# BUDGET SPEECH

# OF

# THE FISCAL YEAR

# 1970-71

The text of the Budget Speech Delivered by the honourable Finance Minister Gehendra Bahadur Rajbhandari to the Rastriaya Panchayat on 6th July' 1970

***Honourable Chairman,***

In the capacity of Finance Minister, I present to you, for the first time, our national budget. I consider this to be a heavy responsibility. The annual budget is an instrument designed to solve our economic problems and thereby attain our specified goal. Under the able leadership of His Majesty the King, the country is, on the international level, attaining a position of prestige and, on the domestic front; we are seeking to promote welfare of our people through social and economic measures. In order to attain this goal, we are trying to expedite the pace of economic development. We have before us our own experiences of implementing development programmes, which should serve as a basis for our future endeavour. Our achievements may appear limited compared to our aspirations but considering the stage of development we had to begin from, we have every reason to take encouragement from what has been achieved. If we ignore this fact and instead aim at higher objectives that are beyond our capacity, we will only create an atmosphere of frustration. Economic backwardness has no easy solutions. We should try to attain our goals as quickly as possible by deploying our limited resources in a planned manner with proper understanding of our priorities. But our people, who have for a long period of time remained content at a low level of income, cannot be pushed forward too far at once. We should remember that economic revolution couldn't be achieved in a short period of time without hard work and sacrifice.

Honourable Chairman, before I submit the budget estimates for the fiscal year 1970/71, I wish to review briefly the state of our economy during the current fiscal year.

. This year also, satisfactory progress has been recorded in agricultural and industrial production. In the agricultural sector, it is estimated that the production of paddy, wheat, and maize will increase by 3.8 per cent, 6.6 per cent and 2.2 per cent respectively. As regards cash crops, .the production of sugarcane is expected to increase by 5.8 per cent and that of jute and oilseeds by 9.1 per cent and 5.2 per cent respectively. Sale and distribution of agricultural inputs continued to increase during the year under review. The sale of fertilizer has reached the level of 23 thousand metric ton5 in the first ten months of this fiscal year. The sale of improved seeds and agricultural tools and implements has also increased markedly. As regards credit, the Agricultural Development Bank and the Land Reform Savings Corporation have together disbursed loans amounting to Rs. 27.3 million in the first nine months of the current fiscal year.

In the industrial sector, there has been an increase in the production of sugar and cigarettes. The production of sugar has reached sixteen thousand metric tons in the first nine months of the current fiscal year, which compares quite favourably with the last year's total production of ten thousand metric tons. Similarly, as against last year's total production of cigarettes of 1.68 billion sticks, cigarette production has reached 1.44 billion sticks in the first nine months of the current fiscal year. The production of cigarettes for the whole year is expected to reach two billion sticks. However, the production of stainless steel utensils and synthetic textiles is estimated to decline sharply this year.

During the first eight months of the current fiscal year gold and foreign exchange reserve has increased by Rs. 101.3 million and has reached a level of Rs. 879.3 million in mid- March 1970. During the last fiscal year, the reserve had increased by Rs. 176.5 million, which suggests that (he rate or increase in the reserve will be lower in the current fiscal year. This is attributable to the difficulties we have encountered in negotiation on trade and transit with our neighbouring country and to the consequent uncertainties in the industrial, trade, and market conditions. It is estimated that our exports to overseas countries this year will be considerably less than the exports of last year.

There has been a further expansion in money supply this year. As against an increase of Rs. 92.6 million (15 per cent) in the preceding year, money supply has increased by Rs. 121.8 million (17 per cent) during the first eight months of the current fiscal year. As at mid- March 1970, money suppy reached a level of Rs. 832.2 million. Prices have, however, remained generally stable except that of food grains like rice, which registered a slight, increase recently. The unweighted national price index in the third quarter of the current fiscal year was 147.52; the price index during the same period last year was 147.75.

