

BUDGET SPEECH
OF
THE FISCAL YEAR
1978-79

The text of the Budget Speech Delivered by the honourable Finance Minister Dr. Bhekh Bahadur Thapa to the Rastriaya Panchayat on 6th July' 1978

Honourable Chairman:

1. As I take the rostrum to present, for the fifth time, the annual budget estimates of the Kingdom, I recall similar occasions and the discussions held in this House in the previous years. Benefiting from the sentiments expressed by the Hon'ble Members on various sessions and from the recommendations and the feedback, which His Majesty's Government receives through normal channels, I have been making efforts to orient the Government's economic policies as well as the budget to meet the demands of our development endeavour. While I can draw some satisfaction from various achievements that we have made in this respect, the fact remains that the continuing basic problems of poverty facing a majority of the population now call for even a greater degree of dedication and fortitude on the part of all of us for a more effective implementation of the policies and programmes that we have adopted.

2. A general overview of the economy will indicate that we are progressing steadily in a balanced manner. This is not to imply, however, that all aspects of our economy are equally sound. The economy of a developing nation has to face one challenge after another and its drive for development becomes, in effect, a continuous struggle. Our country is handicapped by its landlocked nature and a difficult topography and is also considered one of the least developed in the world. Our problems are, therefore, formidable. The need of the hour is a determination to strictly adhere to the policies and priorities, which are dictated by our vision of future Nepal. Considering the present stage of economic development it is only natural that it would take us a long time to solve all our economic problems. Our task, today, is to concentrate our efforts in activities that help meet the basic needs of the economically weaker section of the population without, at the same time, allowing general problems of the economy to get more complex. The decisions we take today will guide the destiny of our future generations--just as we now realise that our present alternatives are linked with past commitments.

3. I have already presented to the House a detailed survey of the present economic situation and the development activities that were undertaken in the current year. Our achievements as well as the tasks ahead are reflected in that document.

4. Looking into the achievements, there is certainly ground for satisfaction. At a time when I am presenting the budget for the fourth year of the Fifth Plan a review of our investment performance now clearly indicates that we may exceed the Plan's investment target. The Fifth Plan has envisaged a public sector outlay of Rs. 6170 million under the "minimum programme" and of Rs. 7545 million under the "maximum programme" at 1973/74 prices. It now seems that the Government would have actually spent Rs. 4380 million at constant prices at the end of the current year. With the level of the development expenditure to be proposed for the next fiscal year, the residual public sector outlay necessary to meet the Plan's target for the "maximum programme" would be only Rs. 1500 million at current prices, which can be easily provided for, in the final year of the Plan. When we formulated the Fifth Plan there was some apprehension that mobilisation of resources may not match the requirements of the "maximum programme". It is now a matter of satisfaction for all concerned that we may now exceed even the maximum investment target. The credit for this performance goes to the taxpayers who have willingly shouldered the tax burden necessitated by the challenge of development. The co-operation received by Nepal from various friendly countries and international agencies as well as the increasing capability of His Majesty's Government to implement projects are other contributing factors.

5. In addition to the mobilisation of resources in the Public Sector, the increase in savings in the private sector and the investment of financial institutions for the development of private sector have also been noteworthy. Although we do not have firm data on the level of investment in the private sector as a whole, the increase in the lending activity of the Agricultural Development Bank, Nepal Industrial Development Corporation and the commercial banks is an indication of growing private investment in the industrial and agricultural sectors. The outstanding loan of the Agricultural Development Bank increased from about Rs. 220 million at the end of 1975/76 to Rs. 345 million in March 1978. Similarly the outstanding loan of Nepal Industrial Development Corporation increased by Rs. 57.6 million to Rs. 210.5 million in the same period. The requirement for the commercial banks to lend at least 7 per cent of the total deposits to small sectors has also led to an increase in the flow of resources to agriculture.

