World Bank
		Construction of sewerage treatment plant for Taba	15.000	World Bank
		Sample fabrication and testing of materials	10.000	World Bank
		Minor Flood protection works (all dzongkhags)	50.000	RGoB
3	To provide effective and efficient engineering services and technical backstopping in all infrastructure development	Integrated check post at Bumpagang, Wangkha	30.021	RGoB
		Integrated check post at Rinchending, Phuentsholing.	175.000	RGoB
4	To ensure access to potable water supply and sustainable sanitation facilities in all Thromdes & Dzongkhag Thromdes	Construction of waste water treatment plant at Babesa	40.000	RGoB
			334.900	ADB
		Rehabilitation of water supply for Samdrup Jongkhar Thromde	11.760	RGoB
			66.650	ADB

SL. No	Objectives	Activities	Amount	Funding
5	To prepare Urban Development Plan for Dzongkhags and Thromdes to Promoted Livable and Environmentally Sustainable Urban Center.	Construction of approach road & 46m PC girder bridge, P/ling	8.000	RGoB
			45.000	ADB
		Urban infrastructure project BHU 2816-Samdrup Jongkhar Thromde	4.015	RGoB
		Thimphu road Improvement project	10.000	RGoB
6	To develop and promote new construction technologies to reduce and prevent natural disaster impact.	National adaptation program of action (NAPA _II) Phuentsholing Thromde	178.980	ADB
		Flood mitigation & landslides stabilization works	4.982	UNDP
6	To develop and promote new construction technologies to reduce and prevent natural disaster impact.	Geotechnical studies for Lobesa, Punakha, Haa, Zhemgang and Samdrup Jongkhar.	19.500	RGoB

3.7.7 Communication sector

A well-developed communication and transportation system is an integral part of socio-economic development. For the FY, Nu.1,599.453 million is allocated to the communication sector.

In order to improve access to reliable and affordable ICT services, Nu.30.000 million for Government Network project, Nu.20.300 million for Government data center and Nu.14.840 million to develop regulatory framework for electronic payment system is allocated.

In order to improve international airport facilities at Paro, Nu.107.915 million is allocated for modification of old terminal building and Nu.129.710 million for construction of parallel taxi way. Further, Nu.63.845 million is allocated for construction of terminal building at Bumthang domestic Airport and Nu.76.000 million for construction of security quarters in Gelephu domestic Airport.

For supporting the film industry, Nu.25.000 million has been kept to initiate construction of cinema theatres in 5 Dzongkhags (Sarpang, Mongar, Tsirang, Trashigang and Wangdue Phodrang) and Nu.7.500 million for construction of film studio in Thimphu. Further, Nu.24.050 million is allocated for capacity development of media professionals, awareness programs and development of regulatory frameworks.

Table 3.16: Major activities in Communication sector

Nu.in million

Sl. No	Objectives	Name of the activity	Amount	Funding Source
1	To improve access to reliable and affordable ICT services	G2G- mobile money payment with RMA	14.840	GoI
		Deploy reliable and secure email system (Google Apps)	14.500	RGoB
2	To improve e-resilience	Government network project	30.000	GoI
		Government data center	20.300	GoI
3	To contribute towards revenue and employment generation	Depreciation and O&M cost to BPC	50.000	RGoB
		SASEC (South Asia Sub-Regional Economic Cooperation Information Highway Project)	8.200	ADB
4	To empower citizens to make informed decision through access and effective use of media	Construction of film studio	7.500	RGoB
		Construction of cinema theaters in 5 Dzongkhags	25.000	RGoB
5	To enhance security and safety	Construction of terminal building at Bumthang Domestic Airport	63.845	ADB
		Construction of security quarters in Gelephu Domestic Airport	76.000	ADB
		Procurement of crash fire tender vehicle, Yonphula Airport	32.500	RGoB
		Relocation and up gradation of substation in Paro International Airport	36.523	GoI
		Modification/up gradation of central heating system	28.450	GoI
		Re-modeling/modification of old terminal building	107.915	GoI
		Construction of cargo complex, Paro Airport	46.507	GoI
		Construction of parallel taxi way, Paro Airport	129.710	GoI

3.7.8 Energy sector

During the FY, the energy sector aims to i) *accelerate hydropower development and enhance energy security*, ii) *diversify and promote alternate renewable energy* and iii) *improve hydrological network with good national coverage*. To achieve these objectives Nu.455.558 million is allocated.

Major activities under the sector include preparation of Detailed Project Report (DPR) for Kuri-Gongri hydropower project (Nu.160.000 million) and construction of 132 KV transmission line between Kanglung and Phuentshothang (Nu. 31.350 million).

Further, Nu.30.000 million is kept for on-grid connection of 362 rural households, Nu.18.638 million for capacity building and Nu.50.665 million for hydro-met services has been allocated.

Table 3.17: Major capital activities in Energy sector

Nu.in million				
Sl. No	Objectives	Name of the activity	Amount	Funding Source
1	To accelerate hydropower development, enhance energy security	DPR preparation for Kuri-Gongri Hydroelectric Project (2640MW)	160.000	GoI
		Construction of 132KV Kanglung-Phuentshothang (Bangtar) line (52KM)	31.350	RGoB
2	To improve access to clean and affordable energy	On-grid electrification of 362 rural off-grid households	30.000	RGoB
3	Improved delivery of weather, climate & related environmental information & services to public	Relevant information about climate-related risks and threats shared across climate-sensitive sectors on a timely and reliable basis(NAPA-II Project)	18.638	UNDP IPF
		Hydro-met services and disaster resilience regional project	50.665	W/Bank
		Monitoring and assessment of changes in glaciers, snow and glacial-hydrology	12.060	ICIMOD

3.7.9 Religion and cultural services

The preservation and promotion of religion and cultural services is one of the pillars of GNH. During the FY, the religion and cultural services will continue to *i) preserve and promote tangible and intangible cultural heritage, and ii) provide standard educational and basic amenities.* To achieve these objectives, Nu.2,296.874 million has been allocated.

The major activities include construction of Pema Gatshel Dzong (Nu.151.324 million), Sarpang Dzong (Nu.101.418 million), Wangdue Phodrang Dzong (Nu.150.560 million), reconstruction of Drametse Monastery (Nu.17.000 million), construction of Shivalaya Mandir at Shitikharay in Sarpang (Nu.25.000 million) and Hindu Temple at Kuensel Phodrang in Thimphu (Nu.10.000 million).

In addition, Nu.199.969 million has been allocated for conservation of Trashigang Dzong, Gasa Dzong, Drukgyel Dzong and Phajoding monastery. For the ongoing restoration works of Wangdichoeling Palace, Wangditse Dzong, Tango Monastery and Chari Monastery, a sum of Nu.74.373 million has been allocated.

Recognizing the important role played by Konyers (Caretakers) in the upkeep of Lhakhangs besides performing rituals in the community, all registered Konyers under Zhung Dratshang will be paid salary by the Government starting from this FY. Such initiative is expected to contribute towards promotion of spiritual wellbeing and social harmony in the rural areas.

Of the total, Nu.592.466 million is allocated to Dzongkhags and Gewogs and Nu.872.324 million under Dratshang Lhentshog (Council for Religious Affairs).

Table 3.18: Major activities in the Cultural Services

Nu.in million

Sl. No.	Objective	Activity	Amount	Funding Source
1	To preserve and promote tangible cultural heritage	Conservation of Trashigang Dzong	52.160	GoI
			1.460	RGoB
		Conservation of Gasa Dzong	25.000	GoI
			0.525	RGoB
		Conservation of Phajoding Monastery	70.000	GoI
			0.824	RGoB
		Restoration and adaptive reuse of Wangdichoeling Palace in Bumthang	19.334	Bhutan Foundation
		Restoration of Tango Monastery	15.959	RGoB

Sl. No.	Objective	Activity	Amount	Funding Source
		Restoration of Wangditse Dzong	21.340	RGoB
		Restoration of Chari Monastery	17.740	RGoB
		Conservation of Drukgyel Dzong	50.000	RGoB
		Construction of Hindu Temple, Thimphu	10.000	RGoB
		Re-Roofing of Paro Taktshang	2.655	RGoB
			100.000	GoI
		Construction of Sarpang Dzong	1.418	RGoB
			150.000	GoI
		Construction of Pemagatshel Dzong	1.324	RGoB
			150.000	GoI
		Reconstruction of Wangdue Phodrang Dzong	0.560	RGoB
		Reconstruction of Drametse Monastery	17.000	RGoB
		Construction of Shivalaya Mandir at Shetikhare, Gelephu	25.000	RGoB
		Re-Construction of Yongla Gonpa	15.000	RGoB

3.7.10 Law and Order

Under the law and order services, a sum of Nu.2,663.953 million is kept for Judiciary, Royal Bhutan Police, Office of the Attorney General, Department of Law and Order, Jigme Singye Wangchuck School of Law and Bhutan National Legal Institute.

Of the total, Nu.1,837.146 million is for RBP and Nu.30.000 million is for construction of integrated check posts (ICP) at Nganglam and Samtse.

Table 3.19: Major activities in Law and Order

Nu.in million				
Sl. No.	Objective	Activity	Amount	Funding
1	To enhance security and safety of the society	Capacity building of RBP Personnel	8.260	RGoB
		Construction of 4 Units DCOP residence	16.190	RGoB
		Construction of 18 Units NCO and ORS quarters at Tashigatshel	14.350	RGoB
		Major Renovation of family quarter at HQ Thimphu	7.500	RGoB
		Re Electrification of family quarter at HQ Thimphu	4.500	RGoB

Sl. No.	Objective	Activity	Amount	Funding
		Construction of PS and Lockup at Dorokha	8.879	RGoB
		Construction of 18 Units Family quarter at Dorokha	30.222	RGoB
		Renovation of Family quarter at Gelephu	1.200	RGoB
		Construction of 30 Units NCO and ORS Family quarter at S/Jongkhar	11.500	RGoB
		Construction of 2 Units Officer quarters at Phomshing, Trashigang	6.000	RGoB
		Construction of 27 Units NCO and ORS family quarters at Phomshing	25.650	RGoB
		Construction of administration block, Gelephu	7.229	RGoB
		Construction of 24 Units NCO and ORS Family quarters, Jigmeling	5.964	RGoB
		Construction of Director residence at Jigmeling	8.200	RGoB
		Construction of family quarter at Jigmeling (24 Units)	28.949	RGoB
		Construction of Lady Recruits hostel at Jigmeling	6.976	RGoB
		Construction of Officer's Mess at Jigmeling	27.450	RGoB
		Internal road black toping at Jigmeling Training Centre	10.000	RGoB
		Construction of prison block at Nungzor, Trashigang	17.293	RGoB
		Construction of Fire Station at Paro	3.361	GoI
		Construction of Fire Station at Trongsa	3.000	GoI
		Construction of Integrated Checkpoint at Nganglam	15.000	RGoB
		Construction of Integrated Checkpoint at Samtse	15.000	RGoB

3.7.11 General public service

General public services include local government (civil sector), finance, foreign, constitutional bodies, immigration, civil registration and census and some autonomous agencies and commissions. During the FY, Nu.14,198.347 million is allocated for General Public Service.

Major allocation includes Nu.24.206 million to complete the ongoing construction and renovation of staff quarters at RBE New Delhi, Nu.25.450 million for the third phase of National Cadastral Re-survey Project, Nu.16.120 million for Rural Economy Advancement Program (REAP) and Nu.5.000 million for development of online Electronic Government Procurement (e-GP) system.

For completing construction and site development of office building of Department of Civil Registration and Census and Department of Immigration, Nu.17.619 million is allocated. Further, Nu.1.500 million has been allocated for preparatory works for construction of chancery building at RBE, Dhaka.

Table 3.20: Major Activities under General Public Services

Sl. No.	Objective	Activity	Amount	Nu.in million Funding Source
1	To improve modernized procurement system of the Government	Development of electronic government procurement system (E-GP)	5.000	RGoB
2	To enhance Tax and Customs Service Delivery	Construction of weigh bridge at integrated check post, Samtse	5.000	RGoB
3	To provide effective and efficient direction and operational services	Major maintenance of Harrison and office buildings, PMB, New York	10.000	RGoB
		Pre-construction works, RBE, Dhaka	1.500	RGoB
		Construction of staff quarter, RBE, Delhi	21.706	RGoB
		Renovation of Government Buildings, RBE Delhi	2.500	RGoB
4	To strengthen institutional capacity	Construction of office building and site development & Procurement of 3G CID printer for DCRC& DoI	17.619	RGoB
5	To formulate and facilitate implementation of targeted poverty reduction programs	Rural Economy Advancement Program	16.120	RGoB
6	To render efficient land administration services	National Cadastral Re-survey Project, NLC	25.450	RGoB

3.7.12 General Reserves

In the FY, Nu.3,182.045 million has been kept under General Reserves. The allocation will be transferred to agencies on actual basis subject to fulfilling established criteria and formalities. Among others, the General Reserves include provision for National Council election and revision of pay, allowances and benefits of LG members.

Table 3.21: Details of General Reserves

Sl. No.	Activity	Nu.in million
1	New appointments / establishments	300.000
2	Transfer benefits, operation & maintenance	350.000
3	Hospitality & entertainment	40.000
4	Retirement benefits	300.000
5	Third country travel	40.000
6	National events	50.000
7	Revision of pay allowances and benefits of LG members	135.406
8	National Council Election	250.000
9	Helicopter service	85.425
10	Ad-hoc works	398.000
11	Monsoon works/other renovations	225.000
12	Acquisition of properties	573.214
13	Acquisition of properties-vehicles	50.000
14	Rehabilitation program	40.000
15	New construction of farm roads	100.000
16	Disaster relief fund	225.000
17	By-Election	20.000
	Total	3,182.045

3.7.13 Human resource development

During the FY, Nu.828.180 million has been allocated for human resource development in various agencies.

Table 3.22: Major activities for Human Resource Development

Nu.in million

Sl. No	Agency	Activities	Amount	Funding Source
1	Ministry of Agriculture & Forests	Capacity Development under MoAF	194.817	External
2	Ministry of Education	B. Ed. Primary at Paro College of Education	22.862	RGoB
		Professional Development of Teachers	70.000	RGoB
		M. Ed. Science & Mathematics at Samtse College of Education	5.600	RGoB
		PhD program for RIM faculty	5.260	AUSAID
3	Ministry of Health	Long term training (New)	10.000	RGOB
		Long term training (Continuity)	38.581	RGOB
4	Ministry of Economic Affairs	Human resource development program	2.000	RGoB
5	Ministry of Labour and Human Resources	Occupational skill development for construction sector	9.700	Helvatas
6	Ministry of Home and Cultural Affairs	Leadership and management enhancement training (DLG)	8.500	External
7	Ministry of Information and Communication	Mandatory Training	15.073	RGoB
8	Ministry of Finance	Capacity development of procurement officials (CIPS), DNP	5.000	RGoB
9	Anti-Corruption Commission	Human Resource Development	6.500	RGoB
10	Election Commission of Bhutan	Human Resource Development	3.267	RGoB
11	Royal Audit Authority	Human Resource Development	32.002	RGoB & External

Sl. No	Agency	Activities	Amount	Funding Source
12	Royal Civil Service Commission	PhD Economics, Masters in Space Engineering, etc	32.200	RGoB
		Foundational Leadership Program	9.600	RGoB
		Young Professional Leadership Program	8.640	RGoB
		Professionalizing Civil service	94.550	GoI
		Executive Management Program	7.699	RGoB
13	Judiciary	Training to court officials, LLM, Judiciary	2.793	Austria
14	Cabinet Secretariat	GPMS Capacity Building	3.000	GoI
15	Royal Bhutan Police	Capacity Development of RBP personnel	8.260	RGoB
16	Royal Institute of Management	Conducting MBA Course at RIM	1.760	RGoB
		PhD program for RIM faculty	5.260	AUSAID
17	KGUMSB	Students exchange program	4.000	RGOB
18	NCWC	Support formation for gender expert group	3.360	UNDP IPF
		Case management for violence against women	3.997	Save The Children
19	National Environment Commission	Capacity Development	13.637	GoA & UNDP
20	Jigme Singye Wangchuck School of Law	Human resource development of faculty and staff	14.946	Austria
21	Dzongkhags	Human Resource Development	66.000	GoI

3.7.14 Sports

For the development of sports infrastructure, youth programs, participation in the international events and trainings, Nu.217.337 million is allocated. Of the total allocation, Nu.7.236 million is for Dzongkhags, Thromdes and Ministry of Education, Nu.132.301 for BOC, Nu.75.000 million for National Sports Federations and Nu.2.800 million for Bhutan Indigenous Games & Sports Association (BIGSA).

3.7.15 Gender Responsive Budgeting

Initiatives have been taken to promote and mainstream Gender Responsive Planning and Budgeting (GRPB) in the socioeconomic development plans and activities. The Ministry of Finance, through its Budget Call Notifications, has been notifying the budgetary bodies to take into account gender perspectives while formulating their plans and programs. Further, a manual on Gender Responsive Planning and Budget (GRPB) has been framed and a “Strategic Framework for Gender Mainstreaming and GRPB for Bhutan” has been developed to institutionalize and operationalize GRPB in Bhutan. The Department of National Budget in coordination with NCWC and support from UN Women, has carried out sensitization and awareness programs on GRPB for agencies such as Ministry of Agriculture and Forests, Ministry of Education and Ministry of Health. Till date, about 300 officials from various agencies and Dzongkhags have been trained and sensitized on GRPB and concerted efforts will be made to further promote the GRPB across all budgetary bodies.

3.7.16 Local Government

Local Governments include Dzongkhags, Gewogs and Thromdes. During the FY, Nu.15,757.796 million accounting for about 27% of the total expenditure is allocated to LGs. Of the total allocation, Nu.13,651.853 million is for Dzongkhags and Gewogs and Nu.2,105.943 million is for Thromdes.

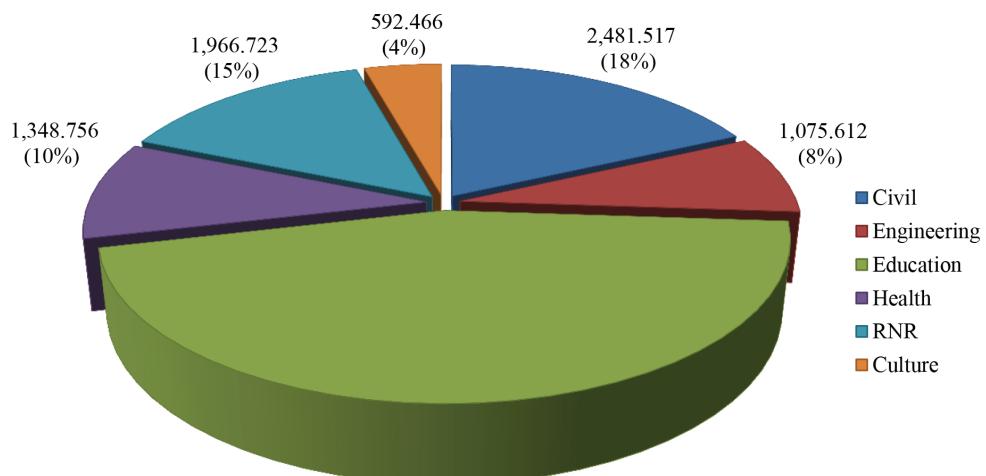
For deepening the decentralization process and to provide financial autonomy, Nu.140.000 million is provided as Dzongkhag Development Grant (DDG) and Nu.410.000 million as Gewog Development Grant (GDG).

The allocation also includes Nu.66.000 million for human resource development, Nu.176.229 million for construction and maintenance of irrigation channels and Nu.363.238 million for construction and maintenance of RWSS schemes. Further, Nu.642.176 million and Nu.222.870 million is kept for construction and maintenance of farm roads respectively in Dzongkhags and Gewogs.

At the LG level, the sector-wise budget allocation shows that Education sector receives the maximum budget accounting for 45% followed by Civil sector with 18%.

Chart 3.4: Sector wise budget allocation for Dzongkhags and Gewogs

Nu.in million



The table below shows the actual allocation for the Local Governments.

Nu.in million

Agency	Current	Capital	Total
Dzongkhag	7,790.895	3,643.975	11,434.870
Gewog	303.195	1,913.788	2,216.983
Total Dzongkhags & Gewogs	8,094.090	5,557.763	13,651.893
Thromde (including Thromde Schools)	850.726	1,255.217	2,105.943
Total local Governments	8,944.816	6,812.980	15,757.796
% share of total for the FY	31%	23%	27%

Total capital budget for Dzongkhags and Gewogs is Nu. 5,557.763 million which is about 20% of the capital budget for the FY. The detail is given in annexure 1.

Besides the respective allocations, some activities of the Local Governments are centrally executed. For the FY, capital allocation of Nu.4,970.873 million from the central agencies is for activities to be implemented at Dzongkhags (Nu. 2,015.592 million), Geowgs (Nu. 1,738.357 million) and Thromdes (Nu. 1,216.924 million) levels. Similarly, Nu.1,682.198 million of the Dzongkhags' budget is for activities to be implemented at the Gewogs level. Considering the budget with the central agencies, Local Governments receive about 40% of the total capital budget as presented in the table below and the details in annexure 2 and 3.

Total allocation for Local Governments including the allocation from central Agencies

Nu.in million

Agency	Current	Capital	Total
Dzongkhags' budget	7,790.895	3,643.975	11,434.870
Add: Budget from Central Agencies	-	2,015.592	2,015.592
Less: Budget benefiting Gewogs	-	1,682.198	1,682.198
Total Dzongkhag	7,790.895	3,977.369	11,768.264
Gewogs' budget	303.195	1,913.788	2,216.983
Add: Budget from Central Agencies	-	1,738.357	1,738.357
Add: Budget from Dzongkhags	-	1,682.198	1,682.198
Total Gewogs	303.195	5,334.343	5,637.538
Thromde (including Thromde Schools)	850.726	1,255.217	2,105.943
Add: Budget from Central Agencies	-	1,216.924	1,216.924
Total Thromdes	850.726	2,472.141	3,322.867
Grand Total	8,944.816	11,783.853	20,728.669
% share of total expenditure for the FY	31%	40%	36%

3.6.17 Legislative, Judiciary and Constitutional Bodies

National Assembly (NA)

A budget of Nu.114.473 million is recommended for the National Assembly. The recurrent budget includes Nu.11.585 million for research program services and Nu.66.855 million for Parliamentary services. Under the capital budget, Nu.1.990 million is recommended for maintenance of security system and fire services for Gyalyong Tshogkhang.

Nu.in million

National Assembly	Proposed	Recommended
Current	116.099	112.473
Capital	3.541	2.000
Total	119.640	114.473

National Council (NC)

A budget of Nu.212.327 million is recommended for the National Council. The recurrent budget includes Nu.7.502 million for Parliament exchange program and Nu.2.200 million for research program services. A sum of Nu.102.350 million is recommended for capital activities which includes Nu.100.000 million for initiating construction of National Council Building.

<i>Nu.in million</i>		
National Council	Proposed	Recommended
Current	114.886	109.977
Capital	106.700	102.350
Total	221.586	212.327

Judiciary

For the Judiciary, a budget of Nu.372.433 million is recommended. The capital budget includes Nu.23.000 million for on-going construction of Court in Haa, Nu.12.000 million for construction of Court in Sarpang and Nu.51.923 million for construction of Drangpon's residence in Sarpang, Bumthang and Haa.

<i>Nu.in million</i>		
Judiciary	Proposed	Recommended
Current	298.499	285.510
Capital	101.620	86.923
Total	400.119	372.433

Anti-Corruption Commission (ACC)

A budget of Nu.113.431 million is recommended for the Anti-Corruption Commission. Of the total recommended budget, some of major allocations include Nu.20.000 million for construction of office building in Phuentsholing, Nu.6.500 million for human resource development and Nu.3.300 million for building network with national and international partners.