There has been a speedy progress in the construction of major highways, namely, Jhapa-Janakpur, Janakpur-Simra and Narayanghat-Butwal sectors of the Mahendra Raj. marga, and the Prithvi Rajmarga and Siddhartha Rajmarga. It is expected that construction work in all these highways will be completed in another two to three years. The completion. " of this important transport network will lead to a better integration of hitherto more or less localized small internal markets of the central hills with the industrial and agricultural surplus areas of the Eastern Terai and some parts of the Western Terai and eventually to a sustained an~ more rapid development of the regions. The construction work in the Dhangadhi, Dandeldhura road and the Kathmandu-Bhaktapur road is also proceeding well. In the field of electricity, the final stage of the Trisuli Hydel Project is now complete and works on 1he Sunkosi Hydo Project continue to run smoothly.

Programme budgeting system was introduced this year, which, we feel, has proved useful to make more effective use of our limited financial resources and technical manpower. We have also strengthened the accounting system, which has helped enforce fiscal discipline in the administration.

The next fiscal year is also the first year of our Fourth Plan. The policy directives set forth in the Fourth Plan have actually guided the investment policy and selection of projects proposed in the next year's budget. Emphasis has especially been given to such projects that promise early results in terms of increase in productivity and the rate of growth. Specifically, the following policy criteria have influenced the selection of projects and programmes while formulating the development budget for 1970/71:

(a) Maximum utilization of already completed projects or projects nearing completion and facilities already made available,
(b) Direct and early returns in terms of output of goods and services, (c) Concentration of resources in selected geographic regions,
(d) Increase in administrative and technical capability of the concerned departments to execute development projects more rapidly, and
(e) Emphasis upon research and survey activities concerning nation's physical resources such as water, forest, soil, and minerals.

Honourable Chairman, I now wish to describe briefly the development programme:; in the major sectors that will be undertaken under the next year's development budget. Agriculture: I need not reiterate the importance of agriculture at the present stage of our development. The priority assigned to the agricultural sector in the last three development plans reflects such recognition on the part of His Majesty's Government. However, while our past efforts have led to some successes in agricultural development, it has been evident that such efforts were too limited especially in view of the pervasive nature of the problem at hand. Our efforts in the field of agriculture have faced two specific bottlenecks, namely, (a) our continued ignorance about the type of improved seeds suitable to the soil and climatic conditions of different parts of the country and (b) our past attempts to spread the limited trained manpower and other resources too thinly over a wide area. In an attempt to mitigate the first problem, the pro- posed budget for the next fiscal year emphasizes research activities in agriculture. The agricultural research centres that are already under operation will be reorganized and made more effective. While research in food grains will continue to get priority, some major commercial crops will also be covered under this research programme. In order to end the practice of dispersing the limited resources over a wide area, agricultural development activities will now be concentrated in the 28 districts selected for intensive agricultural development under the Fourth Plan. The availability of irrigation and transport facilities has been the major criteria, which has influenced the selection of these districts for intensive development. These districts will now be provided with additional inputs of improved seeds, fertiliser and credit in systematic manner. The available agricultural extension workers will also be concentrated in these districts. The serious limitation of skilled manpower for agricultural extension work has prompted the upgrading of the agricultural school to an agricultural college. The Agricultural Development Bank will be strengthened through the provision of additional fund. The Land Reform Savings Corporation will start extensive credit activities at village level in three pilot districts selected from the 28 intensive development districts. In irrigation, emphasis has been given to the completion of the projects vender construction and to the survey of surface and ground water resources for irrigation. Since the large irrigation projects require a great deal of time to undertake pre-investment survey and to negotiate funds from external sources, irrigation programme for the next year is limited to some minor irrigation projects including some tube well irrigation.

Resettlement: In order to reduce the increasing pressure on the limited cultivable land in the hills, a programme of resettlement is underway whereby uneconomic forestland in the Terai is cleared for resettlement. This programme will be extended to two additional areas in the next fiscal year. These newly settled areas will be adequately provided with seeds, fertiliser and other agricultural inputs.

Forests: As a part of the forest development programme, work plans for better utilization of forest products have already been started in six divisions. These activities will be extended to two additional divisions in the next fiscal year. A comprehensive feasibility study regarding the possibilities of developing forest-based industries will be started next year.