6. Despite this achievement in resource mobilisation and investment in general it is a matter of concern that we are lagging behind in the attainment of the physical targets of the Plan. To be sure, remarkable progress has been achieved in social services such as education and health and also in roads construction. Likewise many rural areas where the Government's development programme did not even reach until recently are now in the midst of our campaign for development. However, ultimately it is the increase in production, which matters most. In agriculture, due to unfavourable weather condition in two successive years the level of production has declined markedly. Previously, despite increase in population, per capita income could be maintained and even increased by bringing additional land under the plough. Such possibility is now severely limited with even the marginal land already

under cultivation. The problem is more acute in the hills where deforestation and erosion have resulted in a decline in agricultural productivity. Therefore, unless measures are taken to increase agriculture productivity, our problems are bound to grow from bad to worse.

7. Hon'ble Members are aware that His Majesty's Government has been increasing investment in irrigation, agricultural credit, other inputs, extension and research. Even then agricultural production, which is the mainstay of our economy, has fallen behind our expectation. In agriculture the task ahead of us is to identify and institute a system that facilitates the protection and use of our natural resources and ensures a more effective transfer of technology to the farmers in the field. Furthermore, increase in agriculture productivity does not depend upon the efforts of His Majesty's Government alone. More important is the decision that a farmer takes about his own crops. Therefore, one also sees a need for institutional reform, which motivates a farmer to take advantage from the facilities provided by the Government in order to, increase his own income. Similarly the pricing policy can no longer be considered from the point of view of the consumers' interest alone. The return to the farmer is just as important.

8. At a time when production is lagging behind expectation it can have repercussions in other aspects of the economy as well. As a problem, which concerns the common man most, supply condition and the general price level should naturally receive the Government's priority consideration. The price situation of the current year and the measures taken by the Government to check its increase has been explained in the Economic Survey. As pointed out in the document, the general price index has increased by only 4 per cent in the first nine months of the current year. At the moment, there are indications that the price level has started to fall. Money supply has increased during the same period by only 16.8 per cent as against an increase of 32.4 per cent in the previous year. This has also helped to contain the increase in price level.

9. Nepal's holding of foreign exchange has been increasing in the past years. At the same time, deficit in Nepal's balance of trade is also getting wider. This indicates that the base of Nepal's balance of payments is somewhat fragile and calls for appropriate corrective measures on our part. The problem is that as we move along the path of development the need to import raw materials and other development goods also increases. On the export side, however, its volume has been declining recently. On top of that, we have to face the perennial problem of fluctuating prices in world market for our major items of exports. It is, therefore, essential that we give utmost attention to increasing production and similar other measures that will help promote our exports. Fortunately, the present level of our foreign exchange reserve is at a more than comfortable level which has allowed us to take a longer view of the problem and adopt appropriate corrective measures.

10. The Hon'ble Members are aware of the step taken by His Majesty's Government this year which ended the export bonus system that was introduced sixteen years ago. In its place, we have now adopted a new trade and payments policy. The bonus system was introduced to provide appropriate incentive to exporters whose competitive position is weakened by our land-locked situation with the nearest port more than 1,000 k.m. away. As intended, this system did contribute to the attainment of our national objective of trade diversification. In the past several years, Nepal's external trade has been diversified country-wise as well as commodity-wise. However, recently certain inherent flaws in the system became apparent which not only seemed to hinder the growth and stability of the export sector but also threatened to affect other aspects of the economy adversely. During the sixteen years of its operation the bonus system did not succeed in fostering an efficient and dynamic export sector. And in the absence of export-oriented industries many agricultural and other products began to be exported without undergoing even primary processing. A main reason for this situation was the uncertainty in exports' earning due to the fluctuations in the premium of bonus-voucher. Consequently, traders were inclined towards only short-term gain from an export trade, which yielded quick profits. Distortions were also created on the import side. While development materials and essential consumer goods were in short supply, import of luxury goods started to become more prominent. The bonus scheme also constrained His Majesty's Government from taking steps to liberalise imports as and when appropriate, since this would adversely affect the export trade. Apart from these drawbacks, the bonus system that was under implementation created, in effect, as many as seven exchange rates. Such an exchange regime produced distortions in investment and inefficient allocation of resources. Under the circumstances, in a country, which is, very much dependent on foreign trade there was no other alternative but to liberalise the trade policy. An inward looking policy could only result in a high-cost economy to the detriment of our national objectives. It is this consideration that led to the introduction of a dual-exchange rate system. It is natural for traders who have been working for years in one system to experience some difficulties in the beginning. Now that they are gaining familiarity with new system its positive impacts are already discernible. I am confident that in the coming years the national economy will receive good impetus from the operation of this system.