<i>Nu.in million</i>		
Anti-Corruption Commission	Proposed	Recommended
Current	87.502	77.581
Capital	80.379	35.850
Total	167.881	113.431

Election Commission

A budget of Nu.48.474 million has been recommended for the Election Commission of Bhutan. Some of the important activities include updating and preparation of electoral rolls for the upcoming National elections and celebration of National Voter's Day, for which Nu.2.963 million as been kept and Nu.4.636 million to conduct elections of Bhutan Children's Parliament and Bhutan Children's Parliament session.

<i>Nu.in million</i>		
Election Commission	Proposed	Recommended
Current	44.917	43.059
Capital	380.559	5.415
Total	425.476	48.474

The recommended amount is less than the proposal as the provision for NC Election of Nu.250.000 million and Nu.20.000 million for By-Election is kept under the general reserve.

Royal Audit Authority (RAA)

A budget of Nu.257.538 million is recommended for Royal Audit Authority. The allocation includes Nu.56.600 million for site development and construction of faculty block in Tsirang, Nu.18.392 million for strengthening institutional capacity and Nu.7.110 million for professional development. In addition, recurrent budget of Nu.169.317 million is recommended for operation and management services of Head office and four regional offices and to attend mandatory meetings and workshops.

<i>Nu.in million</i>		
Royal Audit Authority	Proposed	Recommended
Current	173.811	169.317
Capital	96.911	88.221
Total	270.722	257.538

Royal Civil Service Commission (RCSC)

A budget of Nu.260.939 million is recommended for RCSC. It includes Nu.172.641 million for human resource development and management services, professionalizing civil service, Nehru-Wangchuck scholarships, Young Professional Leadership Program, Foundational Leadership Program and other cost sharing HRD programs. The Budget also include Nu.15.601 million for conducting Bhutan Civil Service Examination, Nu.2.400 million to institutionalize Individual Work Plans in agencies, Nu.7.669 million for ensuring quality and sustained leadership in civil service and Nu.4.750 million for civil service awards.

<i>Nu.in million</i>		
Royal Civil Service Commission	Proposed	Recommended
Current	76.757	70.970
Capital	273.527	189.969
Total	350.284	260.939

CHAPTER 4

TAX MEASURES

4.1 Fiscal incentives 2016

Based on the revised Economic Development Policy, a comprehensive package Fiscal Incentives 2016 has been announced by the Government on 4th April 2017 mainly to stimulate economic growth, foster private sector development and generate employment.

Fiscal Incentives 2016 covers both direct and indirect taxes and provides general and sector specific incentives. While the general incentives are applicable to all sectors of the economy, the sector specific incentives are available only to the priority sectors identified under the Economic Development Policy 2016.

The Fiscal Incentives 2016 supersedes all the previous incentives, concessional rates and any rules that contravene these incentives and shall come into force with retrospective effect from 1st January 2016.

A copy of the Fiscal Incentives 2016 is submitted for kind information and reference.

CHAPTER 5

MACROECONOMIC PERFORMANCE AND OUTLOOK

Part I: Recent macroeconomic developments

This section provides the country's recent economic performance relative to developments of past domestic and the global economy. With numerous measures to reinvigorate the growth, economy has been growing steadily at an average of 6.12% in the past years. Macroeconomic performance and outlook in the medium term are determined by updating and analyzing developments in various sectors in keeping with the economic and fiscal policies.

The following sections explain the recent economic performances and outlook in different sectors of the economy.

1. Real Sector

Gross Domestic Product (GDP) and Gross Domestic Demand

Since the end of 2014, economic growth has been driven by investment in hydropower project, implementation of the 11th FYP and investment in the private sector. The economy grew at 6.5% in 2015 as compared to 5.8% in 2014. The actual growth in 2015 was higher than the anticipated growth of 5.2%. The 1.3 percentage point increase was due to higher growth realized in the agriculture sector due to increased Government investments.

Due to increased Government investments, the agriculture sector experienced higher growth rate of 4.6% in 2015 as compared to 2.4% in 2014 leading to higher contribution of 8.5% to overall growth in 2015. Expansion in wholesale and retail business and transportation sector also resulted to high growth in the services sector at 8.3%, accounting for about 48.2% of the overall growth. The industry sector, with expansion in mining and construction and increased electricity production, accounted for about 51.2% of the overall growth. The same level of growth and sectoral contribution is estimated in 2016.

The agriculture sector accounts for about 17%, while the services sector accounts for 38% of GDP. Industry sector (45%) predominated the sectoral contribution to the total output, mainly driven by the electricity and construction activities. In 2015, construction and electricity sectors have contributed more than 16% and 14% to GDP respectively.

In 2016, the same level of growth is estimated with higher performance in manufacturing and service sectors due to stimulatory effects of past investments and growth-enhancing policy measures.

The real domestic demand increased by 11.3% in 2015 with 16.5% increase in investment and 10.1% increase in consumption respectively. Despite minimal growth in Government investment, the higher level of total investment has been sustained due to increased private sector investment. As a result of estimated contraction in private sector consumption, the total consumption is estimated to decline by 2.5% in 2016. However, through sustained private sector investment, aggregate demand is projected to increase by 11.3%.

In 2015, the per capita income was about Nu.158,945 (USD 2,478) at nominal terms and forecasted to increase to Nu.184,680 (USD 2,857) in 2016.

Inflation

In 2015, the overall inflation remained at 4.5% with food and non-food inflation moderating at 3.2% and 5.5% respectively. This was due to fall in fuel and commodity prices in the global market leading to CPI inflation in Bhutan falling to the lowest level. The overall price level has fallen to record low of 3.2% due to rapid fall in non-food inflation to 2.8% in 2016.

The consumer basket of goods and services comprises of 48.01% of domestic items and 51.99% of imported items. For the last three years, in spite of rapid slowdown in overall inflationary trends, the domestic inflation remained persistently higher than the imported inflation. The contribution of domestic inflation rapidly increased from 50% in 2014 to 55% in 2015 and then to 65% in 2016. This reflects that the domestic price movements have higher impact on the total price changes in the economy as compared to price change in imported consumable items.

Employment

With the implementation of various employment generation programs and acceleration in the economic activities, unemployment rate has improved over the years. For supporting the employment facilitation program, supplementary budget of Nu. 262.808 million was provided in FY 2016-17. To continue the employment facilitation program, Nu. 303.367 million has been allocated during the FY. Other initiative for addressing youth unemployment includes launching of the Overseas Education and Skills Development Scheme under which youth can avail collateral free loan for pursuing higher education overseas. Such initiatives are expected to address youth unemployment issues.

2. External Sector

The higher gross domestic demand for consumption and investment has deteriorated trade deficit from Nu.26.663 billion in FY 2014-15 to 35.829 billion in FY 2015-16 representing 25.2% of GDP. Under the services account, Bhutan experienced a deficit of Nu.3.529 billion in FY 2015-16 because of higher services imports. The primary income deficit was mainly on account of interest payments for hydropower debts and other developmental external debts.

Despite positive secondary income balance on account of current transfer of budgetary support, high trade and primary income deficit have resulted in current account deficit of Nu.41.212 billion in FY 2015-16 which is about 29% of GDP. With the completion of repayments for the aircrafts purchased in 2015/16 and completion of hydropower project constructions, current account deficit is projected to improve to 23% of GDP in FY 2016-17.

Capital and financial inflows during the period was adequate to finance current account deficit. While majority of inflows were loans about a third of the current account deficit was met through capital transfers including grants. The significant level of net capital and financial inflows in the last two years have resulted into overall positive balance of payments thereby leading to accumulation of foreign reserves.

Total reserves at the end of FY 2015-16 was USD 1,119 million which is adequate to cover more than one year's total imports and about 30 months of essential imports.

The Balance of Payments with India is an important indicator for measuring external sector performance as more than 80% of total goods and services are imported from India. Current account deficit with India deteriorated to Nu.39.355 billion in FY 2015-16 as compared to Nu.30.177 billion in FY 2014-15. About 90% of economy's overall current account deficit is on account of trade with India.

At the end of June 2016, the accumulated INR reserve was 27.5% of total reserves covering about 4 months of total imports from India. The exchange rate of Ngultrum against US dollar has depreciated over the year by 6.1 % from June 2015 to June 2016.

3. Monetary Sector

Monetary and credit condition remained favorable during 2015-16 in tandem with economic growth. The M2 grew by 15.8% in FY 2015-16 compared to 7.8% in FY 2014-15 mainly due to growth in foreign currency and time deposits by 30% and 28.3% respectively. During the same period, M1 grew at 7.8% contributed by growth in currency in circulation at 2.6% and growth in saving deposits by 12.5%.

The credit to Government grew by 28% on account of the T-bills while credit to private sector grew by 14.7% during FY 2015-16 as compared to the previous year. As a result, total domestic credit was Nu.86.603 billion (60.9% of GDP), about 95% of which was availed by the private sector.

In terms of sectoral distribution of total credit, 22% was on account of housing loan, 20.3% for trade and commerce, and 18.3% for services, tourism and transportation. Credit to agriculture sector has also steadily increased from 2.7% of the total credit in June 2013 to 5.1% in June 2016.

With 21.1% increase in total loans in June 2016 as compared to June 2015, the non-performing loan (NPL) increased by 16.4%. However, NPL ratio improved from 9.5 in FY 2014-15 to 9.1 in FY 2015-16 due to increased economic activities. Overall NPL ratio improved in all the sectors except in the trade and agriculture service sectors. At the end of June 2016, more than one fourth of NPL was on account of trading sector, followed by 17.6% in services, and 15.4% in manufacturing sector.

Part II: Macroeconomic Outlook

1. Real Sector

Gross Domestic Product (GDP) & Gross Domestic Demand

As per the world economic outlook, the growth for 2017 is forecasted to be higher compared to a lackluster growth in 2016. With improvement in commodity prices and revival in global market expectations, the economic activities in general are projected to increase in the global economy.

South Asia region witnessed higher growth in recent years and the trend is projected to continue in the near term on account of increased investment in infrastructure and improved business climate for private sector investment.

As per the macroeconomic projections of the MFCC, the medium term macroeconomic outlook for Bhutan is projected to remain sustainable with higher level of economic growth which is supported by accelerated private sector investment, improved current account deficit and modest level of inflation. In the medium term, macroeconomic fundamentals are projected to be sound with price stability, easy access to credit, financial stability and growth.

The economic growth is projected to sustain within 6-9% over the medium term, however the main contributor of growth in FY 2017-18 is projected to be the service sector instead of the industry sector. This is mainly due to fall in construction activities in the economy owing to completion of hydropower projects. However, with commissioning of the Mangdechhu hydropower project and the projected increase in production of electricity from first half of 2018, contribution to growth from the industry sector will increase.

The service sector is projected to grow at an average of 9% from FY 2016-17 with double digit growth in wholesale and retail businesses. Agriculture sector also is projected to sustain its recent growth level with number of initiatives being undertaken to boost the agriculture production.

Table 5.1: Summary of the economic growth and forecast

Year-on-Year Growth (%)	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actuals	Actuals	Actuals	Actuals	Estimate	Forecast	Forecast	Forecast	Forecast
Real GDP growth	5.1	2.1	5.7	6.5	6.9	5.8	6.7	6.8	11.1
Agriculture	2.3	2.4	2.4	4.6	3.3	3.1	4.2	2.8	2.8
Industry	6.8	3.9	3.7	8.1	7.4	4.0	6.7	6.8	16.7
Manufacturing	6.8	(5.3)	9.2	4.4	6.0	10.3	10.3	10.3	10.3
Electricity and water	(0.6)	10.8	(2.8)	7.4	5.3	0.9	9.4	13.7	39.0
Construction	18.2	(2.2)	6.5	10.3	9.9	2.5	(0.0)	(5.7)	(9.5)
Service	0.7	1.6	8.2	8.3	8.3	8.3	9.6	8.5	8.1

Source: MFCC

As the construction of major hydropower projects are nearing completion, investments is projected to gradually decline. On the other hand, projected growth in consumption will lead to increase in aggregate demand exerting pressure on the external sector. The sudden increase in inflows on account of increased electricity production and its exports would drastically increase domestic demand through income affect. Such sudden and drastic increase in aggregate demand in the economy would require efficient demand side management.

In order to maintain macroeconomic stability over the medium and long term, the Government will establish a Stabilization Fund to sterilize inflows from hydropower exports and related loans and grants, reduce volatility in liquidity and credit, and enable government to support counter-cyclical interventions to sustain the desired level of growth in the economy.

Table 5.2: Summary of aggregate demand, economic size, and income

Aggregate Demand (%)	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Actual	Est.	Forecast	Forecast	Forecast	Forecast
Real Gross Domestic Demand	(15.0)	23.4	11.3	3.6	5.0	(2.5)	7.3	9.3	2.1
Consumption	3.1	5.7	24.2	8.0	(2.8)	8.4	(5.2)	14.6	18.0
<i>o.w private consumption</i>	5.0	12.7	32.4	7.2	(5.9)	9.1	(8.8)	17.8	22.0
Investment	3.6	(34.6)	22.3	16.5	12.8	0.9	1.1	(1.8)	(3.4)
<i>o.w private investment</i>	(2.0)	(38.1)	40.3	15.3	13.9	0.6	0.8	(2.7)	(4.5)
Economic size and income									
Nominal GDP (Nu.in Bill.)	103.868	97.983	119.546	132.021	152.193	167.664	192.406	216.142	247.941
Gross Domestic Demand (Nu. in Bill.)	120.971	144.714	167.784	185.094	202.423	212.417	239.742	270.520	299.854
Per Capita Income (USD)	2,335.400	2,294.690	2,430.550	2,478.140	2,857.453	3,069.571	3,444.867	3,790.104	4,275.237

Source: MFCC

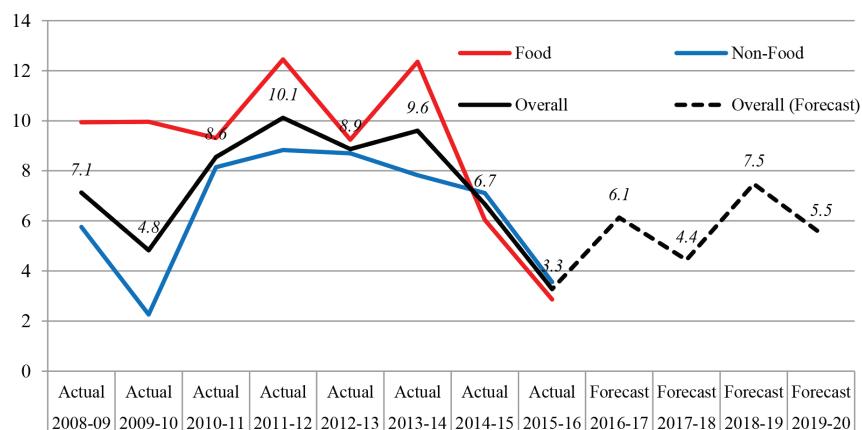
Assuming population growth rate of 1.3% in the next 3-4 years and projected increase in total economic output, the per capita income is projected to be Nu.200,541(USD 3,070) in nominal terms in 2017 and it will increase to about Nu.287,564 (USD 4,275) by 2020.

Inflation

The average CPI inflation at the end of June 2016 remained low at 3.2% owing to drop in fuel prices and lower inflation rate in India.

With projected increase in commodity and fuel prices in the global and regional markets and steady rise in domestic price levels, the CPI inflation in Bhutan is projected to increase in the near term. Further, based on the projected rise in both domestic and imported inflation starting the latter half of 2016 through to first quarter of 2017, the CPI inflation is projected to increase to 6.1% by the end 2017. With the projected average growth of M2 at 22.2% and GDP at 7.6%, inflation in the medium term is projected to be 6-7%.

Graph 5.1: Inflation trend

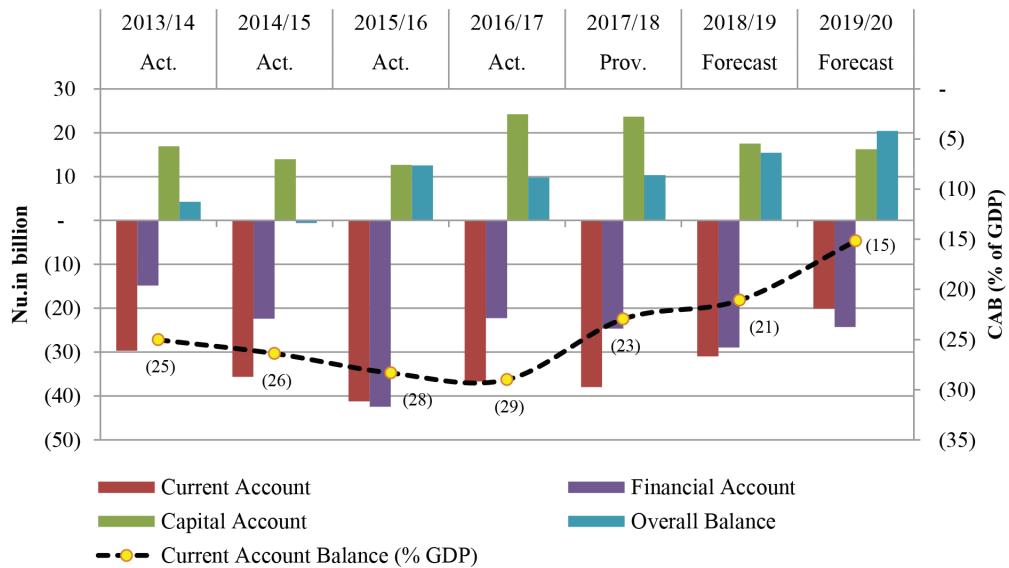


2. External sector

Overall balance of payments; With the on-going hydropower project constructions nearing completion and consequent decline in hydropower related imports and increased electricity exports, the trade deficit which is estimated to be 15.9% of GDP in 2016-17 will be reduced to 9% of GDP in the subsequent three years. Even with higher projected imports of non-hydro goods and services brought about by income effect, the consistent inflow of current transfers would contain the current account deficit to a low of 8.7% in FY 2019-20 from 21.1% of GDP in FY 2016-17.

Similarly, capital inflow related to hydropower will decline with completion of hydropower construction. However, inflows of capital as budgetary support grants from development partners and inflow of other non-hydro loans would adequately finance the current account deficit in the medium term.

Graph 5.2: Overall Balance of Payments projections

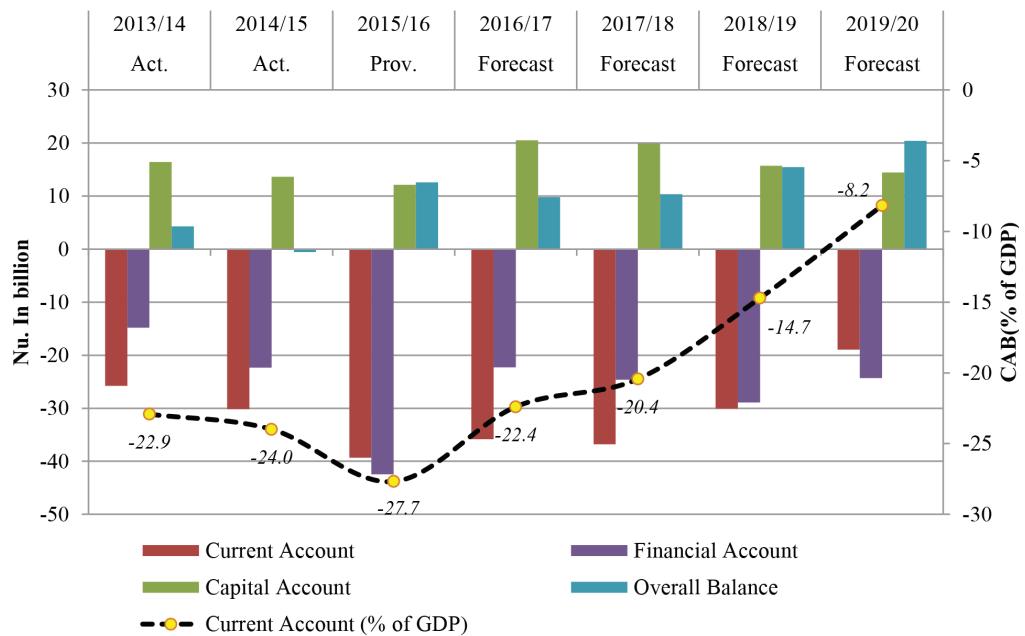


The slower growth rate in imports as compared to exports on account of the commissioning of the hydropower projects along with consistent capital and financial inflows will result into higher balance of payments surplus. The average annual BoP surplus over the next three years is projected to increase to USD 318.513 million from USD 152.968 million in FY 2016-17. Consequently, due to overall surplus, foreign exchange reserves is projected to increase to USD 1.617 billion from USD 1.250 billion during the same period which will adequately cover the cost of required number of months of essential imports and external debt service.

The balance of payments position with India has been improving in the recent years with slower growth in hydro related imports and timely disbursement of grants and loans. As a result, current account deficit with India is projected to improve to 8.2% of GDP in FY 2019-20 from 27.2% in FY 2015-16.

Despite the sustained level of budgetary grants and decline in hydro related imports, overall balance of payments surplus is projected to fall in the near term due to decline in disbursement of loans and grants for hydropower projects. However, with the commissioning of Mangdechhu by early 2018, overall balance of payments surplus is projected to increase by 25% in FY 2019-20.

Graph 5.3: Balance of payment projection with India

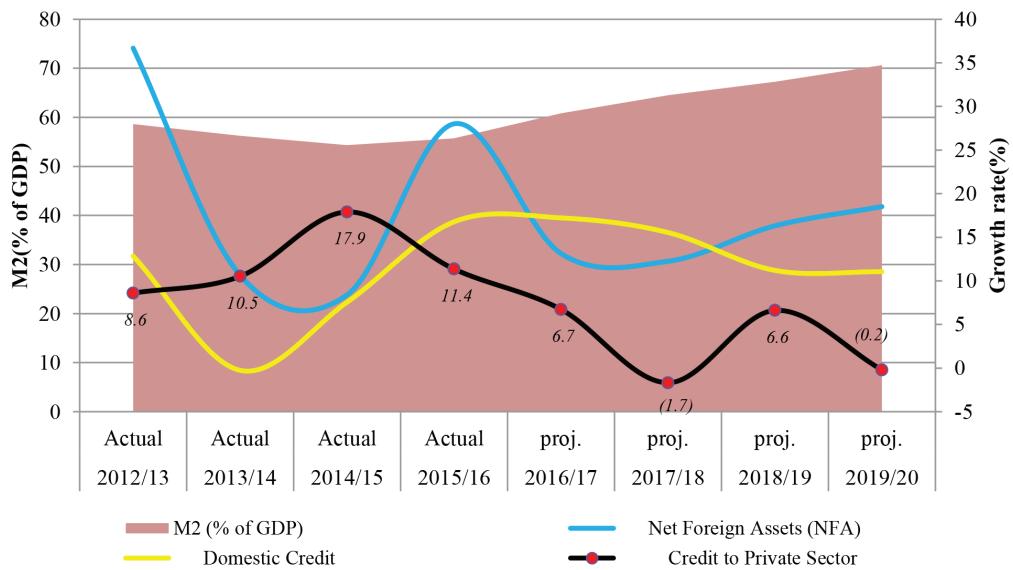


The projected surplus balance of payments with India will contribute to the accumulation of INR reserve which is projected to increase to INR 48.179 billion (131%) () in FY 2019-20 as compared to INR 20.812 billion in FY 2015-16. There will be corresponding increase in coverage of imports (goods and services) by INR reserves from existing about 4 months to 8 months.