Industry and Mining: The private sector industries have been receiving credit and other facilities from the Government in accordance with the industrial policy. The Nepal Industrial Development Corporation has not only granted loans to private enterprises but has also provided equity capital. During the next fiscal year, the Nepal Industrial Development Corporation will be provided with additional capital that would help the Corporation to expand its activities. The cottage and small-scale industries will receive financial assistance through the Department of Cottage Industries. The industrial estates at Hetauda and Balaju will also be provided with additional fund, which will lead to expansion of the central facilities provided by these estates to the private entrepreneurs. Major portion of the work for the establishment of new industrial estates at Dharan and Nepalgunj will be completed.

Special attention will be given to the development of raw materials such as jute, tobacco, tea, and sugarcane so that the limited supply of these raw materials does not arrest our efforts at industrialization. Jute being Nepal's major export commodity, a scheme is being implemented to modernize existing jute industries and to develop jute cultivation. In view of the possible breakthrough that mineral resources can bring to the Nepalese economy, more emphasis has now been given to geological survey.

Transport and Communications: In view of the need for building up infrastructure for rapid economic development, it is necessary that greater portion of total budget outlay be allocated for the development of transport, communications and power. A loan has been obtained from the International Development Association for telecommunications development and a separate board has been constituted to administer the telecommunications activities. Financial and technical assistance has also been obtained from the Asian Development Bank for the development of aviation in Nepal. The programme includes the construction and improvements of five airfields in Nepal. Two new STOL aircrafts will be acquired by the Royal Nepal Airlines Corporation, which should help link remote areas of Nepal. In addition, a training institute will be established through the assistance of the United Nations Development Fund for the training of skilled manpower necessary for the aviation and telecommunications programme.

As regards roads, construction of the Butwal-Kohalapur sector of the Mahendra Rajmarga will be started in the next fiscal year. However, it has now become necessary to give attention to the construction of more feeder roads, since the utilization and hence the benefits to be accrued from the trunk roads, that have either been completed or are under construction, will largely depend upon the feeder roads. Accordingly, a pre-investment survey of feeder roads throughout the Kingdom will be undertaken through the assistance of the United Nations Development Fund. The existing arrangement for development of roads suffers from a serious lack of organization and equipments for maintenance. This bottleneck will be partly eliminated through a loan assistance that is being obtained from the World Bank.

Power: Emphasis has now been given to the need of utilizing, to the full extent, the power that is already available rather than to the construction of new generating plants. The power development programme, therefore, consists mostly of projects related to transmission and distribution. The programme also includes projects for the electrification of some main urban centres. In view of the growing demand for power in the Biratnagar area and the need of agricultural development, survey work of the Kankai project has been started. This will be followed up by economic studies in the next fiscal year.

Education: In the field of education special emphasis has been given to technical and vocational training. Teacher training programme will be expanded in order to meet the growing: demand for trained teachers for primary and secondary schools. The adult education programme will be made work-oriented.

Health: In health, emphasis will be shifted to preventive health services; The existing hospitals and health centres will be improved. Additional health posts will be established in the Terai region for the follow up and consolidatory work following the malaria eradication programme. The family planning programme will be continued with greater intensity.

Drinking Water: Despite the efforts of His Majesty's Government, the limited resourceshave not made it possible to provide drinking water in all parts of the country. It is, therefore, necessary to launch a well co-ordinated drinking water programme on some selec- ted parts of the country. The size of the population, its density, and available water'supply will be the criteria on the basis of which areas will be selected for this purpose.

In view of the increasing population in the Kathmandu Valley, a Drinking Water and Sewerage Survey Project will be undertaken. The survey will result in the preparation of a master plan for supply of drinking water to Kathmandu, Patan and Bhaktapur for the next 30 years.

I have outlined above the major development programmes to be carried out in the next fiscal year. These programmes reflect our aspirations. However, economic development is a continuing process. We have with us the experience of the last fourteen year's development efforts. These experiences include the sweetness of our successes as well as the bitterness of our failures. In this long and arduous road to development, our limited knowledge and experience might still lead to some more mistakes. However, the task for us is to continuously learn from these mistakes and turn them into an asset that will lead to higher achievement. After all, this is the history of development of any society.

Honourable Chairman, now I would like to submit the summary statement of revenue and expenditure for the fiscal years 1968/69 and 1969/70.