11. In attempting to forecast the economic situation in the coming year against the above background of the economy the main difficulty lies in forecasting the level of agricultural production. However, even if agriculture still largely depends on weather condition, one can expect a positive contribution of the irrigation projects completed this year in agricultural production. Moreover, even if we have only normal crops, this should mean a significant increase in production over the current year. In view of the growing interest of the farmers on cash crops there should be an increase in this area as well.

12. In the current year certain industries could not operate in full capacity mainly due to technical reasons. Cement industry is one example. There should be no recurrence of such problem next year, which should yield an increase in industrial production. The Hetauda Textile Mill and the Bhaktapur Brick Factory will also go into operation next year. Similarly, some new industries are expected to start production in the private sector. The liberalisation of trade policy which allowed industrial units to freely import necessary materials and similar other incentives should further promote the development of industry in the private sector. As a result, we can look forward to a favourable trend in the industrial production next year.

13. As for the price situation, I have already mentioned that there has recently been a declining trend in the general price index. Assuming favourable weather and a normal crop and assuming increase in industrial production as projected, the pressure in prices should further ease in the coming year.

14. In foreign trade, with the expected normal paddy crop earnings from rice export is estimated to increase by 42 per cent. Overall export earnings is estimated to increase by 17 per cent to a level of Rs. 1180 million. On the import side, the implementation of some large capital projects will lead to a rise in imports as well. Such increase is now projected at 16 per cent. As a result, it is estimated that deficit in the balance of trade next year will be in the order of Rs. 1800 million.

15. Earnings from tourism is estimated to increase by 24 per cent to Rs. 460 million, and gross receipts from other sources are projected at Rs. 770 million. However, since payments on this account are expected to reach Rs. 830 million, net receipt from services is projected at Rs. 400 million. With an estimated net receipt from private transfer and foreign grants at Rs. 800 million the current account deficit is expected to be in order of Rs. 600 million. Since the net inflow of capital is expected to reach Rs. 550 million, the overall balance of payments deficit should not exceed Rs. 50 million. Indeed, since the projection of exports is done on the basis of the current year's performance except in the case of rice, even a small increase in the export of other items may wipe out this deficit and may yield some surplus.

16. The above analysis of the current state of the economy and the forecast of production, prices and balance of payments for the next year call for gearing up the economic policies of His Majesty's Government and all development programmes to the triple objectives of increasing production, equitable distribution and balance of payments. The budget, I present today, is guided by this consideration.

17. Keeping in view the price situation and the balance of payments, efforts are to be made to hold increase in money supply to the desirable limit. Accordingly, deficit financing including Government's borrowing from the banking sector will be considerably less in the coming year. In the interest of a stable economy it would be our effort to maintain money supply at a level warranted by the need for additional liquidity commensurate with the increase in production at current prices. As a result, in spite of a proposed increase of 37 per cent in development expenditure over the revised estimates of the current year the extent of deficit financing will be reduced by 33 per cent in the coming year. A greater degree of resource mobilisation is proposed to help finance increased level of development expenditure.

18. I have pointed out on previous occasions that fiscal policy is not only an instrument of resource mobilisation but also a means of channelling investment in the desired direction. Appropriate fiscal policy also helps to effect more equitable distribution. As in many other developing countries indirect taxes are more prominent in our tax structure. Even though indirect taxes can also take equity into consideration, direct taxes are generally a more effective mechanism. Therefore, for the next year, emphasis is also to be placed in the mobilisation of additional revenue from the direct taxes. The new tax measures are so conceived that they should have no adverse effect on price level and on the interest of the common man.

19. On account of our geographical position and certain technical and managerial problems, the cost of production of our industrial sector becomes rather high to the detriment of their competitiveness in the world market. I have already explained the measures that were taken this year to provide appropriate incentives to the exporters. As an additional incentive, relief in export duty on exports of all manufactured items other than the agriculture and forest based traditional exports is to be provided.