3. Monetary Sector

In the medium term, money supply is projected to increase at an average of 19%. The higher rate of M2 growth will mainly be driven by the higher inflow of net foreign asset through additional hydropower export earnings, particularly on account of the Mangdechhu hydropower plant.

Graph 5.4: Monetary growth



The domestic credit is estimated to be about 50% of GDP in the medium term mainly due to enhanced access to credit transmitted through financial inclusion.

4. Fiscal Sector

The fiscal projection for the medium term is presented in the table below:

Table 5.3: Fiscal Framework Projection

Nu.in million

	2015/16	2016/17	2017/18	2018/19	2019/20
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Proj.</i>	<i>Proj.</i>
Resources	42,039.298	47,890.080	51,402.893	50,286.702	50,183.530
Domestic Revenue	28,033.813	29,167.933	34,700.355	41,607.631	42,055.438
Tax	19,884.626	21,078.490	24,444.478	25,553.834	27,548.871
Non-tax	8,149.186	8,089.443	10,255.877	16,053.797	14,506.568
Grants	14,889.610	17,897.049	16,702.538	8,679.071	8,128.092
India	10,721.698	14,388.827	13,845.368	7,248.000	6,810.000
Others	4,167.912	3,508.222	2,857.170	1,431.071	1,318.092
Project-tied Grants	12,549.595	16,197.049	15,002.538	6,979.071	6,428.092
India	9,446.698	12,688.827	12,145.368	5,548.000	5,110.000
Others	3,102.897	3,508.222	2,857.170	1,431.071	1,318.092
Program Grants	2,340.015	1,700.000	1,700.000	1,700.000	1,700.000
India	1,275.000	1,700.000	1,700.000	1,700.000	1,700.000
Others	1,065.015	-	-	-	-
Other receipts	(884.125)	825.098	-	-	-
Outlay	43,603.000	54,380.432	55,850.264	51,150.027	58,780.835
Total Expenditure	44,688.448	56,283.212	57,915.710	53,253.292	59,414.980
Current	22,880.591	25,670.598	28,569.671	32,494.918	36,350.119
Capital	21,807.856	30,612.614	29,346.039	20,758.375	23,064.861
Net lending (NL)	(1,885.332)	(1,902.780)	(2,065.446)	(2,103.265)	(634.145)
Advance/Sus-pense (Net)	799.884	-	-	-	-
Primary Balance	545.380	(4,398.034)	(2,358.561)	2,921.765	(5,257.224)
Fiscal Balance	(1,563.702)	(6,490.352)	(4,447.371)	(863.326)	(8,597.305)
Net Borrowings	(1,215.483)	1,003.048	(348.239)	1,748.272	50.716
Borrowings	1,818.680	3,826.146	2,472.082	6,192.670	3,933.623
Repayments	3,034.163	2,823.098	2,820.321	4,444.398	3,882.907
Resource Gap	(2,779.185)	(5,487.304)	(4,795.610)	884.946	(8,546.589)

	2015/16	2016/17	2017/18	2018/19	2019/20
	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Proj.</i>	<i>Proj.</i>
<i>In percent of GDP</i>					
Revenue & Grants	29.6	29.9	28.6	24.6	21.6
Domestic Revenue	19.7	18.2	19.3	20.4	18.1
Grants	10.5	11.2	9.3	4.2	3.5
Outlay	30.7	34.0	31.0	25.0	25.3
Total Expenditure (% of GDP)	31.4	35.2	32.2	26.1	25.6
Current (% of GDP)	16.1	16.1	15.9	15.9	15.7
Capital (% of GDP)	15.3	19.1	16.3	10.2	9.9
Net lending (NL)	(1.3)	(1.2)	(1.1)	(1.0)	(0.3)
Primary Balance	0.4	(2.8)	(1.3)	1.4	(2.3)
Fiscal Balance	(1.1)	(4.1)	(2.5)	(0.4)	(3.7)
Net Borrowings	(0.9)	0.6	(0.2)	0.9	0.0
Borrowings	1.3	2.4	1.4	3.0	1.7
Repayments	2.1	1.8	1.6	2.2	1.7
Resource Gap	(2.0)	(3.4)	(2.7)	0.4	(3.7)
Nominal GDP (Nu. in millions)	142,107.10	159,928.35	180,034.69	204,273.56	232,041.35

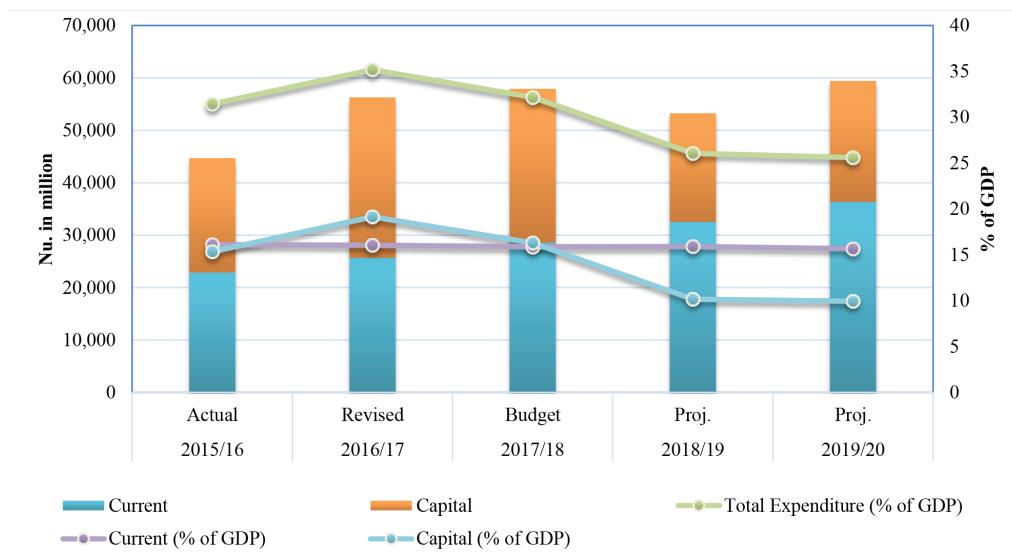
Source: MEF, MoF 2017

Public expenditure

The total public expenditure in FY 2018-19, the first year of the 12th FYP, is estimated to be Nu.53,253.292 million, a decrease of 8.1% from the FY 2017-18. The current expenditure is estimated to be Nu.32,494.918 million, an increase of 13.7% from the previous FY. A sum of Nu.700.000 million has been provisioned in the current expenditure of FY 2018-19 for the conduct of Parliamentary election in 2018. Being the first year of the new Plan, the capital expenditure estimated at Nu.20,758.375 million would constitute only about 18% of the estimated capital outlay of the 12th FYP.

In FY 2019-20, the total expenditure is projected to be Nu.59,414.980 million, an increase of 11.6% from the previous FY and would comprise of the projected current expenditure of Nu.36,350.119 million and capital expenditure of Nu.23,064.861 million (20% of the capital outlay of 12th FYP).

Graph 5.5: Expenditure trend in medium term



Resources

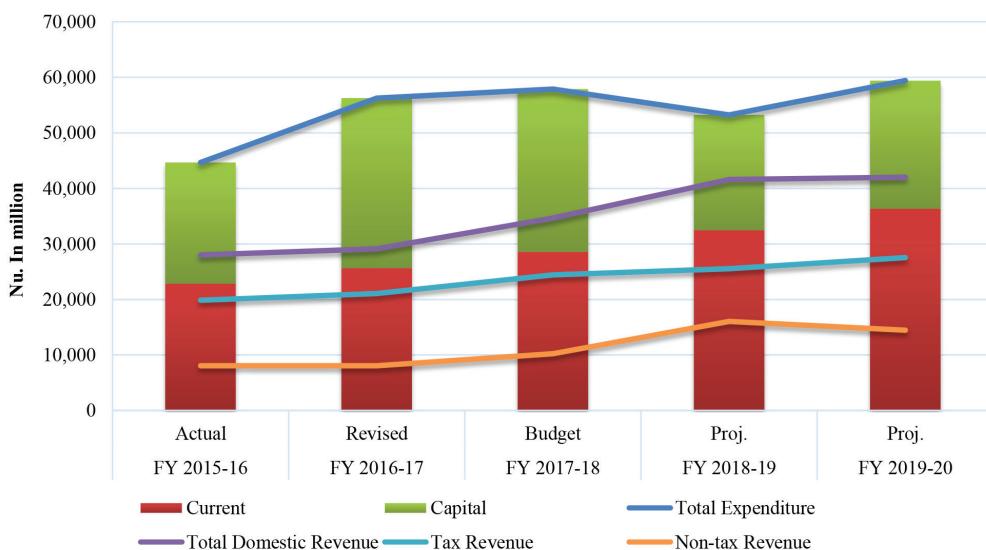
Domestic revenue

The domestic revenue for the FY 2018-19 is estimated to be Nu.41,607.631 million, an increase of 25.9% from the FY 2017-18. The projected increase is on account of the expected increase in non-tax revenue by 86.5%, amounting to Nu.16,053.797 million as compared to the preceding fiscal year. The high growth in revenue is anticipated from the commissioning of Mangdechhu Hydropower Project that is projected to generate a profit transfer of Nu.5,531.971 million in the FY 2017-18.

The new modality of accounting treatment of royalty energy is expected to generate additional revenue of Nu.4,615.992 million in FY 2018-19. During the year, the interest receipts from corporations are estimated to increase to Nu.3,050.278 million as interest payment of Nu.2,428.421 million by Mangdechhu Hydropower project would commence.

The domestic revenue is expected to increase slightly by about 1.1% in the following FY 2019-20. Direct tax is expected to increase due to royalty energy which is estimated to be about Nu.6,013.392 million. However, there will be slight decline in the non-tax revenue as the profit transfer from Mangdechhu Hydropower is expected to decline to Nu.4,089.615 million.

Graph 5.6: Domestic financing trend



Fiscal incentives and exemptions

Fiscal incentives and exemptions are given to priority sectors to encourage productive investments and generate employment in the economy. However, given the narrow tax base, high dependence on single sector and imports, the increasing amount of revenue forgone through exemptions and incentives pose a considerable challenge in financing public expenditure.

The total revenue forgone in the form of various exemptions and incentives was Nu.4,406.532 million in 2016, which constituted 15.7% of the total domestic revenue. The highest tax expenditure was in the form of sales tax at 50.3% followed by customs duty at 32.4%. Additional amount of approximately Nu.500.000 million is expected to be foregone in the form of PIT because of the recent tax measures.

Table 5.4: Tax Exemptions and incentives

Nu.in million

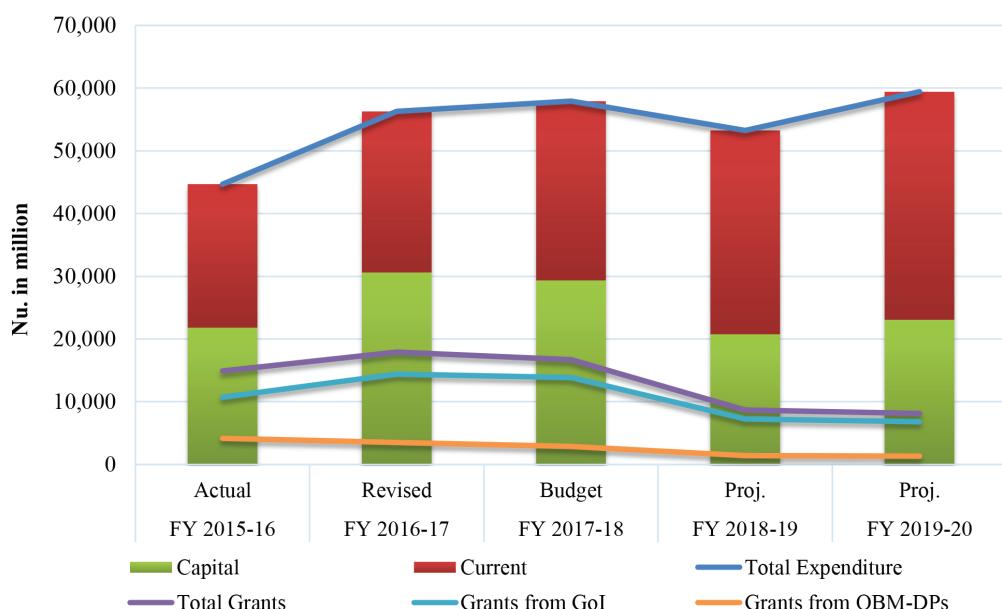
Taxes	Amount
Sales Tax	2,218.602
Customs Duty	1,427.969
Green Tax	52.381
Excise Duty	34.449
CIT/BIT	173.130
PIT	500.000
Total	4,406.532

External grants

In the FY 2018-19, the total external grants is projected to be Nu.8,679.070 million of which Nu.7,248.000 million is expected from the Government of India and Nu.1,431.07 million from other development partners based on the assumptions that same level of support will be provided by the development partners including GoI in 12th FYP.

The total grants in FY 2019-20 is projected to be Nu.8,128.090 million with expectation of Nu.6,810.000 million from GoI and Nu.1,318.090 million from other development partners.

Graph 5.7: External grants

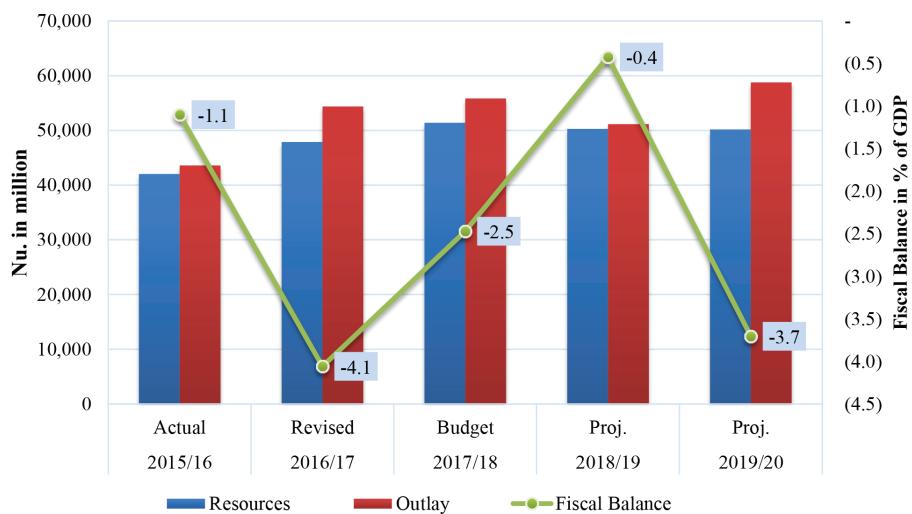


Fiscal balance

Compared to the projected fiscal deficit of 2.5% in FY 2017-18, fiscal deficit is projected to improve to 0.4% GDP in FY 2018-19 and deteriorate to 3.7% of FY 2019-20.

The fiscal balance will change depending on the tax measures, expenditure rationalization and mobilization of grants from development partners in the medium term.

Graph 5.8: Fiscal scenario



Public Debt

Recognizing the importance of public debt management, the Government had adopted the Public Debt Policy 2016 which ensures financing decisions are prudent and public debt is maintained at a sustainable level.

In keeping with public debt policy, external borrowings will be availed for investment in income generating and commercially viable projects. In the medium term, major borrowings will only be on account of hydropower projects to achieve the target of 10,000 MW of electricity generation.

Further, non-hydro borrowings to finance other socio-economic development activities will have to be contained within the threshold of 35% of GDP.

The debt stock and debt indicators in the medium term are presented in the table below:

Table 5.5: Debt Stock and Debt Indicators

	FY2015-16 (Actual)	FY2016-17 (Revised) *	FY2017-18 (Budget)	FY2018-19 (Est.)	FY2019-20 (Proj.)
(Nu. in Million)					
Total Public Debt	160,562.056	166,176.236	178,720.292	196,663.132	212,911.041
Domestic Debt	4,656.115	57.344	47.430	36.817	25.413
External Debt	155,905.941	166,118.892	178,672.862	196,626.316	212,885.628
Rupee Vs. CC Debt					
Indian Rupee debt	115,393.815	125,175.757	133,958.617	143,859.856	152,655.912
Convertible Currency (US\$ millions)	598.186	612.667	661.919	773.032	872.903
Hydro Vs. Non-Hydro Debt					
Hydropower Debt	113,767.933	129,852.797	146,010.484	158,479.727	171,448.570
Non-Hydropower Debt	42,138.007	36,266.095	32,662.378	38,146.588	41,437.058
In percent of GDP (%)					
Total Public Debt	113.0	103.9	99.3	96.3	91.8
Domestic Debt	3.3	0.0	0.0	0.0	0.0
External Debt	109.7	103.9	99.2	96.3	91.7
Hydropower Debt	80.1	81.2	81.1	77.6	73.9
Non-Hydropower Debt	29.7	22.7	18.1	18.7	17.9
External debt as % of Total Public debt	97.1	100.0	100.0	100.0	100.0
Hydropower debt as % of External debt	73.0	78.2	81.7	80.6	80.5
Indian Rupee debt as % of External debt	74.0	75.4	75.0	73.2	71.7
Debt Service Ratio (Total)	14.8	25.7	23.5	13.6	10.6
Debt Service Ratio (Budget)	11.6	10.1	8.8	13.1	9.6
Debt Service (Budget) to Revenue	18.3	16.9	14.9	19.8	17.2
Exchange rate (Nu/USD)	67.73	66.83	67.55	68.26	69.00

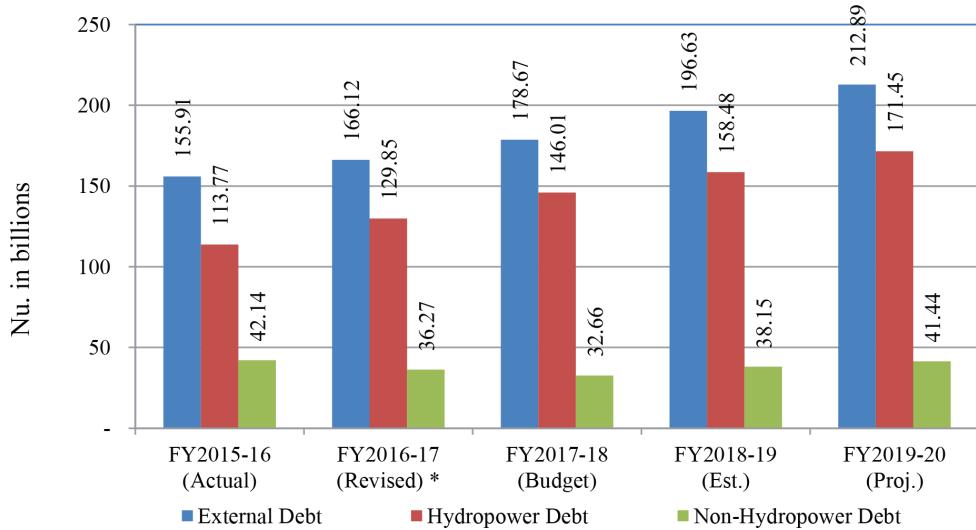
* Domestic debt service includes interest payment for WMA/ODF and Treasury Bills (T-Bills) but excludes the redemption of T-Bills.
* Revised and projections are as on 31st Dec 2016; Past figures are based on the published AFS reports

Based on the planned disbursements of the on-going and new loans, mainly for the hydropower projects, the external debt is estimated to increase by about 28% in the medium term. Additionally, disbursements and inflows on account of the pipeline hydropower projects such as Kholongchhu, Nikachhu and Nyera Amari in FY 2018-19 would increase external debt stock.

The external debt outstanding in the FY 2017-18 is projected to be Nu.178,672.862 million, equivalent to 99.2% of the GDP and will further increase to Nu.196,626.316 million by the end of FY 2018-19.

At the end of 11th FYP period, the projected total public debt will constitute about 99.3% of the GDP.

Graph 5.9: Debt Stock & Debt Indicators

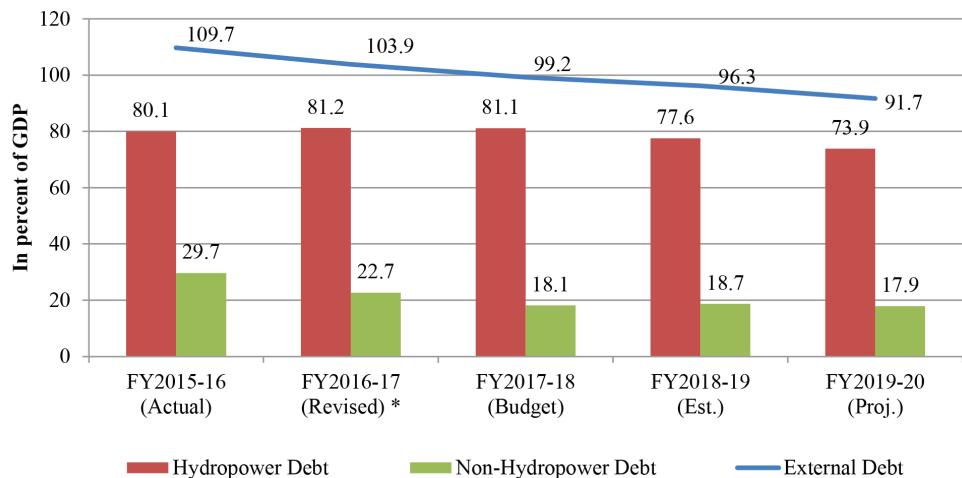


As shown in the graph above, in FY 2017-18, the hydropower loan of Nu.146,010.484 million would account for 81.7% of the total external debt which is projected to increase to Nu.158,479.727 million by the end of FY 2018-19. The non-hydro loans of Nu.32.662 million would account for 18.1% of the GDP in FY 2017-18. The non-hydro loans include borrowings from multilateral financial institutions and other countries at concessional terms.

As the hydropower loans constitute most of the external debts and hydropower projects being commercially viable and self-liquidating, the high debt to GDP ratio does not pose any risk of debt default.

In spite of the high level of debt, the Joint World Bank – IMF Debt Sustainability Analysis Report 2016 categorized Bhutan as being under the moderate risk of debt distress only.

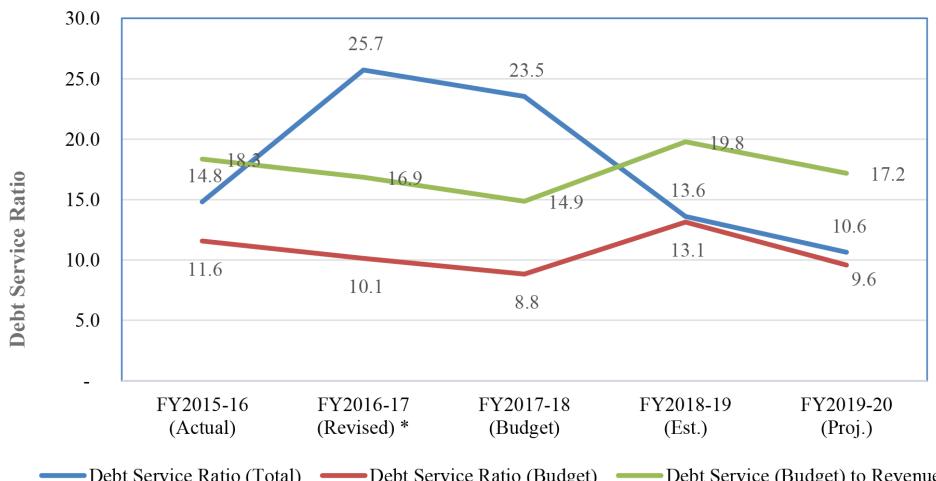
Graph 5.10: Debt Indicators



Debt service ratio indicates a country's capacity to pay off its debt through its export earnings. If an economy's debt service ratio is 25% or below it is considered to have sound and better debt repayment capacity according to IMF. Total debt service (total) for the FY 2017-18 is estimated to be about 23.5% which is projected to improve to 13.6% in the FY 2018-19.