The actual expenditure during 1968/69 amounted to Rs. 537.2 million: regular expenditure, Rs. 193 million and development expenditure, Rs. 344.2 million. This is far below the revised estimate of Rs. 593.7 million: regular expenditure, Rs. 201.5 million and development expenditure, Rs. 392.2 million. Revenue receipts amounted to Rs. 413 million as against the revised estimate of Rs; 402 million. There was, however, a shortfall in the receipt of foreign aid. As against the revised estimate of Rs. 214.2 million, the actual receipt of foreign aid amounted to Rs. 185.9 million. But the amount spent in the projects directly executed under the Indian aid programmes exceeded the budgetary allocation by Rs. 33.3 million: Rs. 2.7 million in irrigation, Rs. 23.8 million in transport and Rs. 6.8 million in electricity. If

this amount is also included, foreign aid receipt will be Rs. 219.1million and development expenditure, Rs 377.5 million. As against the anticipated surplus of Rs. 20.7 million, the actual surplus amounted to Rs. 61.7 million. Taking into account the receipt from the sale of development bonds of Rs. 19.6 million, Government cash balance increased by Rs. 81.3 million.

The estimated expenditure for fiscal year 1969/70 was Rs. 841 million: Rs. 232.8 million for regular expenditure and Rs. 608.2 million for development expenditure. But now, according to the revised figures, total expenditure is estimated to be Rs. 719.1 million: Rs. 224.6 million for regular expenditure and Rs. 494.5 million for development expenditure. A short-

fall is anticipated also in revenue receipt. As against the original anticipation of Rs. 442.3 .i million, the revenue receipt is now estimated at Rs. 435.9 million. This shortfall is mainly due to the quantitative restriction imposed by India on the export of some selected commodities to overseas countries as well as to India. Foreign aid receipt also fell to Rs. 268.4 million from the original estimate of Rs. 329.3 million. But in this year also, Rs. 21.9 million estimates expenditure in the projects directly executed by India to exceed the budgetary allocation: Rs. 14.4 million in irrigation and Rs. 7.5 million in electricity. If this amount is included, foreign aid receipt will amount to Rs. 290.3 million and development expenditure, Rs. 516.4 million. According to the revised estimate, the level of deficits will amount to Rs. 14.7 million as against the anticipated deficits of Rs. 69.4 million. Taking into account the receipt of Rs. 5.1 million from foreign loan and Rs. 20 million from the sale of development bonds, the cash balance is expected to increase by Rs. 10.4, million.

Honourable Chairman, now allow me to submit the estimate of revenue and expenditure for the fiscal year 1970/71. Revenue is estimated at Rs. 474.3 million which is higher by Rs. 38.4 million or 9 per cent over the revised estimate of 1969/70. Total expenditure is estimated at Rs. 973 million: regular expenditure, Rs. 340 million and development expenditure, Rs. 633 million. Compared to the revised estimate of 1969/70, the regular expenditure shows a phenomenal increase of Rs. 115.4 million. This increase is however, due largely to the adoption of the new definition of development expenditure. Following this new definition, most of the administrative expenses, expenses on buildings for general administrative, administrative grants, repayment of principal, subscriptions to international bodies, maintenance expenses and current expenditures of completed projects have been shifted from the development to the regular budget.

Of the total regular expenditure estimates for the fiscal year 1970/71, Rs. 17.4 million is allocated for constitutional organs, Rs. 58.7 million for general administration, Rs. 18.4 million for revenue administration, Rs. 4.6 million for economic administration and planing, Rs. 6.3 million for judicial administration, Rs. 16.5 million for foreign affairs and Rs. 60.6 million for defence. Of the total allocated sum of :Rs. 68.7 million for social services, Rs. 29.7 million will be spent on education, Rs. 14.6 million on health, Rs. 14.6 million on Panchayat and Rs. 9.8 million on drinking water and others. For economic services, Rs. 47.1 million has been allocated, of which Rs. 8.6 million is for agriculture and irriga- tion, Rs.23.9 million for transport, communications and electricity, Rs. 10.9 million for land reform, forests and cadastral survey and Rs. 3.7 million for industry and mining, and others. Rs. 18.1 million is allocated for investment, loan and interest payment and Rs. 23.6 million for miscellaneous items.