20. As commanded by His Majesty in the Royal Address to this House "to provide facilities to all the services by gradually increasing the level of salaries of the civil personnel, teachers, and Royal Nepalese Army and the Nepal Police Force", I have set aside funds in the budget to increase the salary of these services. Considering the hardships faced by the employees of the lower grade, their salary will be increased by a greater proportion than those at the higher echelons. Accordingly increment in the basic salary for the personnel at lowest grade will be 18.1 per cent while that for the highest grade will be 4.8 per cent.

21. His Majesty's Government is confident that with the increase in salary and provision of insurance facility introduced this year the administrative efficiency will be further enhanced. It is true that the administrative machinery has to be made more efficient and clean. Nevertheless, the disbursement of development expenditure this year reflects the growing capability of the administration.

22. Before presenting the budget estimates for the coming year, I would like to submit the actual revenue and expenditures of 1976/77 and revised estimates of 1977/78. Actual expenditure under the regular and development budgets was Rs. 2330.4 million in 1976/77 as against the revised estimates of Rs. 2371.6 million. On the resources side, revenue receipt was Rs. 1322.9 million as against the revised estimate of Rs. 1321.2 million. Foreign aid disbursements including grants and loans were in the order of Rs. 556.9 million. The resource gap of Rs. 450.6 million was met partly from internal borrowing of Rs. 300 million and the rest from drawing on the cash balance.

23. The revised estimates of development and regular expenditures for the current year is Rs. 2850.8 million as against the original estimate of Rs. 3087.4 million. I am glad to report to you that 90 per cent of the development budget is expected to be spent in the current year as compared with 84 per cent in the previous year. With this record improvement in the absorptive capacity we can be confident that the pace of development will now be accelerated further.

24. The revised estimates of revenue for the current year are Rs. 1580.6 million, as against the original estimates of Rs. 1724.6 million. This represents a shortfall of 8.35 per cent as compared to a shortfall of 14 per cent in the previous year. There has been a significant increase in the collection of revenue this year (19.62 per cent) over the previous year. Shortfall has been recorded in receipts from interest on investment, customs, taxes on production and consumption of goods and services and taxes on income, profit and property by 57.08 per cent, 3.25 per cent, 7.47 per cent and 11.92 per cent respectively over the original estimates.

25. In foreign aid according to the revised estimates total disbursement including grants and loans was Rs. 963.4 million as against the original estimates of Rs. 1120.6 million. To meet the total expenditure of this year, a deficit of Rs. 306.8 million was thus incurred which was covered by an internal loan of Rs. 240 million and the balance was met by drawing on the cash balance.

26. In proposing a significant increase in development expenditure for the coming year I am encouraged by the level of expenditure of this year. As regards allocation of resources for the coming year it continues to conform with our development objectives and the priorities of the Plan. Agriculture particularly irrigation, have been accorded higher priority as before. Adequate funds have also been provided for the implementation of major projects in the transport and power sectors. Similarly priority given for the expansion of social services like education, health and drinking water has been maintained.

27. Of the total allocation, 15.23 per cent has been allocated for the Eastern Development Region, 42.28 per cent for the Central Development Region, 16.34 per cent for the Western Development Region and 16.43 per cent for the Far Western Development Region. The remaining 9.72 per cent falls in unallocable category.

28. In view of the importance of rural development in Nepal and the need for an equitable distribution of national income, His Majesty's Government has launched integrated rural development projects and other programmes of local development. It has been experienced that small schemes in the fields of irrigation, drinking water, village roads, mini micro hydel plants, afforestation and cottage industries can be executed more effectively through the efforts of local Panchayats. Moreover, this approach has a built-in mechanism for growth with equity. Development budget for the coming year seeks to pursue the twin objectives of meeting the needs of the common people on the one hand and promoting gradual modernisation of the national economy on the other. .

29. Just as we are accustomed to His Majesty's Government assuming a leading role in the execution of highways, major and medium scale hydro-electric projects and industries which require skilled manpower and modern management, the role of local resources and manpower in the implementation of projects which are designed to meet the local needs should be seen in the same perspective. With a view to promote people's participation in the development process many activities in the field of irrigation, roads and afforestation have been implemented this year through local initiative. Our political system is such that provides an unique basis for active participation of people in development. The Panchayat sector will, therefore, be enlarged and geared more effectively in the development process of the country. Provision has also been made in the next year's budget to provide necessary funds to the local panchayats for the execution of such projects like irrigation, roads, drinking water, suspension bridge and micro-hydel plants.