The debt service (*budget*) to revenue in FY 2017-18 is projected to be 14.9 percent, which is within the threshold of 22%. On the other hand, the debt service ratio (*budget*) for the FY 2017-18 is estimated to be 8.8% and 13.1% in FY 2018-19 which is also within the threshold of 25%.

Graph 5.11: Debt Service Ratio



Domestic Debt

By the end of FY 2017-18, domestic debt is projected to be Nu.47.430 million mainly on account of the loan availed by the Government to construct staff quarters at Phuentsholing hospital. The loan is scheduled to be liquidated by 1st April 2022.

During the FY, the domestic debt stock would increase if the estimated resource gap is mobilized through internal borrowing. Any T-bills that have not been redeemed during the FY will add to the domestic debt stock. In addition, if the government considers issuing government bonds to mobilize financing for infrastructure projects, the domestic debt stock will increase.

In the medium term, the domestic debt stock will be mainly on account of financing the resource gap. However, it is important to ensure that financing the resource gap through domestic debt does not crowd out the private sector.

CHAPTER 6: **PERFORMANCE OF ROYAL MONETARY AUTHORITY**

The primary objective of the Royal Monetary Authority is to formulate and implement monetary policy to achieve and maintain price stability besides promoting macroeconomic stability and economic growth. To support economic growth, the RMA, under the Financial Sector Development Action Plan has been focusing on strengthening the financial system. It has also been developing financial deepening strategy and ensuring interest rate policy to promote competition and develop professionalism among the financial institutions.

In order to encourage competition and credit accessibility to the productive sectors, the RMA introduced Minimum Lending Rate (MLR) system which is a transparent and market driven approach to allow healthy competition among the financial institutions. With the implementation of MLR starting from 1st August 2017, there was a marked decline in overall lending rates of about 2 percentage points. Of the various lending rates, maximum decline was observed in government employee loan, declining from 13.4% to 10.4% followed by housing loan from 13.8% to 11.3%. Similarly, during the same period, average lending rate for agriculture loan decreased from 12.4% to 10.1% while lending rate for manufacturing loan decreased from 13.6% to 12%.

The RMA also introduced RemitBhutan initiative to provide foreign currency account facility to encourage inward remittances by Bhutanese living and working abroad. The inward foreign currency remittances can play important role in boosting country's foreign currency reserves and promoting savings. Since the launch of RemitBhutan in September 2016, 621 Bhutanese living and working abroad have opened foreign currency account with banks in Bhutan. Through this initiative about USD 0.916 million (Nu. 59.546 million) has been remitted so far.

To extend financial services outreach and promote financial inclusion to the unbanked and under-served population, the RMA issued agent banking guidelines for safety and soundness of the banking system.

The RMA, in close coordination with relevant agencies both within and outside the country managed to contain the impact of the demonetization of high denomination Indian currency notes and catered to the INR cash needs of the people traveling to India for pilgrimage, medical and other purposes.

Total asset and liabilities of the RMA in 2016 has increased to Nu.80.100 billion from Nu.64.700 billion in 2015 growing by 23.8%. The total operating income of the RMA decreased by 2.7% from Nu.1.600 billion in 2015 to Nu.1.560 billion in 2016 mainly on account of decline in earnings on the ways and means advances to the Government. Further, there was a slight decrease in interest income from both rupee and foreign investments during the year. However, relative to the preceding year, the royalty from commemorative coins and income from other sources increased substantially by 205.1% and 405.2% respectively.

The total operating expenses grew from Nu.320.000 million in 2015 to Nu.332.000 million in 2016 (3.6%). The increase was largely on account of 123% increase in staff superannuation fund and 152.6% increase in miscellaneous expenses as compared to the preceding year.

RMA generated a surplus of Nu.1,227.000 million in 2016 as compared to Nu.1,282.000 million in 2015. After spending Nu.349.800 million to implement monetary policy and meet the operating expenses, a net surplus of Nu.874.000 million was transferred to the Government.

CHAPTER 7

PERFORMANCE OF STATE OWNED ENTERPRISES

7.1 Performance Highlights

State Owned Enterprises (SOEs) constitute a vital component of the economy and plays a strategic role in providing infrastructure and public services. SOEs have prominent presence in the key sectors of the economy ranging from banking, energy/power generation, real estate, postal service, transport, manufacturing, telecommunication, insurance, lottery and aviation.

Besides revenue generation, SOEs are actively engaged in service delivery in the rural areas such as farm shops, access to rural finance and domestic air transport.

In terms of air transport, Drukair increased the number of flight operation by 6% from 4,193 flights in 2015 to 4,433 flights in 2016 increasing the number of passengers carried by Drukair by 12%. The establishment of Royal Bhutan Helicopter Services Limited (RBHSL) proved fruitful especially in providing critical services during emergencies, disasters, and saving lives through medical evacuations. In 2016, RBHSL conducted 133 medical evacuations, 117 subsidized local chartered flights for Lunaps and other remote communities, 5 emergency rescue operations for stranded tourists, and helped in containing 6 major forest fires. The introduction of additional 18 new buses by Bhutan Post with financial support of Nu.67.000 million from Government has also greatly benefited the public transport system by decongesting the vehicular movements in Thimphu and Phuentsholing. Through the mobile postal services and with the introduction of 140 motor bike services, Bhutan Post has been delivering mails to all the Gewogs improving the quality of services in terms of frequency, security and reliability.

Similarly, Food Corporation of Bhutan Limited (FCBL) is engaged in school feeding program and distribution of essential food commodities in collaboration with WFP to 181 schools benefiting more than 37,870 students. To ensure availability of essential food items, agricultural tools, animal feeds, seeds and fertilizers to the communities at affordable prices, FCBL has established 87 farm shops in rural areas.

In terms of access to rural finance, Bhutan Development Bank Limited (BDBL) made its presence in all 20 Dzongkhags, 14 Dungkhags and 198 Gewogs with banking services. Further, as initiated by the Government and Central Bank of Bhutan, the company implemented Minimum Lending Rate (MLR) from third quarter of 2016 and have benefited customers to the tune of Nu.34.000 million. The “Cottage and Small Industry Financing Department” was established to handle the economic stimulus program package called ESP Revolving Fund (RF) I. Under this program, a loan amounting to

Nu.136.440 million was disbursed as on 31st December 2016. Under the RF II Program, a total of 1,928 project proposals amounting to Nu.112.570 million were approved for projects like livestock, agriculture, and manufacturing etc.

In terms of rural electrification, Bhutan Power Corporation (BPC) achieved 99.5% electricity coverage in the country. In 2016, the Druk Green Power Corporation generated 7,573.841 million units (MU) of electricity, an increase of 2.53% from an aggregate generation of 7,381.602 MU in 2015. While the export to India increased from 5,149.17 MU in 2015 to 5,373.35 MU, recording a growth of 4.35% in 2016, the import of power from India decreased from 158.463 MU in 2015 to 110.638 MU in 2016.

Dungsam Cement Corporation Limited (DCCL) produced a total of 520,921 metric tonnes of clinker and 588,433 metric tonnes of cement. The plant achieved increase capacity utilization from 53% in 2015 to 81% in 2016.

The Ministry of Finance on behalf of Government is responsible to monitor and report on the performance of SOE's financial, operational efficiency, governance and regulatory compliance.

Therefore, this report reviews the performance and assesses the overall health and challenges facing SOEs and linked companies.

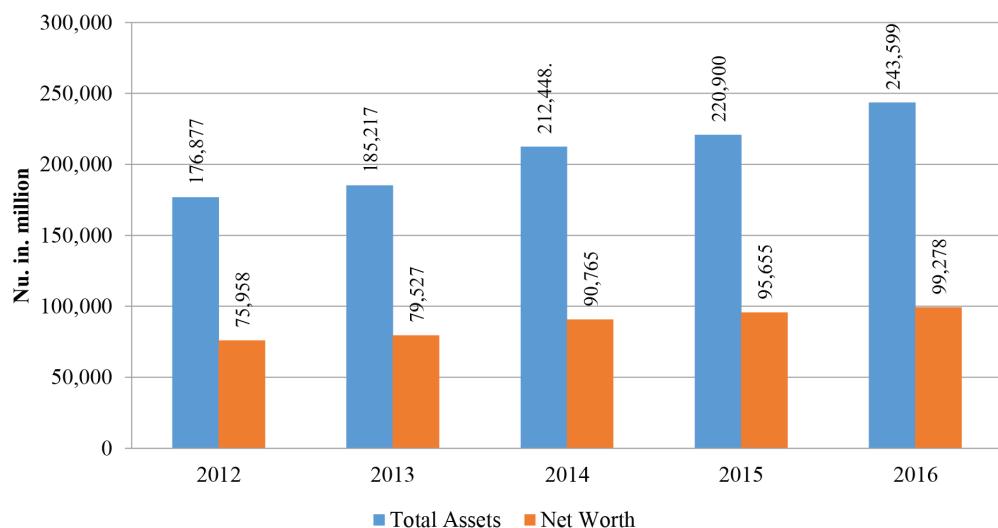
7.2 Economic relevance of SOEs and linked companies

SOEs and linked companies including DHI companies have posted an average revenue growth of 12.85% in 2016 (from Nu.53,758.800 million in 2015 to Nu.60,667.380 million). The combined assets of SOEs reached Nu.243,599.000 million, an increase of 9.3% as compared to Nu.220,900.000 million in 2015. The growth was mainly on account of corporatization of two new SOEs, higher credit growth of the financial institutions and also due to purchase of additional helicopter by the Royal Bhutan Helicopter Services.

Accordingly, SOEs have achieved around 4% growth on Shareholders' Fund (net worth) from Nu.95,655.000 million in 2015 to Nu.99,278.000 million in 2016, which constitute more than 69% of GDP.

Overall improvement in the performance of SOEs has contributed towards higher tax revenue and dividend remittances to the Government. In 2016, SOEs and linked companies contributed Nu.11,089.550 million as tax (*Nu.7,022.010 m*) and dividend (*Nu.4,068.570 m*) to the Government which was 39.56% of the total domestic revenue. The table below shows the comparative of Assets and Net-worth of SoE's for the last five years.

Graph 7. 1: Asset & Net Worth



Overall, as per the audited reports, no material risks were reported that would have significant implications on the operation and going concern of the SOEs and companies with Government shareholdings.

7.3 Portfolio of state enterprises

For better portfolio management, the State Owned Enterprises are grouped under three categories, namely:

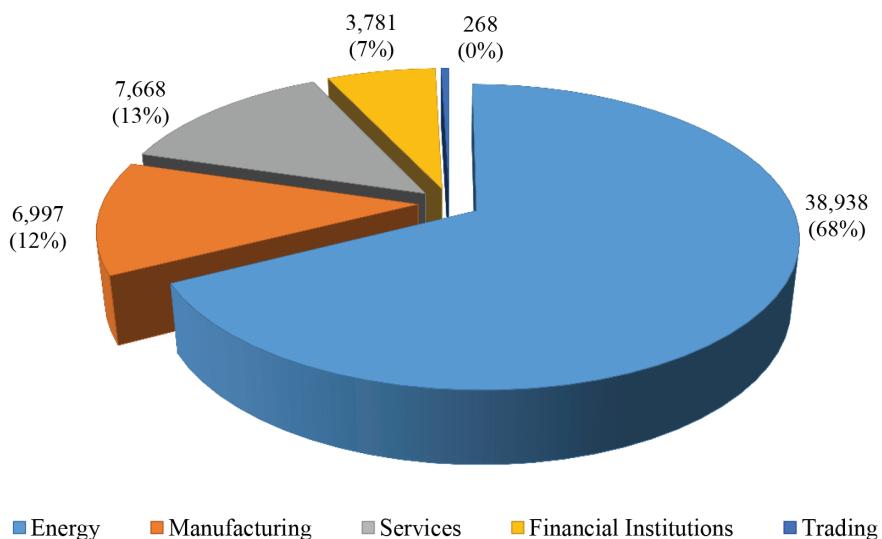
1. Wholly Owned Enterprises
2. Majority Owned or Controlled Enterprises; and
3. Enterprises with Minority Shareholdings.

The Government portfolios in SOEs and linked companies comprises of 21 wholly owned, 7 controlled and 5 linked companies. During the year two new SOEs, Green Bhutan Corporation (GBCL) and Rural Enterprise Development Corporation (REDCL) were established with overarching objectives to achieve efficiency gains and sustainability in the public sector and to create employment in the country. While doing so, equity injection was kept at minimum based on the investment needs of the SOEs. During the year, the Government approved the merger of CDCL and DHI infra to promote operational efficiency and augment capacity to take up large construction projects.

Government's direct shareholdings in SOEs grew marginally from Nu.49,067.000 million in 2015 to Nu.49,392.940 million in 2016. Similarly, shareholdings through DHI reached Nu.53,345.000 million in 2016 from Nu.51,381.00 million.

In terms of employment, the SOEs and linked companies employed more than 11,481 employees.

Chart 7. 1: SOE Portfolio



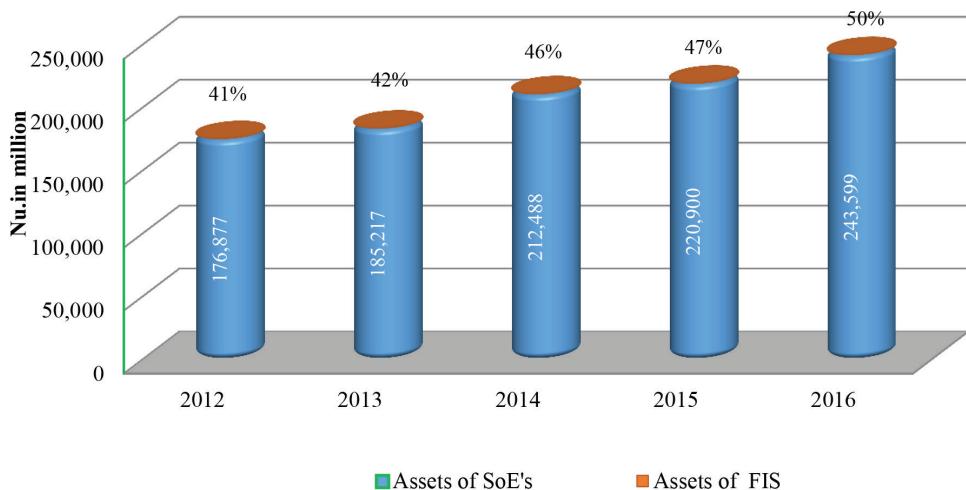
7.4 Asset & investment growth of State Enterprises

SOE assets in 2016 grew by 9.32% from Nu.220,900.000 million in 2015 to Nu.243,599.410 million. The growth in assets were mainly due to expansion of assets in financial sector such as BoBL, RICBL and BDBL. RICBL recorded the highest growth with 22% followed by BDBL 16% and BoB with 14%.

In terms of asset size, financial and hydropower sector constitutes major portion of the total assets. Almost 50% of the total assets of SOEs amounting to Nu.122,352.780 million pertains to financial sector and hydropower assets amounts to Nu.83,274.880 million which is 34% of the total assets.

The chart below shows the comparative assets value of financial institutions

Graph 7.2: Asset Size and Composition



In terms of growth in shareholder investment, SOEs net worth has increased by Nu.3,623.910 million, from Nu.95,655.000 million in 2015 to Nu.99,278.910 million in 2016.

7.5 Revenue earnings and profitability of SOEs

In terms of revenue earnings, state enterprises achieved combined turnover of Nu.60,667.380 million against previous year revenue of Nu.53,758.800 million (12.85% growth).

Hydropower sector (DGPC) continues to be the single largest revenue earner with Nu.14,624.050 million i.e. 24% of the total turnover followed by financial sector which posted revenue turnover of Nu.12, 868.330 million in 2016.

On the other hand, the operational cost of SOEs and linked companies also increased by 13% from Nu.40,334.000 million in 2015 to Nu.45,622.000 million in 2016. The table below provides an overview of operational earning and profitability of SOEs.

Table 7.1: Revenue earnings and profitability

Year	Revenue	Expenses	Pre-Tax Profit	Profit After Tax	RoE
2012	36,912.00	24,752.00	12,230.00	8,565.00	8%
2013	39,682.00	26,335.00	13,233.00	9,218.00	2%
2014	46,051.00	33,264.00	12,305.00	8,046.00	4%
2015	53,758.80	40,334.25	13,424.55	9,059.00	8%
2016	60,667.38	45,662.26	15,155.66	10,541.90	5%

In 2016, the aggregate profit earning of SOEs grew by 12.89% from Nu.13,424.550 million in 2015 to Nu.15,155.660 million in 2016. Bhutan Telecom recorded growth in profits by 70.8% during the year primarily due to conversion of DANIDA project loan amounting to Nu.138.915 million as grant. Similarly, BAIL's profits grew by 52% as a result of increase in sales by 9% over the previous year. DGPC and BPC also recorded an increase in profits by 7.5% and 12% respectively.

Royal Bhutan Helicopter Services Ltd (RBHSL), a newly established undertaking delivered outstanding performance recording a profit before tax of Nu.46.320 million in its first year of operations. Similarly, Drukair also posted positive earnings during the year achieving Nu.99.020 million as profit compared to a loss of Nu.32.440 million in 2015. The performance was mainly due to increased volume of traffic by 7.35% while operational expenses increased only by 1% compared to previous year.

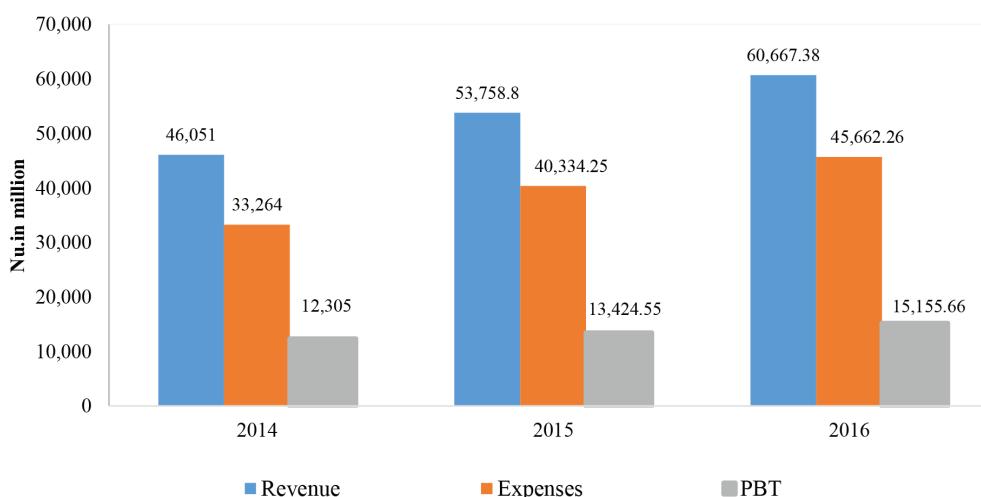
AWP recorded the highest returns on equity at 24% in 2016 closely followed by Bhutan Telecom and STCBL at 21% and 20% respectively.

During the year, DCCL posted revenue growth of 30% helped by increased production volume and sales in the domestic market driven by hydropower projects. However, the company continues to incur operational loss of Nu.755.180 million due to plant capacity utilization below break-even levels and high financing cost, besides other logistical challenges.

The companies like DPL, KIPL, SMCL, REDCL, BLL and FMCL all posted negative earnings in the year as a result average returns on equity decreased from 8% to 5% in 2016.

The chart provides trend of total revenue earnings and profitability of SOEs in the last three years.

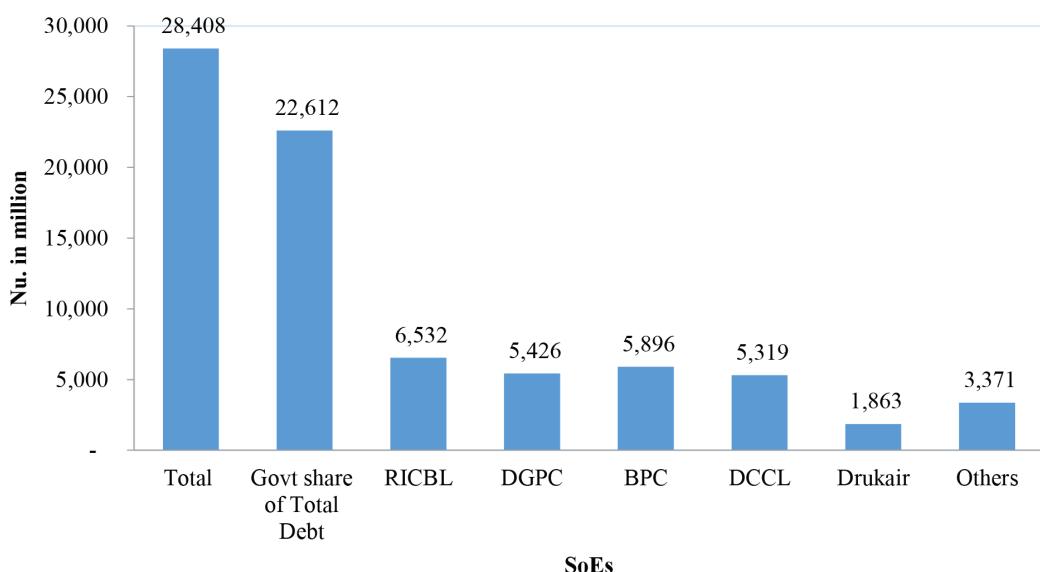
Graph 7.3: Turnover and profitability



7.6 SOE long term debt and Government exposure

Overall total borrowings of SOEs and linked companies declined by 4.36% from Nu.29,703.000 million in 2015 to Nu.28,407.000 million in 2016 mainly attributed by reduction in DGPC's long term borrowings of Nu, 2,343.420 million. Of the total SOE debt, Government liability stands at Nu.22,611.000 million. In terms of percentage to total public debt, SOE debt constitutes around 18%. The details of SOE long term borrowings are provided in the chart below:

Graph 7.4: SOEs long term debt



In terms of exposure, 21% of the total SOE debt pertains to BPC (Nu.5,896.000 million), 19% DGPC (Nu.5,426.000 million), and 19% DCCL (Nu.5,319.000 million).

As of December 2016, the Royal Government has provided Sovereign Guarantee to the tune of Nu.202.000 million as detailed below.