The increase in expenditure for the constitutional organs is for the payment of increased remunerations of members of the National Panchayat, completion of National Panchayat building and election expenses of the Election Commission. Increase in expenditure for general administration is due to the shift of administrative expenses and construction expenses from development budget, increase in the staff of district administration and payment of past dues on freight to the Royal Nepal Airlines Corporation. The increased allocations for ecologic administration and planning, social services and economic services are chiefly the result of shifting of expenditures from development budget. In economic administration and planning, all administrative expenses of the Central Bureau of Statistics have been shifted to the regular budget. In social services, administrative grants to educational institutions, current expenditures of all hospitals, health posts, and health centres, administrative expenditures of the Department of Information and Broadcasting, administrative &rants to district Panchayats and class organizations, current expenditure of the Panchayat Training Centres and operating expenses of drinking water projects have been shifted to the regular budget. In economic services, central directorate expenses of all agricultural departments including Resettlement Department, current expenditure of veterinary hospitals and commercial fish farms, administrative expenses of the Co-operative Department and its field offices, expenses of irrigation administration, expenses of Land Administration Department and its district offices, directorate expenses of the Land Reform Department and the Cadastral Survey Department, administrative expenses of Maintenance Survey, administrative expenses of industrial districts, Postal Department, Roads Department and Department of Aviation, operating expenses of power stations and current expenses of Hydrology and Meteorology Department have been shifted to regular budget. Advances by the Tejarath to Government employees are now incorporated in the regular budget. ,Repayment of loans is also shifted to .regular budget. Under miscellaneous heading, provisions for relined and maintenance expenses of buildings are included.

Since the estimates of regular and development budgets for the next year are prepared in accordance to the new definition mentioned in the Fourth Plan, these figures are not com- parable with the figures of this year's and past year's regular and development budgets,

The development expenditure for the fiscal year 1970/71 is estimated at Rs. 633 million . Of this amount, Rs. 520.2 million (82 per cent) is allocated for economic services, Rs. 98.6 million (16 per cent) for social services and Rs. 14.2 million (2 per cent) for economic administration and planning, and miscellaneous items.

In the social services sector, Rs. 41.1 million (6 per cent) will be spent on education, Rs. 36.4 million (6 per cent) on health, Rs. 11.4 million (2 per cent) on drinking water, Rs. 8.4 million (1 per cent) on Panchayat and Rs. 1.2 million (0.2 per cent) on other social ser- vices.

In the economic services sector, the largest allocation is made for the development of transport, communications and electricity. Out of the total development expenditure, 55 per cent or Rs. 346.8 million will be spent in these services. Agriculture and irrigation, and industry and mining are allotted Rs. 95.1 million (15 per cent) and Rs. 48.1 million (8 per cent) respectively. Under economic services sector, allocations for other services are: land reform, Rs 4.8 million (1 per cent); cadastral survey, Rs. 6.8 million (I per cent); forests, Rs. 15.2 million (2 per cent); and other economic services, Rs. 3.2 million (0.5 per cent).

The regular and development expenditures for 1970/71 are classified in accordance to the functional classification. It is hoped that this classification will allow the honourable members to have clearer understanding of the pattern of Government expenditures.

Honourable Chairman, I have submitted above the estimate of revenue and expenditure for the fiscal year 1970/7l.According to the estimate, revenue at existing rates will amount to Rs. 474.3 million and expenditure, Rs. 973 million. The foreign aid receipt is estimated at Rs. 332.8 million. As a result, there will be a deficit of Rs. 165.9 million. To meet the deficit 1 propose some additional taxes.

It is quite evident that every year more resources have to be mobilised domestically to meet the growing demand for resources for our increasing development activities. While mobilizing additional resources, effort has been made to design the tax measures consistent with the main objectives of economic development. With these objectives His Majesty's Government has formulated its tax policy on the following basis:

1. While collecting additional revenue, the tax burden will be distributed in such a way that those having more tax paying capacity will bear greater burden and those having less will bear lesser burden;

2. Tax policy being one of the major instruments of influencing the pace and direction of economic development, machinery, equipments and spare parts needed for investment are exempted from tax fully or partially; and

3. With a view to protect domestic infant industries from foreign competition, suitable protective tariff rates will be imposed.