30. This year efforts have been made to mobilise local resources on a stable basis for local development works through the introduction of Panchayat Development and Land Tax in five districts even though the government revenue would decrease to some extent. Collections made in the five districts will determine the speed with which we will be able to move further in this direction. I must appreciate the efforts made by the local representatives in these districts. In particular, the performance of Jhapa has been exemplary. If other districts were to follow this example the scope of people's participation could certainly be enlarged and a self-sustaining basis for rural development established for the country as a whole.

31. A nation-wide campaign for development based on local panchayats necessitates a sound mechanism for channelling technical and other support from His Majesty's Government, which takes into account, in particular, the need for a coordinated effort of all agencies concerned. His Majesty's Government will, therefore, take necessary steps to strengthen its organizational structure in order to facilitate such process of development.

32. I now submit the estimates of revenue and expenditure for the next fiscal year. The development expenditure is estimated at Rs. 2647.9 million and the regular expenditures at Rs. 1104.9 million. Thus the total expenditure is estimated at Rs. 3752.8 million, which is 31 per cent higher than the revised estimates of the current fiscal year. While the development expenditure is estimated to increase by 37 per cent the increase in regular expenditure is estimated at 20 per cent only. The main reason for the increase in regular expenditure is the provision made in the budget for salary increment.

33. Of the total regular expenditure Rs. 35.0 million is allocated for Constitutional Organs; Rs. 158.9 million for General Administration; Rs. 31.6 million for Revenue Administration; Rs. 23.5 million for Economic Administration and Planning; Rs. 15.8 million for Judicial Administration; Rs. 43.2 million for Foreign Service ; Rs. 194.7 million for Defence; Rs. 182.5 million for Social Services; Rs. 106.5 million for Economic Services; Rs. 187.6 million for Investment, Loan and Debt Servicing and Rs. 125.6 million for Miscellaneous items.

34. Of the total development expenditure Rs. 608.6 million is allocated for Social Services; Rs. 1988.6 million for Economic Services and Rs. 50.7 million for Economic Administration, Planning and Miscellaneous.

35. In Economic Services, Rs. 616.3 million is set aside for Agriculture, Irrigation and Land Reforms; Rs. 103.7 million for Forest; Rs. 193.0 million for Industry and Mining; Rs. 331.9 million for Power; Rs. 682.3 million for Transport and Communications; and Rs. 61.4 million for Cadastral Survey and other Economic Services. In Social Services, Rs. 239.1 million is allocated for Education; Rs. 123.9 million for Health; Rs. 85.1 million for Drinking Water; Rs. 121.6 million for Panchayat and Rs. 38.7 million for other Social Services.

36. On the resources side, Government revenue from various sources is estimated at Rs. 1920.4 million for the next year. This estimate is 21 per cent higher than the revised estimate of the current year. Of the total estimated revenue, tax revenue is estimated at Rs. 1565.6 million and non-tax revenue Rs. 354.8 million.

37. Of the total tax revenue, Rs. 623.9 million is estimated to accrue from customs and Rs. 586.8 million from taxes on production and consumption of goods and services. Revenue from taxes on income, profit and property is estimated at Rs. 193.1 million while land tax and registration are expected to yield Rs. 161.7 million.

38. Regarding non-tax revenue which is estimated to yield Rs. 354.8 million, Rs. 121.5 million is expected to be collected from the sale of public goods and services, Rs. 133.5 million from dividend and repayment of principal and interest and Rs. 99.8 million from fees, charges, royalty and from miscellaneous items.