Table 7. 2: Status of Sovereign Guarantee as of 31st December 2016

Sl	Name of the beneficiary	Issue Date	Issued	Purpose of Issue	<i>Nu in million</i>		
					Principal (Nu. in Million)	Term	Balance (Nu. in Million)
1	Dharma Industries, Social 3, People's Projects	30/7/07	BNB	Working Capital for establishment of industry to manufacture statues	15	10 years	1.982
2	Bhutan Development Bank Ltd.	04-02-08	NPPF	Rural Credit including SME	400	10 years	200
Total					415		201.982

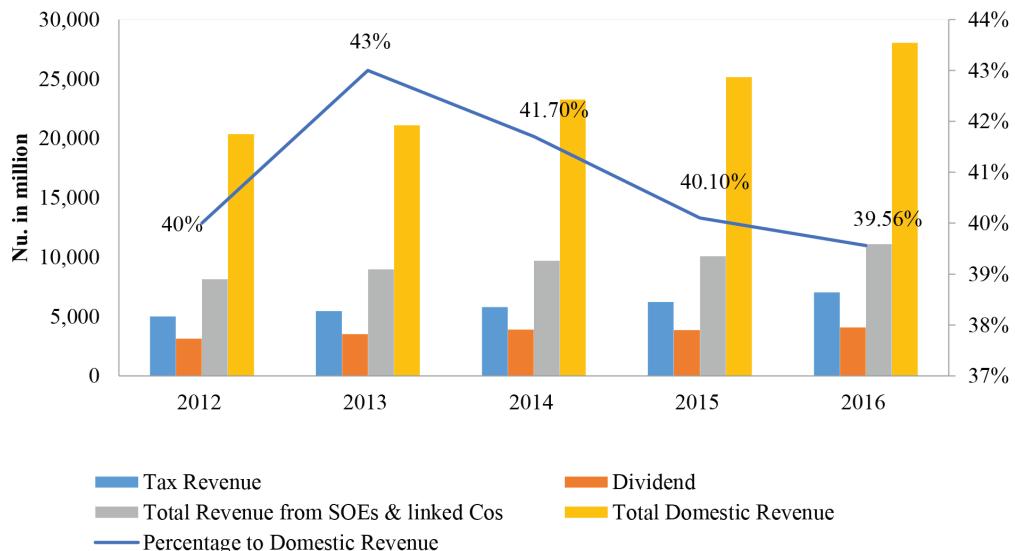
7.7 SOEs' contribution towards Government revenue

Contributions from State Enterprises constitute a major source of revenue for the Government accounting to 39% of the total national revenue. In 2016, SOEs contributed a total of Nu.11,090.580 million in the form of dividend (*Nu.4,068.570 million*) and taxes (*Nu.7,022.010 million*) recording a 10% increase in revenue compared to previous year. The increase was mainly attributed by increase in turnover and profitability of SOEs and linked companies. The trend of revenue contribution from SOEs in the last five years is provided below:

Table 7.3: Tax and dividend contributions

Particulars	2012	2013	2014	2015	2016	<i>Nu. in million</i>
Tax Revenue	4,994.27	5,453.47	5,779.94	6,215.81	7,022.01	
Dividend	3,135.78	3,519.90	3,902.37	3,861.97	4,068.57	
Total Revenue from SOEs & linked Cos.	8,130.04	8,973.37	9,682.31	10,077.78	11,090.58	
Total Domestic Revenue	20,354.46	21,101.69	23,244.61	25,141.03	28,033.81	
Percentage to Domestic Revenue	40%	43%	41.70%	40.10%	39.56%	

Graph 7.5: Trend in taxes and dividend contributions



DGPC continues to remain as the highest contributor to the national exchequer. In 2016, the company paid dividend of Nu.2,399.780 million and taxes of Nu.5,104.360 million, which accounted for 26% of the total domestic revenue.

CHAPTER 8

PERFORMANCE OF DRUK HOLDING AND INVESTMENTS

8.1 Financial and operational highlights

Druk Holding and Investments (DHI) is the only government holding company with Ministry of Finance as its sole shareholder. DHI's portfolio consists of 19 companies which operate in energy, manufacturing, trading, services and financial sectors. As per the Royal Charter, DHI is mandated to hold, manage, and enhance national wealth through prudent investments. It is also responsible for enhancing the performance of its portfolio companies by cultivating a performance-driven and customer-oriented culture.

Government's equity holdings in DHI amounts to Nu.45,087.590 million which constitutes 91% of the total equity investments in SOEs. DHI recorded total assets of Nu.52,793.590 million and net worth of Nu.51,086.000 million which grew by 1 % and 2.7% in 2016 respectively. The increase was due to additional capital injection of Nu.90.410 million in SMCL and Nu.404.260 million in CDCL.

In 2016, DHI earned Nu.7,383.740 million as income of which 97% was from dividend income from its subsidiaries. The total income of the company increased by 17.4% from Nu.6,291.270 million in 2015 to Nu.7,383.740 million. The summary of DHI's financial performance for 2016 is given below:

Table 8.1: Financial performance of DHI

Particulars	2016	2015	Nu.in million Variance
Total Assets	52,793.59	52,426.97	0.7%
Net worth	51,086.13	49,766.23	2.7%
Income	7,383.74	6,291.27	17.4%
Expenditure	120.25	112.75	6.6%
Profit Before Tax	7,263.50	6,178.53	17.6%
Tax	2,180.93	1,855.80	17.5%
PAT	5,082.80	4,322.76	17.6%

The major portion of dividends was from DGPC amounting to Nu.5,104.360 million followed by BPC with Nu.1,281.650 million. The sources of DHI's dividend income is provided below:

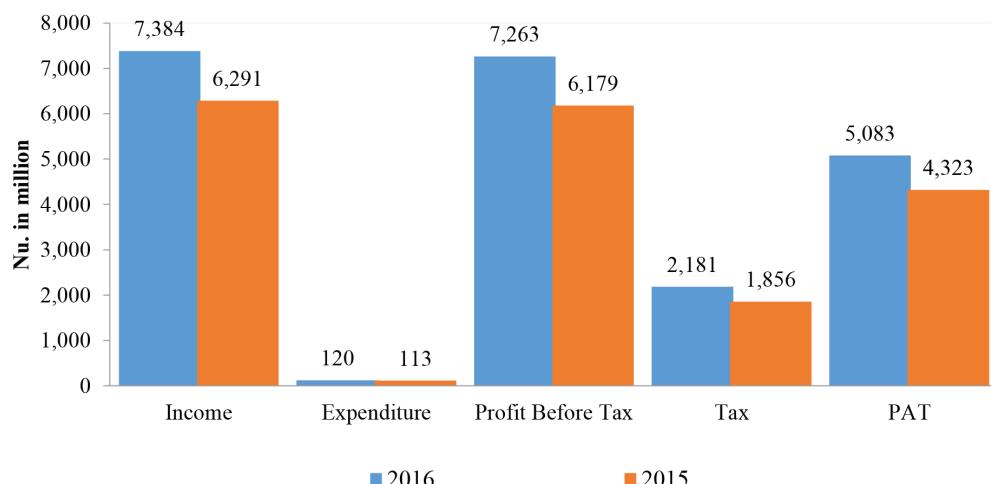
Table 8.2: Dividend income of DHI

Nu.in million

Dividend income from subsidiary companies	2016	2015	Variance
Bhutan Board Products Ltd	5.347	4.678	14%
Bank of Bhutan Ltd	131.040	300.133	-56%
Bhutan Telecom	490.807	337.011	46%
Druk Green Power Corp.	5,104.360	4593.274	11%
Bhutan Power Corp.	1,281.66	702.082	83%
Penden Cement Authority	47.99	109.686	-56%
State Trading Corporation of Bhutan	13.76	0	
Sub-Total	7,074.960	6,046.86	17%
<hr/>			
Dividend income from linked companies			
Bhutan Ferro Alloys Ltd	15.44	28.946	-47%
Bhutan National Bank Ltd	57.56	40.82	41%
Royal Insurance Corp. of Bhutan	44.195	30.936	43%
Sub-Total	117.19	100.702	16%
TOTAL	7,192.149	6,147.57	17%

DHI's expenditure increased by 6.6% from Nu.112.75 million in 2015 to Nu.120.250 million in 2016. The increase was largely attributed to rise in employee cost which grew by 20% over the previous year. Overall, DHI has earned a profit after tax of Nu.5,082.800 million, recording an increase of 17.6% as compared to 2015. The trend in DHI's operational earnings and profitability is provided below:

Graph 8.1: Revenue earnings and profitability of DHI



8.2 Revenue contribution from DHI

Overall, DHI contributed Nu.6,248.470 million in the form of taxes and dividends to the Government which constituted 22% of the total domestic revenue.

Dividend remittances from DHI to Government increased by 5.32% with Nu.4,067.540 million in 2016. This is due to increase in profitability of DGPC, BPC and Bhutan Telecom which constitutes 95% of DHIs dividend income. Taxes paid by DHI increased by 18% from Nu.1,855.800 million in 2015 to Nu.2,180.930 million in 2016. The chart below provides the trend in revenue contributions made by DHI during the last five years.

Graph 8.2: Dividend payout of DHI.

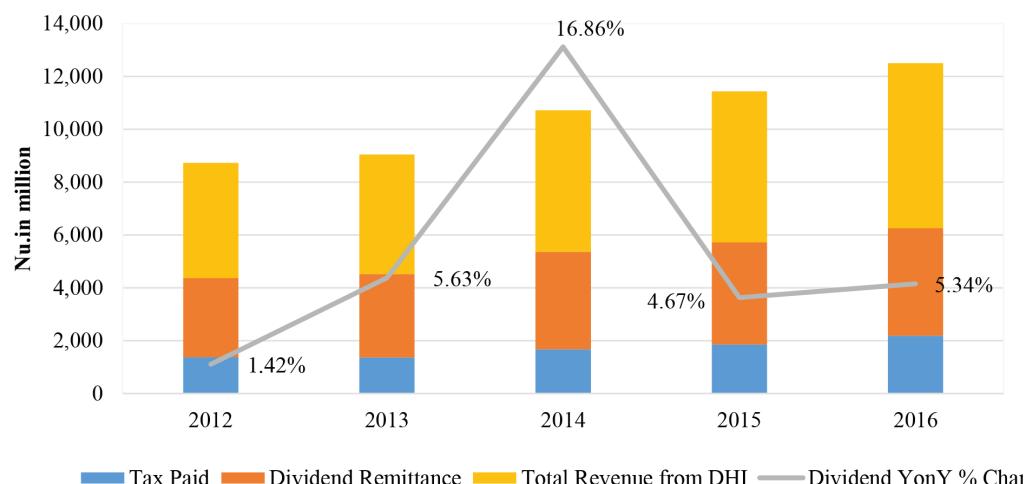


Table 8.3: Tax and dividend contribution from DHI

Particulars	2011	2012	2013	2014	2015	2016	Nu. in million	Variance
Tax Paid	1,292.39	1,372.95	1,361.65	1,666.15	1,855.80	2,180.93		18%
Dividend Remittance	2,947.39	2,989.27	3,157.53	3,689.74	3,861.97	4,067.54		5.32%
Dividend YonY % Change		1.4%	5.6%	16.9%	4.7%	5.3%		
Total revenue from DHI		4,362.22	4,519.18	5,355.89	5,717.77	6,248.47		9%
Total domestic Revenue		20,354.46	21,101.69	23,244.61	25,141.03	28,033.81		
Percentage of domestic revenue		40%	43%	41.70%	40.10%	37.63%		22%

CHAPTER 9

PERFORMANCE OF NATIONAL PENSION AND PROVIDENT FUND

National Pension and Provident Fund (NPPF) manages pension and provident fund of civil servants, corporate employees and the armed force personnel which forms the integral part of the nation's economy contributing to the overall national savings and investments. Pension and provident fund plays a significant role not only in providing financial security to the members but also as constant source of fund for the financial sector through various investments.

9.1 Financial and operational performance

As of June 2016, total members grew by 2.08% with 52,399 members compared to previous year. On the beneficiary side, the total dependency ratio (pensioners to total members) recorded at 10.22% indicating an increasing share of pensioners relative to active members.

The asset size depends on the accumulated contributions and returns from investments. The total asset increased to Nu.23,863.700 million in 2016 from Nu.20,446.180 million in 2015 mainly from increased net contribution of Nu.1,512.800 million and Nu.178.720 million of earnings from investments. NPPF has continued to maintain positive cash flow with gross benefit payment of about 35% of the total contribution collected from the members.

The return on investment in FY 2015-16 was 4.94% above the inflation measured by Consumer Price Index, where NPPF earned gross revenue of 9.11% and declared annual return of 8.5% to the members. NPPF achieved 23.81% gross revenue growth from Nu.1,517.380 million in the previous year to Nu.1,878.720 million mainly from interest on deposits, loans, bond, dividends, and rental income.

NPPF produced the actuarial valuation for the period ending 30th June 2015 determining key liability figure and financial position for both civil and armed forces pension scheme. The actual progress made to pension scheme was due to higher growth of assets from contribution and investment earnings.

9.2 Key achievements

The NPPF revised the eligibility conditions for Member Home Loan Scheme and enhanced the New Member Loan limit to Nu.0.500 million making it more affordable to members. With the implementation of the MLR interest rates for all loans have been revised downward making it more competitive with other financial institutions.

NPPF has completed one residential building with 10 units in Samdrup Jongkhar and rented to the members. Construction of two residential buildings with 58 units is under progress in Phuentsholing to supplement the housing shortage. NPPF has also completed the feasibility study in Thimphu and Gelephu for investment in real estates.

NPPF actively participated in celebrating the Global Money Week and disbursed Nu.3.220 million as loan to members in Dagana and Tsirang through personal visits by their Mobile-Team. Considering the corporate social responsibility, NPPF signed a MoU with the Royal Society for Senior Citizens (RSSC) to help RSSC mobilize funds from pensioners.

In order to ensure sustainability of the Fund and to extend the post-retirement benefits to larger number of the population the national pension policy is being formulated.

9.3 Challenges and opportunities

NPPF made significant progress in managing successful and sustainable provision of pension and provident fund. However, prudent asset-liability management will remain a key challenge to ensure the long-run financial sustainability of pension scheme due to limited investment avenues, lower contribution from the members and increasing pension liabilities.

Given the strategic role of NPPF as a social security organization, lack of policy and legislation related to pension and provident fund poses a major challenge to the institution in a rapidly evolving environment.

CHAPTER 10

TRUST FUNDS

Trust Funds are for designated purposes deemed necessary by the Government to ensure uninterrupted funding for certain essential programs. They are established and managed as per Royal Charters and provisions of relevant laws and operational guidelines.

There are currently four Trust Funds and three Endowment Funds to promote activities in the areas of preservation and promotion of cultural heritage, protection, and conservation of environment, enhancing access to rural telecommunication, sustainability of primary health services and quality education. During the FY, a Stabilization Fund and an Endowment Fund for Crop Livestock Conservation will be established.

The status of the Trust Funds and Endowments Funds are as follows.

10.1 Trust Funds

10.1.1 Cultural Heritage Trust Fund

The Cultural Heritage Trust Fund, managed by the Department of Culture, is to be used for projects related to culture. The Trust Fund was established in 1999 with an initial fund of Nu.31.267 million. As per the Royal Charter, no expenditure is to be incurred from the Trust Fund till the initial fund reaches USD 1.000 million. Accordingly, there has been no expenditure from the Trust Fund till date.

The Fund is currently invested in fixed deposit with the Bhutan National Bank at an interest rate of 7% per annum with deposit tenure of 365 days. The fixed deposit will mature in October, 2017 earning an interest amount of Nu.4.469 million. The total fund position in October, 2017 when the fixed deposit matures, will be Nu.68.355 million, which is an increase of 14% over the previous year.

The Fund would likely achieve its target of USD 1.000 million during 2017 as the balance will reach Nu.68.355 million, thereby enabling the use of earnings from the fund to implement activities related to promotion of culture.

10.1.2 Bhutan Trust Fund for Environment Conservation (BTFEC)

The Bhutan Trust Fund for Environment Conservation was established in 1992 with an initial fund of USD 20.000 million. The BTFEC aims to promote social welfare through environmental conservation of forests, flora, fauna, and ecosystems of Bhutan. The fund balance as of 31st March 2017 stood at USD 51.955 million which is 3.5% increase over the previous year. During the year, the Fund earned an income of USD 3.341 million; USD 0.152 million as interest income, USD 0.302 million as dividend, USD 2.288 million as capital gains, and USD 0.017 million as market income. The World Bank/ Global Environment Facility contributed USD 580,164.890.

The Trust Fund spent USD 1.608 million during the period expenses of which included the program activities (USD 1.303 million) and operating expenses of the Secretariat (USD 0.304 million). The Fund invested 93% of their total portfolio in mutual funds in the United States and remaining 7% was invested in shares and bonds in the domestic market.

10.1.3 Universal Service Fund for ICT

The Universal Service Fund comprises of Universal Service Fund (USF) and Media Development Fund (MDF). The Universal Service Fund was established in March 2007 with an initial fund of Nu.194.250 million to promote rural mobile and internet connectivity. The Fund is managed by Bhutan Information Communication Media Authority (BICMA). The fund balance as of 15th March 2017 stands at Nu.236.413 million compared to Nu.231.041 million as of June, 2016. The increase of 2.3% was on account of license fee collection amounting to Nu.48.563 million from Tashi Infocom Ltd. For implementing rural communications and schools ICT programs, Nu.44.793 million was provided as subsidies to Bhutan Telecom Ltd. and Tashi Infocom Ltd.

The Media Development Fund (MDF) is primarily used for development of media in the country. During the year, MDF collected Nu.0.086 million from international film producers as fees for filming in the country and refunded security refund of Nu.1.603 million to international film producers. The fund balance as of 15th March 2017 stands at Nu.32.463 million, a decrease of 4.4% from the previous year.

10.1.4 Bhutan Health Trust Fund (BHTF)

The Bhutan Health Trust Fund was launched on 12th May, 1998 at the World Health Organizations' Headquarters in Geneva and the Secretariat was established in April 2000 in Thimphu with an initial fund of USD 1.922 million. The fund balance as of 31st March 2017 stood at Nu.1,512.140 million which is an increase of 7% over the previous year. The increase in the fund position is due to receipt of Nu.221.962 million as health contribution from the Government and Nu.18.805 million generated by Move for Health while income from the interest amounted to Nu.46.227 million.

During the last FY, a sum of Nu.190.000 million was spent on the purchase of essential drugs and another Nu.6.000 million on the purchase of vaccines.

Towards realization of the vision of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck to make Bhutan self-reliant in terms of essential drugs and vaccines Nu. 500.000 million is kept as contribution to BHTF to achieve it target of Nu. 3.000 billion.

10.2 Endowment Funds

In order to promote and encourage interested individuals and groups to access financial support, Government has established endowment funds in areas of education, research and art & culture. The status of the fund is provided below.

10.2.1 Sherig Endowment Fund

The *Sherig* Endowment Fund (SEF), earlier referred to as the Bhutan Education Endowment Fund, was established with a seed capital of Nu.10.000 million on 2nd December 2013. The Fund was officially launched on 23rd August 2016 with the objective to promote action researches in the schools and to address challenges related to quality of teaching and learning, school management and emerging youth issues.

The Fund is implemented as per the Operational Guidelines for Endowment Fund under the guidance of the Board with support from Technical Committee. Since its launch in August 2016, a total of 36 proposals was received for which Nu.0.678 million has been released to enable them to carry out the proposed researches.

The Ministry signed a Memorandum of Understanding with the Royal Insurance Corporation of Bhutan Limited (RICBL) on 22nd November 2016 for investment of Nu.8.000 million (80% of the seed money) at the interest rate of 10% per annum for a tenure of five years. The Fund balance as of 31st March, 2017 stands at Nu.10.306 million, an increase of 2% over the previous year.

10.2.2 Art and Culture Endowment Fund

A sum of Nu.10.000 million was allocated to Ministry of Home and Cultural Affairs for the establishment of Art and Culture Endowment Fund to support works of art including both traditional and modern art and paintings and films.

10.2.3 National Research Endowment Fund

This Fund was established to be used for research initiatives based in Bhutan for which a capital fund of Nu.10.000 million has been allocated in the FY 2017-18. The Government has recently approved formation of the Governing Board for the National Research Endowment Fund with the interim Secretariat under the Royal University of Bhutan.

Table 10.1: Position of Trust Funds

Nu.in million

Sl No.	Name of the Fund	Opening Balance as of June, 2016	FY 2016-17			
			Actual Income	Actual Expenditure	Fund Balance (31 st March, 2017)	% increase
1	Cultural Heritage Trust Fund	59.705	8.65	Nil	68.355	14
2	Bhutan Trust Fund for Environmental Conservation (<i>USD in millions</i>)	50.208	3.341	1.608	51.955	3.5
3	Universal Service Fund for ICT a)Universal Service Fund b)Media Development Fund	231.041	48.562	43.190	236.413	2.3
		33.981	0.086	1.603	32.463	-4.4
4	Bhutan Health Trust Fund	1,415.146	286.994	190.000	1,591.035	7
5	Sherig Endowment Fund	10.107	0.200	Nil	10.306	2%
6	Art and Culture Endowment Fund	10.000	Nil	Nil	10.000	0
7	National Research Endowment Fund	Nu.10.00 million is earmarked in the fiscal year for National Research Endowment Fund.				

10.3 Establishment of new Funds

During the FY, Government will establish Stabilization Fund and Endowment Fund for Crop and Livestock Conservation, the details of which are provided below:

10.3.1 Stabilization Fund

In keeping with the objective of 11th FYP of establishing a Stabilization Fund for resource dependent country with multi-faceted purposes that will serve monetary as well as fiscal policy and investment objectives, the Government will establish Stabilization Fund with Nu.100.000 million during the FY as seed capital.

The main objectives of the Fund are to sterilize inflows from hydropower exports and related loans and grants, reduce volatility in liquidity and credit, enable government to support counter-cyclical interventions to sustain the desired level of growth in the economy, enhance priority sector investments, private sector development and investing in foreign bonds.

Management and operation of the Fund shall be as per the operational guidelines developed by the Government.

10.3.2 Endowment Fund for Crop and Livestock Conservation

Bhutan is largely an agrarian economy with large population engaged in crop and livestock farming. Agriculture contributes up to 16.08% of GDP, employs about 58% of total population, and continues to play important role in reducing poverty and bringing prosperity for Bhutanese people. Crop failure and damages due to wildlife, climate change and natural disasters have become major sources of anxiety for our rural communities. The Government has studied the possibility of starting crop and livestock insurance.

While premium based insurance scheme proved to be very expensive, the Government proposes to establish Endowment Fund for Crop & Livestock Conservation during the FY for which start-up fund of Nu.50.000 million is provided. Target of the Endowment Fund is Nu.1,500.000 million and it is to be raised through Government and matching contributions from bilateral and multilateral agencies within the period of 10 years.

CHAPTER 11

HYDROPOWER DEVELOPMENT IN BHUTAN

This chapter highlights the current status of the hydropower sector and its developments. Hydropower is one of the largest sectors and main driver of the economy. Given its contribution to the overall socio-economic development and to the national aspiration of economic self-reliance, the Government continues to explore the possibilities of harnessing the hydropower potential of the country. Bhutan has an estimated hydropower potential of 30,000 MW of which 23,760 MW can be techno-economically harnessed.

11.1 Current Situation

Currently, the country has tapped total hydroelectric generation capacity of 1,614 MW through Chhukha (336 MW), Kurichhu (60 MW), Basochhu I and II (64 MW), Tala (1,020 MW), Dagachhu (126 MW) and mini/micro (8MW) Hydropower Plants, which together account for about 5% of the total estimated potential.

The projects that are under construction and in the pipeline will harness another 5,178 MW of hydropower when they are fully commissioned as shown in the table below.

Table 11.1: Construction period of the hydropower projects.

Sl.	Project	MW	Year of start of construction	Year of completion
1	Punatsangchhu-I	1,200	2008	2021
2	Punatsangchhu-II	1,020	2010	2019
3	Mangdechhu	720	2010	2018
4	Kholongchhu	600	2015	2022
5	Nikachhu	118	2015	2020
6	Chamkharchhu-I	770	2017/18	2026/27
7	Bunakha Storage	180	2017/18	2023/24
8	Wangchhu	570	2017/18	2025/26
Total		5,178		

11.2 Financing modality

As per established bilateral arrangement, hydropower projects under Inter-Governmental (IG) financing is implemented outside the outlay of 11th FYP and annual budget. However, loan disbursements for hydropower project are recorded in the total debt stock and debt servicing is carried out through the annual budget. Same financing modality is followed for Joint Venture (JV) projects.

Financing modalities of the existing hydropower projects are as given in the table below:

Table 11.2: Funding modality of the hydropower projects.