Thus, machinery and equipments required for development are exempted from taxes or taxed only to the extent required for protection of domestic industries. Financial resources needed for development are collected, to the extent possible, on the basis of the principles of ability to pay. An attempt is, therefore, made to strike a balance between our requirement and our capacity.

Honourable Chairman, it is the policy of His Majesty's Government to abolish mono- poly contract system in production and distribution of country liquor and to encourage distillery industry. In pursuance of this policy, encouragement will be given to those who want to establish distillery industry and as far as possible contract system will not be allowed in areas where distillery industries exist. In areas where distilleries are not established, His Majesty's Government have introduced, on an experimental basis petty contract system by dividing tpe districts into blocks. The monopoly character of the contract system has benefited only a handful of persons and has also adversely affected Government revenue. The introduction of petty contract system has helped to collect more revenue and provide more business opportunities to local businessmen. In the next fiscal year, petty contract system will be introduced in more districts.

To develop leather and bristle industry, contract system on leather and bristle will be abolished in the next fiscal year.

Excise duty on cigarettes will be levied according to the following new rates :-

*Value of Cigarettes New Rate of Excise Duty Per* 1000 *Sticks Per* 1000 *Sticks Upto Rs. 20/- Rs. 10/- Upto .Rs. 30/- Rs. 13/- Above Rs. 30/- Rs. 15/-*

From this measure, an additional revenue of Rs. 7 million is estimated.

In order to simplify the procedure of excise duty collection and to provide facilities to duty payers, excise duties will be levied on small rice and oil mills up to 29 H. P. on flat rate basis.

Other rates of excise duties remain as before.

Honourable Chairman, customs duties have been raised on some luxury goods and to encourage domestic industries, duties have been raised on some imported goods competing with the products of indigenous industries.

Import duties on whisky, brandy and r}lm, gin, and vodka which were under different tariff heads have been put together under one heading and duty on these items will be levied at Rs. 330/ per L.P. gallon and 70 per cent. Surcharge or 300 per cent. of the value and 70 per cent. Surcharge. Similarly, separate headings set for vermouth, champagne, table wine and other types of wine have been cancelled and now duty will be levied on these items at Rs. 250/ per L. P. gallon and 35 per cent. surcharge or 175 per cent. of the value and 35 per cent. Surcharge. The existing 35 per cent. Surcharge Ol) beer has now been raised to 70 per cent. Import duties on all types of car, jeep, land rover, station wagon, van and microbus have been increased by about 50 per cent. on the existing ad valorem rates or by 75 per cent. on the existing specific rates. In addition to thii, 20 per cent. Surcharge will be levied. Similarly, on the import of motorcycle, scooter, three-wheel vehicle, duty has been increased by 12 to 14 per cent. But the duty on truck, lorry and pick-up used for public transport and development projects has been maintained as before. The duty including surcharge on nylon, terylene, Dacron and brocade has been increased by 6 to 15 per cent. and on metallic yarn by )3 per cent.

Honourable Chairman, as I have mentioned above, in order to protect and promote local industries import duty and surcharge on certain goods have been increased -I~ ~ The import duty on shoes has been raised by 2 per cent, on all kinds of furniture by 8 to

II per cent, on bolt and hinge by 7 per cent, on fruit juice, squash, jam, jelly etc. by 3 to 15 per cent and on tea by 5 per cent.

The import duty rates on cigarettes up to Rs. 10/- have been increased by 48 per cent and 5 per cent surcharge, upto Rs. 34/- by 35 per cent and above that by 40 per cent per thou- sand stick.

On the import of medicines, duty imposed on birth control medicines and allied goods has been waived out.

Keeping in view the importance of agricultural sector in the development of the country the existing exemption from duty granted to the import of tractors, spare parts of tractors, irrigation pumps, fertilizer and incubators has been continued.

In order to protect and encourage industries, concessional rate accorded to the import of industrial machines and electrical components of the machinery will be continued as before. Similarly on the import of jute batching oil and jute batching soap concessional duty of 1 per cent for industrial use will be accorded.