39. The total foreign aid in the form of grant and loan is estimated to increase by 58 per cent to Rs. 1523.3 million as compared to the revised estimates of the current fiscal year. According to the revised estimate of this year about 50 per cent of the total development expenditure will be financed

by foreign aid. In the next year about 57 per cent of the total development expenditure is estimated to be met from foreign aid. Foreign aid is thus increasing from year to year. Although on the face of it our dependence on foreign aid thus seems increasing, our record of generating revenue surplus for meeting. Development expenditure is remarkable in comparison to many other developing countries. I would like to assure the Hon'ble Members that all friendly countries and international organizations, which are cooperating in our development efforts, have fully endorsed our development strategy; The members of Nepal Aid Group which met in Paris this year have appreciated the progress we have achieved within a short period and have assured us of their continued support for our development programmes. The goodwill and cooperation, which Nepal has been able to command in the international arena, is the result of Nepal's commitment to development and social justice and the zeal with which all the Nepalese people are striving under the able and dynamic leadership of His Majesty the King for the realization of these objectives. On behalf of His Majesty's Government of Nepal I would like to express sincere thanks to all friendly countries and international organisations for their cooperation.

40. With the total expenditures thus estimated at Rs. 3752.8 million and with the total receipts from the existing sources of revenue at Rs. 1920.3 million and foreign aid estimated at Rs. 1523.3 million the resource gap for next year will be Rs. 309.1 million.

41. Honourable Chairman, with the improvement of tax administration and broadening of tax base, government revenue is increasing at an average rate of 19 percent per annum for the last few years. The progress that has been achieved in mobilising domestic resources for the growing needs of development expenditure is noteworthy.

42. As I have already mentioned, our absorptive capacity has increased to a great extent. Moreover, there is a great deal of interest and enthusiasm for development in every part of the country. As a matter of fact, development activities are being carried out in almost all parts of the country in such a way that it is taking the shape of a development campaign. With this setting, there is a good prospect for speedy development, provided we channelise the growing enthusiasm of the people in the right direction. .

43. When I observe the implementation of big projects as well as rural development projects aimed at meeting the basic needs of the rural masses, I feel a sense of satisfaction. But as Finance Minister of this country, the necessity of raising additional revenue worries one all the time. However, there are certain areas in which there is scope to raise additional resources without adding burden to the common man. Accordingly, greater emphasis has been given to direct taxes.

44. The revenue policy for the next year is based on the following considerations: (1) to ensure that the common man is not burdened with additional taxes; (2) to impose the taxes on the basis of equity;

(3) to give protection for the promotion of domestic industries; and (4) to provide incentives for the promotion of export.

45. Now I propose the following changes in the indirect taxes. In order to encourage and promote export trade, customs duties on exports of all manufactured goods, except on the traditional export goods based on agriculture and forest, have been abolished with immediate effect. On the import side, I have raised duties on leather shoes, animal feed, cardboard, toilet soaps, butter and hosiery and such other goods, in order to protect our industries. Besides these, custom duties have not been raised on the goods of daily necessities of common people. On the other hand, duties on some spices have been lowered in view of their present rising price trend~ Similarly, duties on agriculture and forest based primary goods have been abolished. To promote journalism and press enterprises and to encourage the printing of books and other educational materials within the country, duties on the import of newsprint and paper have been abolished. The sales tax on paper has also been eliminated. Since domestic production of cement is not adequate for the construction works import duty on cement is lowered to the level of excise duty on domestic production so that it may not be a constraint on development works. Under the new exchange and payment system, it is more profitable to import at the second exchange rate than to import under the Bonus Scheme. In order to mop up some part of their profit, therefore, duties on import of some commodities will be changed. The revised schedule is given separately. Other duties not mentioned in the schedule are retained as before. The revised tariffs rate will come into effect immediately. These changes will yield Rs. 25 million.

46. In excise, duties levied at a fiat rate on the rice mills up to 10 h. p. and additional huller will be maintained as before. However duties on rice mills above 10 h.p. will be levied from the next year as follows :

H.P. Capacity of Mills Annual Rate

(a) From 11 to 18 h.p. Rs. 2,200 plus

Rs. 800 for each additional huller (b) From 19 to 25 h.p. Rs. 4000 plus Rs. 1100 for
, each additional huller

47. The rice and oil mills of 10 to 15 h.p. also will have to maintain the account of their production in accordance with excise rules. Excise duties will be collected on the basis of production if it is found from accounts that the duties on production are higher than the fiat rate. The duties on rice and oil will be unchanged.