Sl.	Project	MW	Completion year	Funding Modality
1	Punatsangchhu-I	1,200	2021	40% Grant and 60% Loan from GoI
2	Punatsangchhu-II	1,020	2019	30% Grant and 70% Loan from GoI
3	Mangdechhu	720	2018	30% Grant and 70% Loan from GoI
4	Kholongchhu	600	2022	30% Equity and 70% Loan (JV between DGPCL and SJVNL)
5	Nikachhu	118	2020	35% Equity and 65% Loan from ADB
6	Chamkharchhu-I	770	2026/27	30% Equity and 70% Loan (JV between DGPCL and NHPC)
7	Bunakha Reservoir	180	2023/24	30% Equity and 70% Loan (JV between DGPCL and THDC)
8	Wangchhu	570	2025/26	30% Equity and 70% Loan (JV between DGPCL and SJVNL)

11.3 Financial Progress of on-going projects

Currently, there are five hydropower projects that are at various stages of construction, namely the Punatsangchhu-I, Punatsangchhu-II, Mangdechhu, Kholongchhu and Nikachhu hydroprojects.

Summary of the financial progress of each project are as follows:

i. Punatsangchhu - I hydroelectric project

Punatsangchhu-I hydroelectric project (1,200MW) started in 2008 and is scheduled to be commissioned in the last quarter of 2021.

The cost estimate for the project has been revised to Nu.93,756.000 million mainly due to numerous geological setbacks. As on February 2017, Nu.68,033.000 million has been disbursed and 82.37% of the project works have been completed.

ii. Punatsangchhu - II hydroelectric project

Punatsangchhu - II hydroelectric project (1,020MW) started in 2010 and is scheduled to be commissioned in September 2019.

The cost estimate for the project has been revised to Nu.72,906.200 million in July 2016. As of February 2017, Nu.44,581.000 million has been disbursed and 70.7% of the project works has been completed.

iii. Mangdechhu hydroelectric project

Mangdechhu hydroelectric Project (720 MW) started in 2010 and is scheduled to be commissioned by March 2018.

The cost estimate for the project has been revised to Nu.40,206.300 million with second revision of Nu.48,183.960 million under review by GoI. As of February 2017, Nu.34,319.800 million has been disbursed and 80.90% of the works has been completed.

iv. Kholongchhu hydroelectric project

Kholongchhu hydroelectric Project (600 MW) in Trashigang is scheduled to be commissioned in 2022. The project is the first joint venture between DGPC and a public sector undertaking of India with estimated cost of Nu.31,436.390 million. As on February 2017, the project has spent Nu.957.700 million out of which GoI has released RGoB's equity component of Nu.429.580 million. The award of main civil works is at an advanced stage.

v. Nikachhu hydroelectric project

The Nikachhu hydroelectric project (118 MW) is being implemented by Tangsibji Hydro Energy Limited (THyE), a 100% subsidiary company of DGPC. The project is scheduled to be completed in July 2020. The project cost is estimated at Nu.11,921.000 million to be financed with the debt to equity ratio of 65:35.

The engineering procurement and construction (EPC) contract for the civil works was awarded to M/s Hindustan Construction Company (HCC), India at cost of Nu.4,288.930 million in April, 2016 and electro-mechanical works to M/s Voith Hydro at USD 23.770 million in December 2015. As on February 2017, the project has spent Nu.1,518.990 million.

11.4 Hydropower revenue

The gross revenue of the hydropower sector comprises revenue from the sale of electricity through exports and domestic consumption. After meeting their operating expenses and debt repayment, the net contribution to the Government comes in the form of corporate tax, dividend, profit transfers, royalty and interest receipts. On an average, the hydropower sector contributes about 45% of its gross revenue to the Government. This contribution accounts for about 25% of the Government's total domestic revenue.

Moreover, in order to institute proper mechanism for determination of electricity subsidy and royalty energy, a new framework for electricity subsidy has been developed. With the implementation of this framework, the export proceeds of royalty energy will be directly transferred to the Government Revenue Account and subsidy payment shall be routed through budget.

The hydropower sector not only generates revenue for the Government but also invigorates the economy by boosting other sectors and associated activities in the economy. The impact of hydropower sector on the overall economy is enormous and it is important to harness the potential while taking account of other macroeconomic impacts of accelerated hydropower sector investment.

11.5 Pipeline hydroelectric projects

The Government is in the process of exploring and developing more hydropower projects for which various studies have been initiated as follows:

- i. The DPR studies for Nyera Amari I & II (442 MW) (integrated) is scheduled to be completed by September, 2017;
- ii. The DPR for Dorjilung Hydroelectric Project (1,125 MW) has been completed and discussion for implementation under tri-lateral cooperation is under-way.
- iii. The DPR study of Kuri-Gongri Hydroelectric Project which was suspended in 2014 has been reinstated by GoI and the DPR works have been resumed from June, 2016 and is expected to be completed by mid-2018.
- iv. The DPR study of Sankosh Hydroelectric Project is under advanced stage of clearance by Central Electricity Authority, GoI.

The hydropower sector continues to be the main driver of the economic growth, an important source of Government revenue and shall go a long way in realizing the goals of economic self-reliance and GNH.

However, given the size and magnitude of hydropower investments in relation to the size of economy, there is risk of over-heating resulting into imbalances in the external sector. Therefore, the Government continues to be mindful of the adverse impacts of hydropower investments on the economy.

CHAPTER 12

FOREIGN DIRECT INVESTMENT

12.1 Overview

This chapter outlines the Foreign Direct Investments (FDIs) and its status in the country. FDI is considered as engine of growth worldwide as it brings capital, technology, knowledge and market into the country.

In keeping with the FDI Policy and Economic Development Policy, FDIs in Bhutan is encouraged in the areas that contribute to the following:

- i) Development of green and sustainable economy;
- ii) Promotion of socially responsible and ecologically sound industries;
- iii) Promotion of culturally and spiritually sensitive industries;
- iv) Investments in services that promote Brand Bhutan;
- v) Creation of a knowledge society;

There are 52 active FDI projects in the country of which 37 are fully operational and 15 are in the construction stage. These projects are in various sectors of the economy as shown below.

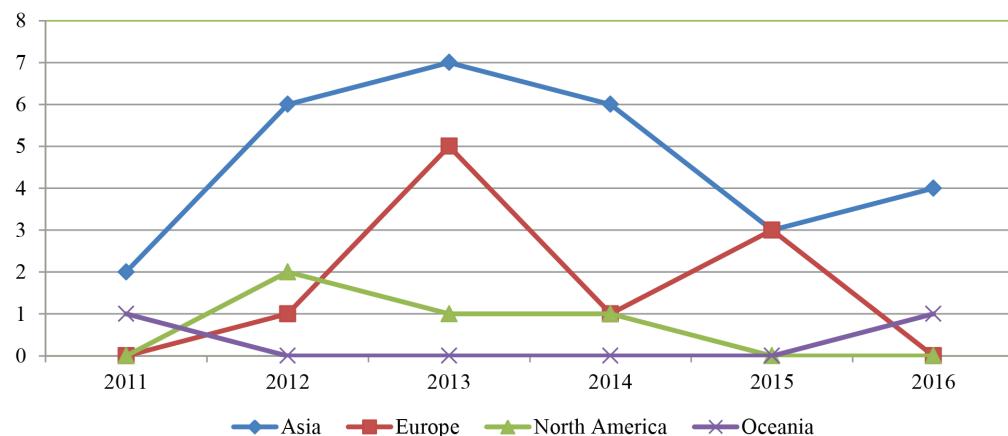
Table 12.1: FDIs in Bhutan

Sectors	No. of projects
Hotels	21
Financial Service	4
Other services	7
Dairy, Agro, water bottling & beverage projects	9
Other manufacturing sector	11
Total	52

About 63% of FDIs are from Asia, followed by Europe with 23%, 10% from North America and 4% from Oceania. Bhutan has always received more investments from Asia and in particular from India.

The region wise FDI flow trend is presented in the graph below:

Graph 12.1: Trend in source country of FDI

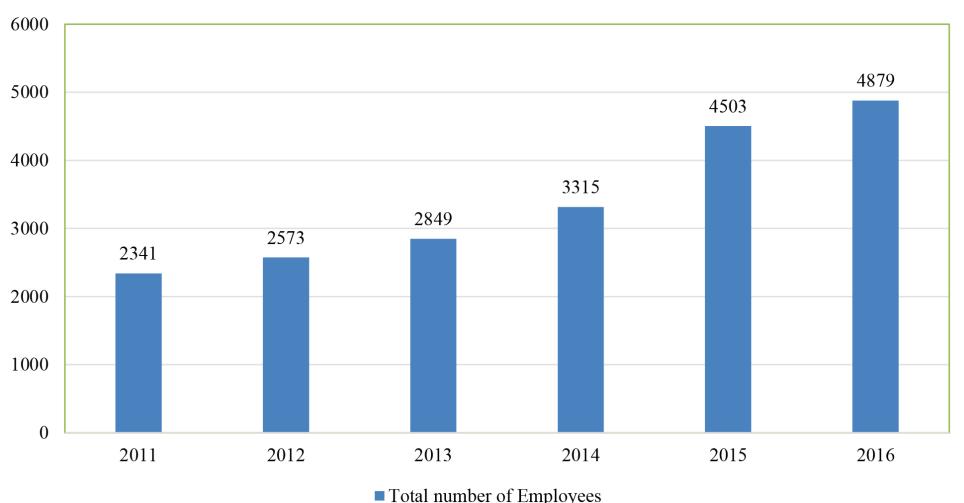


12.2 Contribution of FDI to the economy

12.2.1 Employment

One of the main contributions of FDI to the economy is employment generation. As of December 2016, a total of 4,879 people are employed in 37 FDI projects that have commenced operation as shown in the figure below. FDI projects under construction also employed a total of 51 employees during the year.

Graph 12.2: Employment in FDI projects



These FDI projects are also contributing in the development of skills of the work force by providing trainings and transfer of technology.

12.2.2 Revenue to the Government

Contribution from the FDI companies to the domestic revenue amounted to Nu.1,003.072 million in income year 2016. Of the total, the corporate income tax accounted for Nu.903.420 million and rest were in the form of sales tax and customs duty.

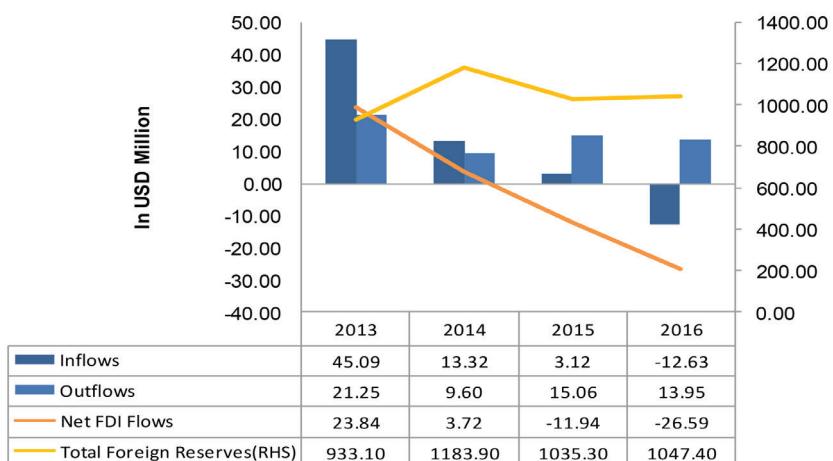
12.2.3 FDI's contribution to the foreign exchange reserve build-up

FDI inflows (equity and loan) during the four year period from 2013 to 2016 was recorded at USD 48.900 million averaging around 1.3% of the total foreign reserves accumulated in each year. The net inflow during these four years was recorded at negative USD 11.100 million. This negative inflow was largely on account of the Bhutan National Bank buying back the shares from IFC in August 2016, recording a negative flow of USD 26.100 million during the year. The withdrawal of the foreign partner of the Lhaki Steels and Rolling Pvt. Ltd in 2015 also resulted to negative flow of USD 12.000 million.

As in most developing countries, a growth in FDI increases imports with access to more foreign exchange. Although there is an inflow of foreign equity there is also outflow of foreign reserve as FDI companies need to import goods and services. The FDI companies import technology, equipment, construction and other raw materials and even patents in some cases besides profit repatriation and other special fees.

As such FDI driven imports offset the surplus of the capital and financial account in the form of trade deficits thereby having minimum change on the level of foreign reserves. While the contribution of FDI to international reserves may be marginal it brings other benefits such as employment and technology transfer.

Graph 12.3 FDI impact on reserves



CONCLUSION

The Budget for FY 2017-18 has been prepared in close consultation with the implementing agencies including the local governments.

As notified in Budget Call, concerted efforts have been made to align the budget with the objectives of the Annual Performance Agreements.

The Government has been continuously exploring avenues to generate additional revenue while ensuring steady economic growth. Prudent fiscal and monetary management has been ensured to achieve macroeconomic stability and sustained socio-economic growth.

Besides the sector budget allocation, the Budget Report also provides information on the state of the economy, its prospects and the future growth projections that may be useful for various stakeholders.

The budget for FY 2017-18 provides adequate resources to complete all ongoing activities to achieve the goals of the 11th FYP. In this regard, it is of utmost importance that all budgetary agencies accord higher priority in optimally using the budget in achieving the APA targets. The budget appropriation bill also includes provision for revision of pay, allowances and benefits of the LG members based on recommendation of the Third Pay Commission. The report will be presented to the House separately for consideration.

The Government and the people of Bhutan would like to express sincere gratitude and appreciation to all the development partners, particularly the Government of India, for their continued support.

The Government offers sincere prayers for good health and long life of Their Majesties, His Majesty the Fourth Druk Gyalpo, His Royal Highness the Gyalsey, His Holiness the Je Khenpo and the members of the Royal Family.

May the guardian deities of the glorious Palden Drukpa forever protect and guide the Bhutanese people and Drukyul.

ANNEXURES

Annexure 1: Annual Capital Budget allocation of Dzongkhags including Gewogs for FY 2017-18.

Name of Dzongkhag	Capital	% Share
Gasa (4 Gewogs)	146.068	3%
Bumthang (4 Gewogs)	186.117	3%
Thimphu (8 Gewogs)	187.172	3%
Tsirang (12 Gewogs)	190.355	4%
Lhuentse (8 Gewogs)	212.661	4%
Haa (6 Gewogs)	216.476	4%
Punakha (11 Gewogs)	220.592	4%
TrashigYangtse (8 Gewog)	231.956	4%
Paro (10 Gewogs)	248.683	5%
Pemagatshel (11 Gewogs)	252.114	5%
Trongsa (5 Gewogs)	254.887	5%
SamdrupJongkhar (11 Gewogs)	262.292	5%
Chhukha (11 Gewogs)	267.700	5%
Zhemgang (8 Gewogs)	279.535	5%
Sarpang (12 Gewogs)	311.960	6%
Dagana (14 Gewogs)	350.634	6%
Wangdue Phodrang (15 Gewogs)	367.057	7%
Trashigang (15 Gewogs)	427.368	8%
Samtse (15 Gewogs)	453.920	8%
Mongar (17 Gewogs)	490.216	9%
Total	5,557.763	100%

Annexure 2: Annual capital budget of Dzongkhags including activities implemented by central agencies for the Dzongkhags-FY 2017-18.

Nu.in million

Sl. No.	Dzongkhag / Thromde	Dzongkhag / Thromde Total	From Central Agencies	Total
1	Chhukha	157.410	26.517	183.927
2	Haa	177.007	88.226	265.233
3	Paro	162.364	113.695	276.059
4	Samtse	203.717	340.138	543.855
5	Tsirang	116.269	182.686	298.955
6	Dagana	252.399	21.735	274.134
7	Punakha	135.710	65.468	201.178
8	Wangdue Phodrang	238.504	164.582	403.086
9	Bumthang	145.029	90.834	235.863
10	Sarpang	220.996	267.216	488.212
11	Zhemgang	121.130	5.000	126.130
12	Trongsa	213.017	6.231	219.248
13	Lhuentse	127.977	6.892	134.869
14	Mongar	330.114	114.907	445.021
15	Pema Gatshel	188.695	158.877	347.572
16	Samdrup Jongkhar	151.655	179.003	330.658
17	Trashigang	273.659	66.071	339.730
18	Thimphu	133.865	70.589	204.454
19	Gasa	112.518	26.925	139.443
20	Trashi Yangtse	181.940	20.000	201.940
Total Dzongkhag		3,643.975	2,015.592	5,659.567
21	Thimphu Thromde	599.980	953.880	1,553.860
22	Phuentsholing Thromde	221.085	255.044	476.129
23	Gelephu Thromde	247.450	4.000	251.450
24	Samdrup Jongkhar	186.702	4.000	190.702
Total Thromde (including Thromde Schools)		1,255.217	1,216.924	2,472.141
Grand Total		4,899.192	3,232.516	8,131.708

Annexure 3: Annual Capital Budget allocation of Gewogs including activities implemented by central agencies & Dzongkhags for Gewogs for FY 2017-18.

Nu.in million

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
1	Sampheling Gewog, Chhukha	17.500	43.588	-	61.088
2	Bongo Gewog, Chhukha	12.000	20.400	21.360	53.760
3	Chapchha Gewog, Chhukha	9.980	0.357	16.865	27.202
4	Dungna Gewog, Chhukha	4.415	103.740	14.300	122.455
5	Geling Gewog, Chhukha	5.000	35.163	4.500	44.663
6	Darla Gewog, Chhukha	15.000	0.652	12.638	28.290
7	Getana Gewog, Chhukha	8.755	40.405	1.700	50.860
8	Bjachho Gewog, Chhukha	8.045	0.400	7.550	15.995
9	Lokchhina Gewog, Chhukha	9.842	15.405	5.375	30.622
10	Metakha Gewog, Chhukha	3.053	47.288	11.600	61.941
11	Phuentsholing Gewog, Chhukha	16.700	0.487	4.725	21.912
12	Bji Gewog, Haa	7.593	0.573	19.732	27.898
13	Katsho Gewog, Haa	5.154	0.357	-	5.511
14	Sangbey Gewog, Haa	5.121	25.420	12.800	43.341
15	Sama Gewog, Haa	3.000	0.357	8.200	11.557
16	Iusu Gewog, Haa	12.000	0.374	-	12.374
17	Gakidling Gewog, Haa	6.601	8.390	22.067	37.058
18	Dobshari Gewog, Paro	9.000	0.374	-	9.374
19	Dogar Gewog, Paro	3.728	0.357	0.500	4.585
20	Doteng Gewog, Paro	4.031	9.829	-	13.860
21	Hungrel Gewog, Paro	4.064	0.357	4.725	9.146
22	Lango Gewog, Paro	8.700	0.357	5.000	14.057
23	Lungnyi Gewog, Paro	4.555	0.485	7.134	12.174
24	Naja Gewog, Paro	9.000	0.234	28.150	37.384
25	Shaba Gewog, Paro	13.151	0.503	2.000	15.654
26	Tsento Gewog, Paro	18.940	0.556	9.084	28.580
27	Wangchang Gewog, Paro	11.150	0.357	7.255	18.762
28	(Bara) Norgaygang Gewog, Samtse	16.515	19.740	9.470	45.725
29	(Biru) Pemaling Gewog, Samtse	13.730	0.357	-	14.087
30	(Chargharey) Sangngacholing Gewog, Samtse	18.754	0.357	-	19.111

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
31	(Chengmari) Norbugang Gewog, Samtse	18.000	0.435	-	18.435
32	Denchukha Gewog, Samtse	17.200	65.000	-	82.200
33	(Dorokha) Dophuchen Gewog, Samtse	21.580	24.000	11.350	56.930
34	Dumteod Gewog, Samtse	8.936			8.936
35	Yoedseltsé Gewog, Samtse	8.503	0.374	-	8.877
36	Namgaychheoling Gewog, Samtse	20.350	0.357	-	20.707
37	Tendu Gewog, Samtse	17.528	0.357	10.390	28.275
38	Ugyentse Gewog, Samtse	10.999	0.357	-	11.356
39	(Pugli) Phuentshopelri Gewog, Samtse	18.758	0.357	2.310	21.425
40	Samtse Gewog, Samtse	12.000	0.657	0.500	13.157
41	(Sibsu) Tashicholing Gewog, Samtse	16.000	0.374	26.850	43.224
42	Tading Gewog, Samtse	31.350	45.292	3.650	80.292
43	(Beteni) Patshaling Gewog, Tsirang	7.024	0.357	8.100	15.481
44	Dunglagang Gewog, Tsirang	4.080	12.340	1.689	18.109
45	Barshong Gewog, Tsirang	4.135	9.041	1.885	15.061
46	Goseling Gewog, Tsirang	7.740	0.357	1.619	9.716
47	Rangthangling Gewog, Tsirang	5.349	0.357	0.600	6.306
48	Kilkhorhang Gewog, Tsirang	10.300	0.357	31.337	41.994
49	Mendrelgang Gewog, Tsirang	5.019	0.357	2.895	8.271
50	(Pataley) Sergithang Gewog, Tsirang	6.199	0.357	8.315	14.871
51	Phuentenchhu Gewog, Tsirang	6.618	0.357	1.195	8.170
52	Shemjong Gewog, Tsirang	4.880	85.385	1.160	91.425
53	Tsholingkhar Gewog, Tsirang	4.532	0.357	4.855	9.744
54	Tsirangteod Gewog, Tsirang	8.210	0.357	0.195	8.762
55	Dorona Gewog, Dagana	6.240	0.357	0.071	6.668
56	Drujeygang Gewog, Dagana	7.000	4.350	22.876	34.226
57	Gesarling Gewog, Dagana	8.044	-	13.711	21.755
58	Goshi Gewog, Dagana	5.559	-	0.071	5.630
59	Kana Gewog, Dagana	7.700	0.357	7.471	15.528
60	Khebisa Gewog, Dagana	7.992	0.357	20.768	29.117

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
61	Lajab Gewog, Dagana	4.000	0.357	1.121	5.478
62	Trashiding Gewog, Dagana	9.295	0.357	0.071	9.723
63	Tsendagang Gewog, Dagana	8.181	0.357	56.981	65.519
64	Tsangkha Gewog, Dagana	7.000	0.357	10.021	17.378
65	Tseza Gewog, Dagana	7.162	-	20.554	27.716
66	Karmaling (Deorali) Gewog, Dagana	6.076	26.100	1.346	33.522
67	Lhamoizingkha Gewog, Dagana	7.396	0.357	6.571	14.324
68	Nichula Gewog, Dagana	6.590	0.357	0.071	7.018
69	Chhubu Gewog, Punakha	12.057	0.357	15.350	27.764
70	Goenshari Gewog, Punakha	5.143	0.357	10.405	15.905
71	Guma Gewog, Punakha	9.253	0.357	-	9.610
72	Kabjisa Gewog, Punakha	9.798	6.586	21.643	38.027
73	Limbukha Gewog, Punakha	4.000	0.357	-	4.357
74	Shengana Gewog, Punakha	6.989	0.357	-	7.346
75	Talo Gewog, Punakha	4.586	0.357	-	4.943
76	Teowang Gewog, Punakha	8.296	0.357	-	8.653
77	Dzoma Gewog, Punakha	8.326	0.357	-	8.683
78	Baap Gewog, Punakha	8.838	0.357	-	9.195
79	Toebesa Gewog, Punakha	7.596	0.357	1.100	9.053
80	Bjena Gewog, Wangdue Phodrang	17.445	0.357	6.150	23.952
81	Dangchhu Gewog, Wangdue Phodrang	3.000	0.357	7.100	10.457
82	Daga Gewog, Wangdue Phodrang	6.650	0.357	1.873	8.880
83	Gangteod Gewog, Wangdue Phodrang	8.869	0.357	10.000	19.226
84	Gasetshogongm Gewog, Wang- due Phodrang	6.095	0.357	51.000	57.452
85	Gasetshowogm Gewog, Wangdue Phodrang	4.809	0.357	4.200	9.366
86	Kazhi Gewog, Wangdue Phodrang	3.054	0.357	0.632	4.043
87	Nahi Gewog, Wangdue Pho- drang	3.800	10.357	24.380	38.537
88	Nyisho Gewog, Wangdue Pho- drang	9.157	0.357	-	9.514