48. No change has been made in duties on synthetic and artificial textile for the last ten years. I have proposed to replace the present ad valorem duties by specific duties.

Duties on textile will be as follows :

(a) Shirting's per metre Rs. 2/- (b) Suiting per metre Rs. 7/-

49. However duties on other textile and textile goods, where specific duties are not applicable, will be levied 10 percent ad valorem with immediate effect.

50. The following changes have been made in duties on bidi, cigarettes, sawn timber, catechu and low grade liquor, soft drinks and parquet;

(a) Bidi Rs. 4/- per thousand

(b) Sawn timber Rs. 1/- per cubic feet

(c) Bottled Low grade Rs. 14/- per L.P. litre Liquor

(d) Catechu Rs. 2.50 per kilogram " (e) Soft drink except Rs. 1/- per litre Soda water
(f) Parquet Rs. 1/- per square foot (g) Cigarettes:
Valued up to Rs. 20/- per thousand sticks Rs. 17/-
Valued upto Rs. 35/- per thousand sticks Rs. 22/-

51. Excise duty on sugar will be reduced to Rs. 55/- per quintal, which is expected to lower its price. License fees to be paid by the traders of excisable commodities have been raised. Other excise duties will remain unchanged. It is estimated that the above changes will yield an additional revenue of Rs. 29.7 million.

52. I now submit direct tax proposal. With a view to make the income tax schedule more equitable and progressive I propose to introduce the following changes. Besides, the tax on house rent, which was levied and assessed separately has been abolished. From the next year income from house rent also will be combined with the income from other sources and will be assessed for income tax.

The revised income tax schedule is as follows:

SCHEDULE A (single, married couples and family with children) Income tax rates as per cent of income

On income up to Rs. 5000 exceeding the exemption limit 5 percent Thereafter Rs. 5000 10 percent
" Rs. 10,000 15 percent " Rs. 20,000 25 percent " Rs. 50,000 35 percent " Rs. 100,000 45 percent
And above 51 percent

SCHEDULE B

(Firms, Companies, Corporate bodies and Non-resident)

Income tax rates as percent of income

.On income up to Rs. 10,000 10 percent Thereafter Rs. 10,000 15 percent
" c~ Rs; 20,000 25 percent " ;: -R~; 50,000 35 percent " Rs. 100,000 45 percent And above 51 percent

This change will yield additional revenue of Rs. 10 million. However since its full impact will be felt only in fiscal year 1979/80, the additional revenue from that change will be Rs. 50 million only for the next year.

53. I realise that entertainment is essential for the development of human persona- lity. With a view to raise some resources for national development along with the development of individual personality, I have proposed the following rates of entertainment tax for the next year. However, to encourage Nepalese language and culture, tax rebate of 50 percent will be given to all such entertainment shows and programmes including Nepali films.

Entry fee of value Entertainment tax Up to Rs. 0.50 each' 50 percent

" Rs. 0.51 to Rs. 1.00 each 75 percent " Rs. 1.01 to Rs. 1.50 " 125 percent " Rs. 1.51 to Rs. 2.00 " 250 percent " Rs. 2.01 and above 300 percent
These changes are expected to yield additional revenue of Rs. 1.5 million.

54. You are aware that tax on credit from the commercial banks was introduced this year. Since credit tax has to be assessed and collected sometime on daily basis depending on the terms of loan it was found that the administrative cost of collection for the commercial banks was high. Therefore, in order to reduce this burden and also to avoid additional tax burden on the borrowers, the collection system has been simplified and the credit tax will be assessed and collected from next year at a rate of 7.5 percent on the earned interest of the commercial banks from credit. This will yield additional revenue of Rs. 14 million.

55. The present rates of land revenue has continued from the fiscal year 1967/68. The total receipt from this source then was Rs. 83.3 million or 25.55 percent of the total revenue of 326.0 million. Total revenue receipt for the next year is estimated at Rs. 2000 million. Contribution of all other sources of revenue in these years has been increasing while contribution of agriculture has remained unchanged. Based on the constant price of 1967/68, land revenue, in fact, has decreased by 147 percent this year. From the point of view of social justice, therefore, revision in the present land revenue is called for. Considering the average size of holding for bare subsistence by the majority of the farm community, it will not be a sound proposition to raise land revenue, however, on the basis of constant price of 1967/68. The present rebate of 50 percent of land revenue on the holdings of

1 Bigha or equivalent will, therefore, be retained. Similarly on the ground that a family needs at least 3 Bighas of land for subsistence as provided under the resettlement programme, the present rate of land revenue holding up to 3 Bigha and equivalent will be maintained as before. For holdings of more than 3 Bighas upto 10 Bighas or equivalent, land revenue will; however, be increased by about 40 percent from the next year. On holdings of more than 10 Bighas land revenue will be increased by about 60 percent.

The rates of land revenue is given in a separate schedule. The present rebate of of-' per cent given for payment of land revenue before mid-February 1979 will be retained. With this change the land revenue is expected to yield additional Rs. 30 million in the coming year. All other taxes are maintained as before.

56. These tax proposals will yield an additional revenue of Rs 105.2 million.

57. I propose to cover the remaining gap of Rs .239.4 million by raising internal loan of Rs. 200 million and the rest by drawing on the cash balance.

58. The economic, fiscal and investment policies, which I just enumerated, are inspired by our firm commitment to sound economic management for speedy development. While in keeping with our commitment to mobilise additional resources for the realisation of national aspirations the policy for

resource mobilisation has been so devised that the majority of the population with low income will not face any additional burden of taxation. The tax measures will have no adverse effect whatsoever on the prices of essential commodities. Furthermore, additional incentives are proposed for the promotion of non-traditional items of export. The pattern of investment continues to emphasise the productive sectors and the expansion of social services in the rural areas in conformity with our objective of promoting the welfare of the people at large. The fiscal, monetary and trade policies have been adjusted to correct the continuing imbalance in our external trade position.

59. In the New Year's message, this year, His Majesty the King said, "As Our country is confronted with many problems of backwardness, so also are we endowed with as many prospects and potentialities for development." Our experience [to date and the course that we have charted ourselves for the future indicate emerging new framework for our development. On the one hand, His Majesty's Government is making efforts to lay the basic foundation for development by implementing infrastructure projects at the national level and, on the other hand, we find nation-wide efforts for rural development through the mobilisation of local resources and popular participation. Taking a more comprehensive view of the prospects of resource mobilisation and investment opportunities at the local level, the budget has accepted the reality that rural development is the basis for all nation-building efforts.

60. The problems of economic backwardness and social inequities in developing nations are so complex that examples of continuing poverty of many amidst rising national incomes are evident everywhere. The political leaders and the social scientists of the Third World are, therefore, engrossed now in a search for new direction. In fact, many developing nations, on the basis of their own experience and those of others, have now realised that political orientation must override the technical, economic or administrative derations for effective development. Our own experience that despite significant achievements in various sectors, the lot of the majority of the people remains unaffected is a factor that must be considered as we seek to reorient our development efforts.

61. In comparison with many other countries in the developing world we are in a more fortunate position. A development framework that responds to the basic minimum needs of the people and an institutional mechanism for its effective implementation that is now being sought in other parts of the world was in fact identified and adopted in our country eighteen years ago when we introduced the Panchayat System. The demand of our constitution and the political system for the establishment of a society based on class co-ordination and free from exploitation is inspired by the same objective. Likewise the objective of consolidating development endeavours through the mobilisation of manpower and local resources at every level in a manner commensurate with the principle of decentralisation is a fundamental tenet of the Panchayat system.

62. Our thinking on national development began to be crystallised in a new form after the accession of His Majesty King Birendra to the throne. With the emphasis on division of the country in four development regions followed by the Second Amendment of the constitution the country is now forging ahead with renewed faith in the role of local Panchayats in national development. Inspired by the guidance from His Majesty, this budget is intended to be yet another major step in our attempt to create conditions for fulfilling basic needs of the people through nation-wide campaign for development at local levels and to continue at the national level, the efforts of His Majesty's Government for strengthening the foundation of all round development. Indeed, it is certain that this framework will lend a new direction not only to the programmes for the next year but to all our development endeavours in future. The responsibility for proper implementation of these guidelines now rests with us all.