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
89	Phangyuel Gewog, Wangdue Phodrang	3.000	130.798	-	133.798
90	Phobji Gewog, Wangdue Phodrang	10.452	0.357	18.299	29.108
91	Rubesa Gewog, Wangdue Phodang	3.000	8.357	1.150	12.507
92	Sephu Gewog, Wangdue Phodrang	23.624	-	5.400	29.024
93	Athang Gewog, Wangdue Phodrang	20.671	3.357	0.800	24.828
94	Thedtsho Gewog, Wangdue Phodrang	4.927	0.357	17.400	22.684
95	Chhoekhor Gewog, Bumthang	18.315	3.457	49.556	71.328
96	Chhumey Gewog, Bumthang	8.532	4.000	20.112	32.644
97	Tang Gewog, Bumthang	5.679	2.956	4.100	12.735
98	Ura Gewog, Bumthang	8.562	-	0.250	8.812
99	Samteying Gewog, Sarpang	5.688	0.357	1.800	7.845
100	Chhuzargang Gewog, Sarpang	10.236	10.440	0.750	21.426
101	DekidlNg Gewog, Sarpang	12.000	0.357	8.600	20.957
102	Chhuzom Gewog, Sarpang	11.080	24.357	13.500	48.937
103	Tareythang Gewog, Sarpang	3.000	9.120	0.600	12.720
104	Gelegphu Gewog, Sarpang	3.000	5.357	1.300	9.657
105	Gakidling Gewog, Sarpang	12.077	0.357	13.900	26.334
106	Jigmedchheoling Gewog, Sarpang	16.180	0.357	21.040	37.577
107	Umling Gewog, Sarpang	4.947	43.407	9.560	57.914
108	Singye Gewog, Sarpang	3.400	50.437	0.800	54.637
109	Shompangkha Gewog, Sarpang	3.472	0.357	38.502	42.331
110	Sershong Gewog, Sarpang	5.884	14.349	23.999	44.232
111	Bardo Gewog, Zhemgang	30.608	82.500	4.225	117.333
112	Bjoka Gewog, Zhemgang	8.759	10.000	1.274	20.033
113	Nangkor Gewog, Zhemgang	65.902	30.000	14.950	110.852
114	Ngangla Gewog, Zhemgang	9.885	0.357	10.008	20.250
115	Phangkhar Gewog, Zhemgang	5.046	-	4.097	9.143
116	Shingkhar Gewog, Zhemgang	20.447	6.000	4.470	30.917
117	Trong Gewog, Zhemgang	6.364	5.877	33.958	46.199
118	Goshing Gewog, Zhemgang	11.394	-	1.386	12.780

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
119	Dragteng Gewog, Trongsa	7.336	0.357	8.884	16.577
120	Korpuh Gewog, Trongsa	6.499	78.480	0.800	85.779
121	Langthel Gewog, Trongsa	11.000	0.357	62.590	73.947
122	Nubi Gewog, Trongsa	11.535	34.657	13.561	59.753
123	Tangsibji Gewog, Trongsa	5.500	-	3.100	8.600
124	Gangzur Gewog, Lhuentse	11.192	0.357	27.095	38.644
125	Jarey Gewog, Lhuentse	12.310	-	6.275	18.585
126	Khoma Gewog, Lhuentse	13.687	0.357	19.475	33.519
127	Kurteod Gewog, Lhuentse	11.886	29.405	2.875	44.166
128	Minjay Gewog, Lhuentse	6.434	1.037	0.375	7.846
129	Menbi Gewog, Lhuentse	15.182	18.000	0.375	33.557
130	Metsho Gewog, Lhuentse	5.982	3.000	8.375	17.357
131	Tsenkhar Gewog, Lhuentse	8.011	-	19.542	27.553
132	Balam Gewog, Mongar	7.664	28.960	1.068	37.692
133	Chhali Gewog, Mongar	9.889	0.972	-	10.861
134	Chaskhar Gewog, Mongar	12.000	0.357	-	12.357
135	Drametse Gewog, Mongar	11.088	-	18.051	29.139
136	Drepung Gewog, Mongar	6.156	30.517	-	36.673
137	Gongdue Gewog, Mongar	4.911	0.357	4.146	9.414
138	Jurmey Gewog, Mongar	14.695	34.990	-	49.685
139	Kengkhar Gewog, Mongar	11.000	12.671	-	23.671
140	Mongar Gewog, Mongar	11.048	0.357	1.432	12.837
141	Ngatshang Gewog, Mongar	9.046			9.046
142	Saleng Gewog, Mongar	15.408	0.357	33.815	49.580
143	Sherimuhung Gewog, Mongar	11.632	0.357	1.055	13.044
144	Silambi Gewog, Mongar	7.969	86.972	14.853	109.794
145	Thangrong Gewog, Mongar	11.000	3.000	8.921	22.921
146	Tsakaling Gewog, Mongar	8.541	8.977	1.051	18.569
147	Tsamang Gewog, Mongar	3.000	11.171	22.759	36.930
148	Narang Gewog, Mongar	5.055			5.055
149	Chongshing Gewog, Pema Gatshel	6.000	-	7.000	13.000
150	Chhimung Gewog, Pema Gatshel	3.200	-	1.600	4.800
151	Dungmin Gewog, Pema Gatshel	3.000	-	8.650	11.650

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
152	Khar Gewog, Pema Gatshel	3.508	-	26.680	30.188
153	Shumar Gewog, Pema Gatshel	10.828	0.357	24.276	35.461
154	Yurung Gewog, Pema Gatshel	3.321			3.321
155	Zobel Gewog, Pema Gatshel	4.980	0.357	1.000	6.337
156	Dechhenling Gewog, Pema Gatshel	11.850	0.357	1.195	13.402
157	Norbugang Gewog, Pema Gatshel	6.537	0.357	7.045	13.939
158	Nanong Gewog, Pema Gatshel	7.195	0.357	15.755	23.307
159	Choekhorling Gewog, Pema Gatshel	3.000	0.357	5.000	8.357
160	Phuentshothang Gewog, Samdrup Jongkhar	15.650	15.000	11.779	42.429
161	Pemathang Gewog, Samdrup Jongkhar	11.000	1.500	-	12.500
162	Gomdar Gewog, Samdrup Jongkhar	7.424	1.500	7.000	15.924
163	Wangphu Gewog, Samdrup Jongkhar	10.121	-	1.376	11.497
164	Langchenphu Gewog, Samdrup Jongkhar	6.250	0.357	8.200	14.807
165	Lauri Gewog, Samdrup Jongkhar	7.000	13.500	0.300	20.800
166	Martshala Gewog, Samdrup Jongkhar	11.747	1.500	7.550	20.797
167	Dewathang Gewog, Samdrup Jongkhar	13.000	1.857	9.600	24.457
168	Orong Gewog, Samdrup Jongkhar	12.900	-	2.800	15.700
169	Samrang Gewog, Samdrup Jongkhar	4.195	1.500	-	5.695
170	Serthi Gewog, Samdrup Jongkhar	11.350	0.357	10.595	22.302
171	Bartsham Gewog, Trashigang	4.885	1.857	4.436	11.178
172	Bidung Gewog, Trashigang	5.640	4.557	-	10.197
173	Kanglung Gewog, Trashigang	10.000	-	16.170	26.170
174	Kangpara Gewog, Trashigang	10.650	-	6.650	17.300
175	Khaling Gewog, Trashigang	16.100	0.357	2.235	18.692

Sl. No.	Gewogs	Gewog Total	From Central Agencies	From Dzongkhags	Total
176	Lumang Gewog, Trashigang	15.450	6.157	4.440	26.047
177	Merag Gewog, Trashigang	12.000	10.000	-	22.000
178	Yangnyer Gewog, Trashigang	11.240	0.357	9.420	21.017
179	Phongmey Gewog, Trashigang	9.427	29.857	-	39.284
180	Radhi Gewog, Trashigang	12.363	1.857	2.100	16.320
181	Sakteng Gewog, Trashigang	5.200	27.357	13.425	45.982
182	Samkhar Gewog, Trashigang	11.818	7.857	1.050	20.725
183	Shongphu Gewog, Trashigang	9.895	0.357	-	10.252
184	Thrimshing Gewog, Trashigang	8.701	-	8.350	17.051
185	Udzorong Gewog, Trashigang	10.340	5.000	-	15.340
186	Soe Gewog, Thimphu	3.350	-	0.678	4.028
187	Chang Gewog, Thimphu	10.950	7.000	1.161	19.111
188	Dagala Gewog, Thimphu	6.256	-	0.328	6.584
189	Gayney Gewog, Thimphu	4.375	-	0.811	5.186
190	Kawang Gewog, Thimphu	10.149	1.000	0.794	11.943
191	Lingzhi Gewog, Thimphu	6.309	-	0.828	7.137
192	Mewang Gewog, Thimphu	8.304	16.000	36.376	60.680
193	Naro Gewog, Thimphu	3.614	8.000	0.320	11.934
194	Geonkhamed Gewog, Gasa	4.000	-	20.831	24.831
195	Geonkhateod Gewog, Gasa	3.339	-	63.460	66.799
196	Laya Gewog, Gasa	7.666	-	18.267	25.933
197	Lunana Gewog, Gasa	18.545	-	9.708	28.253
198	Bumdeling Gewog, Trashi Yangtse	11.550	5.357	6.450	23.357
199	Jamkhar Gewog, Trashi Yangtse	3.000	5.357	-	8.357
200	Khamdang Gewog, Trashi Yangtse	6.275	8.252	1.300	15.827
201	Ramjar Gewog, Trashi Yangtse	3.300	0.357	-	3.657
202	Teodtsho Gewog, Trashi Yangtse	7.515	9.357	5.658	22.530
203	Tongmizhangtsha Gewog, Trashi Yangtse	4.386	1.857	1.600	7.843
204	Yalang Gewog, Trashi Yangtse	5.986	25.600	1.250	32.836
205	Yangtse Gewog, Trashi Yangtse	8.004	-	9.280	17.284
	Total	1,913.788	1,738.357	1,682.198	5,334.343

Annexure 4: Proposed and Recommended budget of Legislative, Judiciary and Constitutional Bodies

JUDICIARY

Nu.in million

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment cost, Supreme Court	41.828	0.100	41.928	39.219		39.219
2	Establishment cost, High Court	23.943	0.170	24.113	23.040		23.040
3	Alternative Dispute Resolution Center	4.875	0.250	5.125	4.755		4.755
4	Establishment cost, 20 Dzongkhag Courts	155.777	1.550	157.327	147.301	0.180	147.481
5	Establishment cost, 15 Drungkhag Courts	65.699	1.100	66.799	61.759		61.759
6	General Provision				4.480		4.480
7	Procurement of library books and and printing of law books	1.000		1.000	0.800		0.800
8	SAARC Law and other mandatory travels	1.077		1.077	1.077		1.077
9	National judicial commission and council meetings	0.600		0.600	0.329		0.329
10	Registry services	0.100		0.100			
11	SAARC Law conference	1.000		1.000	0.700		0.700
12	Legal aid to indigent accused	0.100		0.100	0.050		0.050
13	Celebration of golden jubilee of the judiciary	1.500		1.500	1.000		1.000
14	Installation and revamping of CCTVs in court rooms		0.800	0.800		0.800	0.800
15	Set up fire hydrant		4.000	4.000			

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
16	Construction of district court in Trashiyangtse			0.000		20.000	20.000
17	Internet connectivity in courts			0.000		1.900	1.900
18	Training to court officials			0.000		2.793	2.793
19	Construction of District court at Gasa		15.000	15.000			
20	Construction of District court at Haa		23.000	23.000		23.000	23.000
21	Construction of District court at Sarpang		12.000	12.000		12.000	12.000
22	Construction of Drangpon's residence at Sarpang		4.300	4.300		4.000	4.000
23	Construction of Drangpon's residence at Bumthang		4.500	4.500		4.000	4.000
24	Major maintenance of Gelephu Drungkhag court		1.500	1.500		1.500	1.500
25	Major Maintenance of Nganglam Dungkhag Court		1.200	1.200		1.200	1.200
26	Annual Judicial conference for Drangpons	1.000		1.000	1.000		1.000
27	Short term training		2.000	2.000			
28	Cost sharing training programme		1.500	1.500			
29	Construction of Dungkhag court at Sombeyka Dungkhag, Haa		10.000	10.000			
30	Construction of Drangpon's residence and Staff quarters at Sombeyka, Haa		13.400	13.400		13.400	13.400
31	LLM in George Washington University		1.800	1.800		1.800	1.800

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
32	Training on procurement and material management		0.250	0.250			
33	Renovation of high court building		2.500	2.500			
34	Major Maintenance of Street Light from Court to Drangpon's Residence, Chhukha		0.350	0.350		0.350	0.350
35	Rewiring of court building, Haa		0.350	0.350			
		298.499	101.620	400.119	285.510	86.923	372.433

NATIONAL ASSEMBLY OF BHUTAN

Nu.in million

Sl. No	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment cost (Secretariat Services)	20.056	0.080	20.136	19.501		19.501
2	Establishment cost (Parliamentary Services)	67.487	0.575	68.062	66.855	0.200	67.055
3	Research Program Services	12.263		12.263	11.585		11.585
4	Assembly Session Services	4.940		4.940	4.940		4.940
5	Committee Services	1.689		1.689	1.551		1.551
6	Maintenance of Security and fire services in and around Gyelyong Tshogkhang	0.340	2.736	3.076	0.340	1.650	1.990
7	Parliamentary Exchange Programme	9.324		9.324	7.701		7.701
8	Dzongkha Development Program		0.150	0.150		0.150	0.150
	Total	116.099	3.541	119.640	112.473	2.000	114.473

NATIONAL COUNCIL OF BHUTAN

Nu.in millions

Sl. No	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment Cost (Secretariat Services)	22.110	1.700	23.810	20.368	0.500	20.868
2	General Provision for new appointments	0.400		0.400	0.400		0.400
3	Research Program Services	8.808		8.808	8.250		8.250
4	Dzongkha Development Program		0.150	0.150		0.150	0.150
5	Reflection of the Secretariat services towards Parliament	0.401		0.401	0.300		0.300
6	Support staff training on basic legislative process		0.200	0.200		0.200	0.200
7	Procurement of journals, library, acts and legislative reference book	0.300		0.300	0.200		0.200
8	Advocacy program on the roles and functions of NC and Parliament	0.601		0.601	0.350		0.350
9	Press conference of National Council of Bhutan	0.150		0.150	0.100		0.100
10	Construction of National Council building		100.000	100.000		100.000	100.000
11	Establishment Cost (Council Services)	68.267	0.750	69.017	67.597		67.597
12	National Council Session services	2.180		2.180	2.160		2.160
13	Printing of Acts, resolutions, Q&A, etc	1.800		1.800	1.500		1.500
14	Committees consultative meeting with various stakeholders	0.900		0.900	0.800		0.800
15	Professional Services		1.500	1.500		1.500	1.500
16	Review of Parliament Functions	0.651		0.651	0.450		0.450
17	Parliament Exchange Programme	8.318		8.318	7.502		7.502
	Total	114.886	104.300	219.186	109.977	102.350	212.327

ANTI CORRUPTION COMMISSION

Nu.in million

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Operating Expenses	60.200	2.316	62.516	56.053		56.053
2	General Provisions for New Appoint- ments	2.700		2.700	2.500		2.500
3	Construction of ACC Office Building in Phuentsholing		40.600	40.600		20.000	20.000
4	Investigation Services	4.662	0.300	4.962	4.311	0.300	4.611
5	Provide technical support to Investi- gation	3.081	4.800	7.881	3.081	3.000	6.081
6	Constitutional offices and Commission meeting	0.260		0.260	0.260		0.260
7	Update integrity tools and institutionalize measures	1.001	2.000	3.001	0.800	2.000	2.800
8	Introduce and administer private sector integrity tools	0.501	1.200	1.701	0.100		0.100
9	Develop IEC ma- terials and conduct advocacy	2.601	2.200	4.801	1.900	1.500	3.400
10	Implement Youth Integrity programme	1.001	0.500	1.501	0.100	0.100	0.200
11	Office Security and Work environment enhancement	0.301	3.000	3.301	0.301		0.301
12	Procurement and installation of AC and backup generator		2.510	2.510			0.000
13	Manage & administer asset declaration	0.151	0.150	0.301	0.300		0.300
14	Follow-up on NIA Research Report & publish agency spe- cific report	1.501	0.500	2.001	1.300	0.250	1.550
15	Conduct impact As- sessment on integrity tools	1.501	1.500	3.001	1.200	1.500	2.700

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
16	Develop SOP on Prevention & Education programme	0.261		0.261	0.210		0.210
17	Develop White Paper on Policy Corruption	0.351		0.351	0.250		0.250
18	Coordinate regular internal meeting & Publish Annual Report 2017	1.951	1.500	3.451	1.400		1.400
19	Human Resource Development	1.501	16.380	17.881		6.500	6.500
20	Implement reviewed NIACS & provide recommendations	0.601	0.200	0.801	0.500	0.200	0.700
21	Building of network with international and national partners - Central Data Networking	3.001	0.500	3.501	2.800	0.500	3.300
22	Facilitate and coordinate first phase of UN Convention Against Corruption Review	0.301		0.301	0.200		0.200
23	Management of seized properties and Follow-Up on action taken on Complains	0.074	0.223	0.297	0.015		0.015
		87.502	80.379	167.881	77.581	35.850	113.431

ELECTION COMMISSION OF BHUTAN

Nu. in million

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment cost	33.626		33.626	31.768		31.768
2	General Provision for New Appointments	0.600		0.600	0.600		0.600
3	Preparation of prototype structural drawings for Election Offices in 20 Dzongkhags		1.500	1.500			
4	Fencing of the land allotted to the 6 Dzongkhag offices which have been issued "Lagthram"		1.000	1.000			
5	Procurement of Vehicle		0.660	0.660			
6	Maintenance of networking equipment	0.580		0.580	0.580		0.580
7	Research and publication	0.514		0.514	0.514		0.514
8	BERMS maintenance and end-user training	0.350	0.100	0.450	0.350	0.100	0.450
9	ICT Support Services	0.200		0.200	0.200		0.200
10	Procurement of video conferencing equipment		0.150	0.150		0.150	0.150
11	Bhutan Children's Parliament (BCP) Session	2.815		2.815	2.815		2.815
12	Volunteer-VOICE (Voter Information, Communication and Education)	0.856		0.856	0.856		0.856
13	Election of Member Of BCP	1.821		1.821	1.821		1.821
14	National Voters Day celebration	1.110		1.110	1.110		1.110
15	Procurement of library books	0.100		0.100	0.100		0.100

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
16	Updating and preparation of Electoral Rolls for elections	1.853		1.853	1.853		1.853
17	Long term studies		3.040	3.040		0.350	0.350
18	Cost sharing HRD trainings		2.917	2.917		2.917	2.917
19	Bhutan Democracy Dialogue Steering Committee meetings	0.100		0.100	0.100		0.100
20	Review of Political Parties activities and books of accounts	0.392		0.392	0.392		0.392
21	Training of party coordinators		1.798	1.798		1.798	1.798
22	Conduct of National Council election		369.294	369.294			
23	Dzongkha Development Services		0.100	0.100		0.100	0.100
	Total	44.917	380.559	425.476	43.059	5.415	48.474

ROYAL AUDIT AUTHORITY

Nu.in millions

Sl. No	Activities	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment Cost	99.418	1.300	100.718	95.974	0.250	96.224
2	Establishment Cost (four regional offices)	64.583	1.805	66.388	62.564		62.564
3	Printing of Annual Audit Reports	0.780		0.780	0.650		0.650
4	Production of Audit Reports of sectors	1.001		1.001	0.800		0.800
5	General Provision for New Appointments	1.700		1.700	1.000		1.000
6	Mandatory Meetings/Conferences/Seminars/Workshops Outside Bhutan	4.264		4.264	4.264		4.264
7	Preparation of Annual Audit Schedule/Plan		0.614	0.614		0.614	0.614
8	Professional development of auditors		9.405	9.405		7.110	7.110
9	Construction of emergency exit stair case		1.000	1.000		1.000	1.000
10	Dzongkha Development Programme		0.150	0.150		0.100	0.100
11	Carrying out audit awareness and advocacy in Gewogs	2.065		2.065	2.065		2.065
12	Outsourcing of audit services		2.000	2.000		2.000	2.000
13	Visit of Comptroller & Auditor General of India & Auditor General of Norway		2.290	2.290	2.000		2.000
14	ICT Service renewal and equipment.		1.455	1.455		1.455	1.455
15	Site development and Construction of Faulty block, Tsirang		56.600	56.600		56.600	56.600
16	Austrian support for Capacity Building of RAA		7.960	7.960		7.960	7.960
17	World Bank Support for Institutional Capacity Development of RAA		6.980	6.980		6.980	6.980

Sl. No	Activities	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
18	Strengthening Environment Auditing		3.452	3.452		3.452	3.452
19	Construction of one unit Toilet (Samdrup Jongkhar)		0.300	0.300		0.300	0.300
20	Construction of store room (Samdrup Jongkhar)		0.400	0.400		0.400	0.400
21	Construction of RAA Office Building, Phuentsholing		1.200	1.200			
		173.811	96.911	270.722	169.317	88.221	257.538

ROYAL CIVIL SERVICE COMMISSION

Nu.in million

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
1	Establishment Cost	52.088	0.375	52.463	51.357		51.357
2	Coordination Meetings with Development Partners	0.100		0.100	0.100		0.100
4	HR Conference	1.392		1.392	1.392		1.392
5	Construction of Temporary Office Space for RCSC and fencing at Lower Mothithang		4.000	4.000	-	-	-
6	Professionalizing Civil Service		160.550	160.550		94.550	94.550
7	Nehru-Wangchuck Scholarship		20.510	20.510		20.510	20.510
8	Cost Sharing and Other HRD Programs		20.000	20.000		20.000	20.000
9	Young Professional Leadership Program (YPLP)		8.640	8.640		8.640	8.640
10	Ph.D Program (Economics)		5.966	5.966		5.000	5.000
11	Future Leadership Program (FLP)		9.600	9.600		9.600	9.600
12	Design Thinking		6.000	6.000		2.500	2.500
13	Masters in Space Engineering		7.200	7.200		7.200	7.200
14	Implement & monitor Organizational Development (OD) exercise recommendations in Civil Service Agencies	0.165		0.165	0.165		0.165
15	Civil Service Award		4.750	4.750		4.750	4.750
16	Printing/Publication of State of the Royal Civil Service Report	0.125		0.125	0.125		0.125

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
17	Bhutan Civil Service Examination	19.258		19.258	15.601		15.601
18	Subscription to SMS Facility & UTM License		0.430	0.430		0.430	0.430
19	Enhancement of Civil Service Information System (CSIS)	0.290	2.500	2.790	0.150	2.000	2.150
20	Digital Archiving of personal files		1.800	1.800		1.800	1.800
21	Conducting HR auditing in two Dzongkhags	0.215		0.215	0.126		0.126
22	Conducting Strategic Auditing Workshop in two Ministries	0.135		0.135	0.135		0.135
23	Conduct Executive Forum		1.252	1.252		1.000	1.000
24	Bhutan Executive Services Training		3.500	3.500		3.500	3.500
25	Ex-Country Executive Training		10.664	10.664		3.199	3.199
26	Revision of BCSR 2012		2.500	2.500		2.000	2.000
27	Dzongkha Development Services		0.100	0.100		0.100	0.100
28	Royal Civil Service Commission Meeting	0.406		0.406	0.201		0.201
29	Provide counseling/mentoring services	0.024	0.160	0.184	0.024	0.160	0.184
30	Provide retirement planning services to civil servants nearing retirement	1.596		1.596	0.800		0.800
31	Review of adhoc staffing structures of agencies	0.669		0.669	0.500		0.500

Sl. No.	Activity	Proposed			Recommended		
		Current	Capital	Total	Current	Capital	Total
32	Technical committee meeting/workshop to review & improve Civil Service System		0.130	0.130		0.130	0.130
33	International Volunteers Program	0.294		0.294	0.294		0.294
34	Review staffing for 12th FYP with ministries & agencies		0.500	0.500		0.500	0.500
35	Institutionalization of moderation exercise and IWPs in teaching resource Centers/ Dzongkhags/ Ministries and Agencies		2.400	2.400		2.400	2.400
	Total	76.757	273.527	350.284	70.970	189.969	260.939

Annexure 5: Economic classification of expenditure for FY 2017-18

Nu. in million

SL. No	CURRENT EXPENDITURE	AMOUNT
1	Pay and Allowances	9,128.123
2	Other Personal Emoluments	832.955
3	Medical Benefits – In country	10.428
4	Medical Benefits - Outside Bhutan	366.907
5	Special Allowance	86.222
6	Special Allowance - Kidu/Pensioners	5.811
7	Stipends	594.366
8	Travel – In country	1,718.781
9	Travel - Outside Bhutan	252.093
10	Utilities -Telephones, Telex, Fax, E-mail, Internet	280.951
11	Utilities -Telegram, Wireless Transmission, Postage	35.859
12	Utilities - Electricity, Water, Sewerage	216.416
13	Utilities - Fuelwood	57.045
14	Rental of Properties - Buildings	203.688
15	Rental of Properties - Vehicles	11.637
16	Rental of Properties - Others	0.050
17	Rental of Properties - Furniture, Equipment & Land	3.761
18	S & M - Office Supplies, Printing, Publications	299.834
19	S & M - Medicines & Laboratory Consumables	576.861
20	S & M - Fertilizers, Chemicals, Manures, Innoculants	19.789
21	S & M - Seeds, Seedlings	44.237
22	S & M - Animal Feeds	98.244
23	S & M - Uniforms, Extension Kits, Linens	126.681
24	S & M - Text Books, Library Books, Stationeries & Sports Item	205.789
25	S & M - Patient Diet	35.330
26	S & M - Diet	127.118
27	Maintenance of Property - Buildings	149.781
28	Maintenance of Property - Vehicles	303.827
29	Maintenance of Property - Roads	315.759
30	Maintenance of Property - Bridges	8.258
31	Maintenance of Property - Equipment	140.803
32	Maintenance of Property - Plantations	40.554
33	Maintenance of Property - Computers	35.407
34	Maintenance of Property - Water supply, Sewerage, Playfield	8.473

SL. No	CURRENT EXPENDITURE	AMOUNT
35	Op. Exp. - Advertising	47.357
36	Op. Exp. - Taxes, Duties, Royalties, Handling Charges, Bank Charges	57.351
37	Op. Exp. - Transportation	107.880
38	Op. Exp. - Energy/Propulsion Charges	1.183
39	Op. Exp. - Items for Processing/Manufacturing	11.210
40	Op. Exp. - Incountry Meetings and Celebrations	590.067
41	Op. Exp. - Survey/Census	58.182
42	Hospitality & Entertainment	62.411
43	Current Grants - Individuals/Non-profit Orgs.	5,716.730
44	Current Grants - Sungchop	369.038
45	Current Grants - Rural Life Insurance Scheme	33.128
46	Current Grants - Financial Institutions	52.670
47	Current Grants - Non-Financial Institutions	230.455
48	Subscriptions to International Organisation	96.922
49	Contributions - Provident Fund	710.195
50	Retirement Benefits	215.437
51	General Provisions	1,778.806
52	Interest Payment - Internal	255.031
53	Interest Payment - External	1,833.780
TOTAL CURRENT EXPENDITURE		28,569.671
CAPITAL EXPENDITURE		
1	Acquisition of Immovable Property - Land	0.500
2	Training - Human Resource Development	828.180
3	Training - Others	1,616.321
4	Exp. on Structure - Buildings	7,721.968
5	Exp. on Structure - Roads (incl.culverts,drns)	6,827.678
6	Exp. on Structure - Bridges	764.658
7	Exp. on Structure - Irrigation Channels	338.865
8	Exp. on Structure - Drainage Systems	40.144
9	Exp. on Structure - Water Supply & Sanitation	1,264.805
10	Exp. on Structure - Plantations	235.768
11	Exp. on Structure - Others	1,268.590
12	Plant & Equipt. - Roads	1,156.536
13	Plant & Equipt. - Power Generation	58.250
14	Plant & Equipt. - Power Trans. & Dist.	44.453

SL. No	CURRENT EXPENDITURE	AMOUNT
15	Plant & Equipt. - Telecommunications	85.881
16	Plant & Equipt. - Agricultural Machineries	37.308
17	Plant & Equipt. - Livestock	124.620
18	Plant & Equipt. - Hospital/Lab. Equipment	229.365
19	Plant & Equipt. - General Tools, Instruments	546.014
20	Purchase of Vehicles	207.520
21	Furniture	150.596
22	Office Equipment	113.544
23	Computers & Peripherals	94.849
24	Professional Services	865.759
25	General Provisions	2,069.000
26	Capital Grants - Individuals/Non-Profit Orgs.	2,031.703
27	Capital Grants - Revolving Funds	1.500
28	Capital Grants - Financial Institutions	16.000
29	Capital Grants - Non-Financial Institutions	117.675
30	Acquisition of Equities/Shares	487.989
TOTAL CAPITAL EXPENDITURE		29,346.039
LENDING EXPENDITURE		
1	Loans - Enterprises	41.840
TOTAL LENDING EXPENDITURE		41.840
REPAYMENT EXPENDITURE		
1	Repayment of Debt Principal - Internal	9.914
2	Repayment of Debt Principal - External	2,810.407
TOTAL REPAYMENT EXPENDITURE		2,820.321
TOTAL BUDGET APPROPRIATION		60,777.871

Annexure 6: Direct and indirect shareholding in SOE and linked companies.

Direct Shareholdings		<i>Nu. in million</i>				
Sl. No	Corporations	Shareholding as on 31/12/2016				
		No. of shares	Value (Nu)	% Hold- ing	Reserves	Total Equity
1	Druk Holding & Investments Ltd	450,875,898	45,087.59	100%	5,998.54	51,086.13
I	Manufacturing		54.26			
2	Army Welfare Project	25,200	25.20	100%	1,118.94	1,144.14
3	Bhutan Agro Industries Limited	290,636	29.063	100%	150.77	179.83
II	Trading		176.544			
5	Food Corporation of Bhutan	15,000	15	100%	318.50	333.50
6	Bhutan Duty Free Ltd	1,155,441	115.544	100%	11.66	127.21
7	Bhutan Lottery Ltd	460,000	46	100%	(0.75)	45.25
III	Services		3574.19			
8	Bhutan Postal Corporation	235,952	23.5952	100%	130.88	154.47
9	Bhutan Broadcasting Service Limited	1,308,351	130.835	100%	411.82	542.65
10	Royal Bhutan Helicopter Services Ltd	6,000,000	600	100%	30.06	630.06
11	Green Bhutan Corporation	330,000	33.00	100%	-	33.00
12	Farm Machinery Corporation Ltd	333,000	33.30	100%	(11.20)	22.10
13	National Housing Development Corp	27,279,610	2,727.961	100%	61.085	2,789.05
4	Kuensel Corporation	255,000	25.5	51%	74.92	100.42
IV	Financial Institutions		502.02			
14	Bhutan Development Bank	487,024	487.02	96.00%	2,837.50	3,324.52
15	Rural Enterprise Development Corporation	150,000	15.00	100.00%	129.31	144.31
	TOTAL	-	49,394.6115		5,263.50	

In nu. million

Sl. No	Corporations	Indirect shareholding as on 31/12/2016				
		No. of shares	Value (Nu)	% Holding	Reserves	Total Equity
I	Manufacturing		6,942.98			
1	Penden Cement Authority Limited	1,521,160	152.11	44.74%	378.92	531.03
2	Bhutan Board Products Limited	6,683,660	66.83	47.74%	71.84	138.67
3	Bhutan Ferro Alloys Limited	385,950	38.59	25.73%	185.76	224.35
4	Natural Resource Development Corp.	450,000	45	100%	559.78	604.78
5	Dungsam Cement Corporation	63,739,479	6,373.95	100%	(2,184.90)	4,189.05
6	Dungsam Polymers	4,218,898	42.190	51%	(48.76)	(6.57)
7	Druk Holding & Investments Ltd	150,000	15	30%	(16.85)	(1.85)
8	State Mining Corporation	1,359,900	135.99	100%	(15.27)	120.72
9	Wood Craft Center Ltd	733,177	73.32	100%	48.39	121.71
	Energy		38,937.99			
10	Druk Green Power Corporation	30,712,866	30,712.87	100%	13,707.34	44,420.21
11	Bhutan Power Corporation	8,225,118	8,225.118	100.00%	5,703.44	13,928.56
II	Trading		91.76			91.76
12	State Trading Corporation of Bhutan	917,605	91.8	51.00%	116.73	208.53
III	Services		4,093.32			
13	Druk Air Corporation	22,252,111	2,225.21	100.00%	325.74	2,550.95
14	Bhutan Telecom Corporation	854,082	854.082	100.00%	3,228.76	4,082.85
15	Thimphu TechPark	1,883,845	188.38	100.00%	(6.00)	182.38
16	Construction Development Corporation Ltd	8,256,430	825.64	100.00%	0.61	826.25
IV	Financial Institutions		3,279.20			3,279.20
17	Bhutan National Bank	40,819,960	408.20	12.40%	435.04	843.24
18	Bank of Bhutan	24,000,000	2,400.00	80.00%	2,024.06	4,424.06
19	Royal Insurance Corporation of Bhutan Ltd	47,097,500	471	39.25%	823.33	1,294.33
	TOTAL	-	53,345.24		25,337.96	

Annexure 7: Revenue and Profitability of SOEs

(Nu. in million)

Corporation	Year	Gross Revenue	Op. Expense	Profit Before Tax	Net Profit	RoE
DHI	2013	4,756.16	218.088	4,538.07	3,176.42	7%
	2014	5,744.67	191.813	5,552.86	3,887.36	8%
	2015	6,291.27	112.746	6,178.53	4,322.76	9%
	2016	7,383.74	120.248	7,263.50	5,082.80	10%
Manufacturing						
AWP	2013	926.706	687.841	208.591	142.823	15%
	2014	1,177.66	892.452	254.667	174.111	20%
	2015	1,319.97	962.581	357.389	250.172	21%
	2016	1,591.73	1180.807	410.925	274.428	24%
BAIL	2013	122.409	103.341	15.205	10.273	15%
	2014	144.814	121.639	17.885	12.028	16%
	2015	166.575	129.365	30.484	21.719	22%
	2016	191.00	144.805	47.109	33.158	18%
BFAL	2013	2,298.54	2,134.07	164.47	115.791	13%
	2014	2,025.09	1,739.33	285.755	189.347	19%
	2015	2,053.41	1,957.32	96.094	66.515	7%
	2016	1,892.07	1,888.98	3.09	2.05	0.2%
PCA	2013	1,937.54	1,516.08	421.458	272.039	25%
	2014	1,747.24	1,438.36	308.88	208.011	21%
	2015	1,635.22	1,478.67	173.733	118.819	11%
	2016	1,803.78	1,539.38	264.399	183.300	15%
DCCL	2014	1,598.43	2,728.20	-1,129.70	-1,129.70	-29%
	2015	2,600.83	3,655.16	-1,054.30	-1,054.30	-22%
	2016	3,387.22	4,142.41	-755.18	-538.81	-13%
DPL	2013	81.451	93.264	-24.9	-24.9	-38%
	2014	105.348	133.428	-28	-28.1	-76%
	2015	145.991	151.527	-5.5	5.536	18%
	2016	160.02	179.84	(19.82)	(20.02)	-18%
BBPL	2013	331.172	287.83	55.894	45.71	15%
	2014	329.935	321.044	8.89	6.223	2%
	2015	340.724	330.113	10.61	7.502	3%
	2016	333.10	322.07	11.04	7.57	3%

Corporation	Year	Gross Revenue	Op. Expense	Profit Before Tax	Net Profit	RoE
NRDCL	2013	409.08	366.228	42.852	30.833	5%
	2014	396.6	387.224	9.376	7.077	1%
	2015	428.382	401.18	27.202	18.533	3%
	2016	431.680	394.873	36.807	20.522	3%
WCCL	2013	72.131	63.072	7.171	4.213	4.05%
	2014	80.412	70.868	9.544	6.095	6%
	2015	79.355	73.385	5.969	4.357	4%
	2016	87.98	78.83	9.15	6.50	5%
Koufuku Intrnl	2015	0.586	26.648	-26	-26	-52%
	2016	2.67	32.77	-30.10	-30.10	-60%
SMC	2015	0.28	11.63	(11.35)	(11.39)	-33%
	2016	63.699	66.929	(3.23)	(3.99)	-3.3%
Energy						
DGPC	2013	13,051.66	5,533.95	7,526.47	5,254.19	13%
	2014	13,905.77	6,686.26	7,219.51	5,031.38	12%
	2015	14,258.09	6,855.54	7,402.55	5,150.95	12%
	2016	14,624.05	6,665.28	7,958.77	5,548.17	12%
BPC	2013	6,420.29	5,047.84	1,372.46	963.274	8%
	2014	7,275.06	5,681.97	1,593.09	1,002.97	8%
	2015	9,769.65	7,798.03	1,971.62	1,380.74	10%
	2016	11,757.02	9,546.49	2,210.53	1,547.98	11%
Services						
Bhutan Post	2013	125.526	103.415	21.72	15.741	11%
	2014	115.398	109.596	8.316	4.419	3%
	2015	131.177	124.605	6.572	4.639	3%
	2016	152.264	141.833	10.430	7.108	5%
Bhutan Telecom	2013	2,328.43	1,654.64	675.25	420.969	13%
	2014	2,401.47	1,701.63	697.033	474.744	13%
	2015	2,717.14	1,967.66	748.692	516.004	14%
	2016	3,067.83	1,789.21	1278.621	862.704	21%
Druk Air	2013	2,985.46	2,889.24	217.3	124.89	5%
	2014	2,895.64	3,040.41	-102.8	-135.9	-5%
	2015	2,697.75	2,745.46	-21.5	-21.5	-1%
	2016	3,056.13	2,947.49	108.64	99.02	4%

Corporation	Year	Gross Revenue	Op. Expense	Profit Before Tax	Net Profit	RoE
CDCL	2013	526.192	523.4	2.792	1.954	0%
	2014	402.535	401.785	0.749	-1.9	-0.43%
	2015	475.391	435.05	40.341	28.238	6.24%
	2016	495.157	523.197	-28.04	-28.04	-3.39%
DHI Infra	2013	27.489	16.93	10.559	7.359	3.50%
	2014	84.089	78.981	5.107	3.289	2%
	2015	11.407	21.977	-10.5	-7.3	-4%
	2016	17.953	19.35	-1.396	-1.243	-1%
Thimphu TeckPark	2013	5.035	29.582	-24.5	-24.5	-73.00%
	2014	13.004	19.748	11.257	11.257	7%
	2015	16.257	14.504	13.345	13.345	8%
	2016	32.317	27.282	5.035	13.441	7%
BBS	2013	291.219	293.4	-2.9	-2.9	0%
	2014	290.008	293.28	-3.4	-3.4	-1%
	2015	307.005	347.353	-40.6	-40.6	0%
	2016	298.418	299.265	-0.925	-0.925	-0.2%
Kuensel	2013	184.316	177.435	6.214	6.024	4%
	2014	199.939	172.804	25.686	17.926	11%
	2015	228.198	189.552	38.583	27.129	15%
	2016	214.778	177.418	37.313	25.356	13%
RBHSL	2015	11.55	12.49	-0.93	-0.93	0%
	2016	135.119	88.797	46.32	30.996	5%
NHDCL	2013	74.325	61.614	12.711	12.711	0.50%
	2014	106.387	99.864	6.524	5.374	0%
	2015	130.715	123.983	6.731	5.616	0%
	2016	136.475	106.724	29.75	17.052	0.6%
FMCL	2016	6.79	17.98	-11	-11.20	-46.4%
Financial Services						
BoB	2013	2,176.40	1,219.13	957.268	673.218	19%
	2014	2,430.41	1,405.58	1,180.67	750.334	17%
	2015	2,673.41	1,582.82	1,136.56	827.571	17%
	2016	3,013.98	1,823.50	1,340.80	934.071	17%

Corporation	Year	Gross Revenue	Op. Expense	Profit Before Tax	Net Profit	RoE
BDB	2013	1,021.27	742.004	279.268	279.268	13%
	2014	1,374.53	432.567	281.96	284.04	12%
	2015	1,831.62	1,439.09	392.529	392.529	13%
	2016	2,203.71	1,906.10	297.600	297.600	9%
BNB	2013	2,216.91	1,305.52	704.734	482.733	8%
	2014	2,344.24	1,287.40	1,056.84	742.708	11%
	2015	2,648.62	1,362.00	1,286.62	785.88	11%
	2016	2,996.11	1,984.05	1,012.06	702.498	10%
RICBL	2013	562.167	40.51	521.657	365.16	21%
	2014	2,894.23	2,323.35	570.881	401.784	14%
	2015	3,727.30	3,009.34	731.337	510.647	17%
	2016	4,652.29	3,898.39	753.899	472.688	14%
REDCL	2016	2.236	7.04	-4.806	-4.81	-3%
Trading						
FCB	2013	955.518	903.214	52.432	36.306	10%
	2014	996.156	990.946	5.209	3.974	1%
	2015	1,054.43	1,050.83	3.591	1.11	0%
	2016	1,151.26	1,147.06	4.201	2.211	0.7%
STCB	2013	550.679	541.773	8.906	4.592	2%
	2014	716.186	704.909	11.277	7.969	3%
	2015	2,298.04	2,195.37	102.675	71.821	20.0%
	2016	2,613.52	2,495.53	117.99	81.70	20.0%
BDFL	2016	69.89	52.67	16.66	11.66	9%
BLL	2016	25.12	25.90	-0.78	-0.75	-2%

Annexure 8: Summary of Assets, Liabilities and Net-Worth of SOEs and linked Companies

Sl	Corporations	Year	Total Assets	Total Liabilities	Net Worth
1	DHI	2015	52,426.97	2,660.74	49,766.23
		2016	52,793.59	1,693.63	51,099.95
2	AWP	2015	1,912.74	732.74	1,180.00
		2016	2,056.95	912.81	1,144.14
3	BAIL	2015	114.90	18.31	96.58
		2016	206.89	27.06	179.83
4	DGPC	2015	55,590.88	12,713.32	42,877.56
		2016	55,311.23	10,891.02	44,420.21
5	BFAL	2015	1,559.59	616.67	942.93
		2016	1,440.65	568.68	871.97
6	PCAL	2015	1,363.00	240.37	1,122.63
		2016	1,405.37	218.44	1,186.93
7	DCCL	2015	11,751.32	7,023.46	4,727.86
		2016	11,726.66	7,537.62	4,189.05
8	DPL	2015	216.73	185.39	31.33
		2016	163.71	176.59	-12.88
9	BBPL	2015	313.70	25.92	287.79
		2016	319.23	28.75	290.48
10	NRDCL	2015	696.11	112.97	583.14
		2016	701.74	96.96	604.78
11	WCCL	2015	138.99	23.85	115.14
		2016	146.12	24.41	121.71
12	Bhutan Post	2015	282.21	134.51	147.70
		2016	375.33	220.85	154.48
13	Bhutan Telecom	2015	4,769.02	1,054.33	3,714.69
		2016	5,036.19	953.34	4,082.85
14	CDCL	2015	823.94	371.17	452.77
		2016	1,260.00	433.75	826.25
15	DHI Infra	2015	290.63	85.13	205.50
		2016	247.98	43.72	204.26
16	Thimphu TeckPark	2015	306.94	138.00	168.94
		2016	317.76	135.38	182.38
17	NHDCL	2015	3,062.80	299.55	2,763.24
		2016	3,117.11	328.06	2,789.05

Sl	Corporations	Year	Total Assets	Total Liabilities	Net Worth
18	BoB	2015	39,138.32	34,380.03	4,758.29
		2016	44,799.60	39,269.52	5,530.08
19	BDBL	2015	19,072.60	16,008.83	3,063.77
		2016	22,649.24	19,304.42	3,344.82
20	BNB	2015	30,929.45	23,560.54	7,368.91
		2016	35,485.93	28,685.57	6,800.36
21	RICBL	2015	15,204.75	12,136.14	3,068.61
		2016	19,418.02	16,120.36	3,297.66
22	BBS	2015	697.59	90.43	607.16
		2016	636.32	93.67	542.65
23	Kuensel	2015	261.49	81.70	179.80
		2016	290.82	71.15	219.67
24	Druk Air	2015	5,616.38	3,165.83	2,450.55
		2016	5,620.46	3,069.51	2,550.95
25	RBHSL	2015	315.62	1.99	313.64
		2016	670.53	40.47	630.06
26	BPC	2015	25,185.46	11,467.89	13,717.57
		2016	27,963.65	14,035.09	13,928.56
27	FCBL	2015	493.82	163.51	330.31
		2016	610.19	276.69	333.50
28	Koufuku Intrnl	2015	97.45	73.51	23.94
		2016	89.25	95.42	-6.17
29	STCB	2015	693.40	339.23	354.18
		2016	1,018.13	609.26	408.88
30	SMCL	2015	37.16	2.93	34.23
		2016	150.10	28.58	121.52
31	FMCL	2015	0.00	0.00	0.00
		2016	28.89	4.77	24.13
32	BDFL	2015	0.00	0.00	0.00
		2016	137.45	10.24	127.21
33	REDCL	2015	0.00	0.00	0.00
		2016	146.39	2.08	144.31
34	Bhutan Lottery	2015	0.00	0.00	0.00
		2016	51.53	6.28	45.25

Annexure 9: Long Term Borrowings of SOEs

Nu. in million

Sl	SOE	Total Holdings	2015 Debt	2015 Govt Share	2016 Debt	2016 Govt Share
1	DGPC	100%	7,770	7,770	5,426.28	5,426.28
2	BPC	100%	5,953	5,953.12	5,895.66	5,895.66
3	BFAL	40.17%	17	7	176	71
4	DCCL	80.00%	5,495.12	4,396.10	5,318.84	4,255.07
5	DPL	51.00%	133.53	68.1	115.44	58.88
6	NRDC	100%	28.56	28.56	20.76	20.76
7	WCC	100%	1	1.1	-	-
8	Bhutan Telecom	100%	435	434.59	300	300
9	TTPL	100%	26.19	26.19	22.83	22.83
10	Kuensel	51%	0	0.4	-	-
11	NHDC	100%	250	250	250	250
12	Drukair	100%	2,114	2,114	1,863	1,863
13	BoB	80.00%	500	400	500	400
14	BDB	97.26%	1,277	1,241.66	1,136.19	1,105.06
15	BNB	29.20%	850	248	850	248.2
16	RICB	41.26%	4,853.62	2,002.61	6,532.48	2,695.30
	Total		29,703.28	24,940.74	28,407.46	22,611.97