On the export side, with the abolition of contract system on leather and bristle, export duties on these items have been increased with a view to make available enough raw materials to local industries. Export duties on musk, mica, tiger and leopard skin have been increased. From the proposed changes of export and import duties an additional revenue of Rs. 4 million is estimated. Besides these, other duties will be as per schedules.

Honourable Chairman, the land revenue has been maintained at its present rate. The rate of registration fee also remains unchanged. But to provide concessions to those who need industrial and agricultural credit, registration fee has been exempted on loans and investment transactions of Nepal Industrial Development Corporation, Agricultural Development Bank and Land Reform Savings Corporation.

Honourable Chairman, for the development of agriculture and industry, sales tax is waived as before on machines, tools, equipments and spare parts to be used for agricultural production, industrial machinery and spare parts, Nepalese curio and ornaments prepared at cottage industry level, medicines, unprocessed food grains and educational materials of general use. Besides these, sales tax is also waived on handloom cloth. Under personal use exemption, only those items and in such quantity as specified in the bag and baggage customs exemption rule will be exempted from sales tax.

Sales tax on commodities, which hitherto were subject to the rate of 7 per cent, will be charged at the rate of 9 per cent. But the rate of sales tax on commodities which hitherto wer~ subject to 5 per cent will remain unchanged. In addition to these, sales tax will be levied on some commodities such as spirit, cinema carbon, synthetic leather goods, metallic yarns etc. as per schedules. From this, additional revenue of Rs. 9.6 million is estimated.

It is clarified that industries enjoying tax holidays are required to submit assessment forms and that such exemption is applicable to their own industrial income.

No increase has been made on other tax rates. The aim is to collect more revenue through more efficient administration and wider coverage.

Because of open border, there is the possibility of revenue leakage as a result of smuggling. ' To arrest such leakage strong administrative measures will be taken which will yield additional revenue.

The above proposed tax changes are of general nature. Food-grains and agricultural products, materials meant for industrial development are either exempt from customs and other taxes or even if levied they are negligible. Therefore, there is no possibility. of any adverse effect on the prices of these commodities. Though sales tax is raised on certain commodities, most of the essential commodities are unaffected and as such there need not be any rise in the price of such commodities. Taxes have been increased mainly on. Luxury and semi-luxury commodities. Therefore, there might be some rise in prices of such commodities. But it will be against the interest of the society to try to raise prices under this pretext. I appeal to all to co-operate to check the price rise. I would also like to make it clear that otherwise His Majesty's Government will have to take strong fiscal and administrative measures to maintain price level.

Honourable Chairman, the additional revenue from the above tax changes will be Rs. 20.6 million. This will leave a deficit of Rs. 145.3 million. External loan of Rs. 69.6 . million is expected. to be available. I propose to raise internal loan of Rs. .30 million. The deficit 0( Rs. 45.7 million will be met by drawing down cash balances.

Since the past three years, Government is running surplus budgets, resulting in an accumulation of cash balances, His Majesty's Government need not feel concerned about the lack of resources, given the present cash reserves. Reliance on cash reserve alone to meet this year's deficits may affect the economy adversely. For this reason, I have proposed some additional facilities to meet the deficit. In the coming year, the net deficit of Rs. 45.7 million wills be met by drawing down cash reserves. But the cash reserve will reutilised in such a ways to match the use of foreign exchange reserve, thereby avoiding adverse effects upon the economy. It should be noted that in the economy like ours, the effect of budget deficit is manifested on the balance of payments rather than on internal price level. In the context of rising foreign exchange reserve, the level of deficits proposed will not produce any adverse effect upon our economy.

From the above proposed steps, it is evident that His Majesty's Government is deter,; mined to' mobilize local resources to the maximum extent possible. But in a country like ours, which is in the initial stage of economic development internal resources alone, will not be sufficient. Therefore, as in the past years, financial and technical assistance provided by our friendly countries will play an important role in the next fiscal year as well. For the execution of projects under the next year's development budget, India, Peoples Republic of China *l: and the United States of America expect to contribute Rs .150.2 million, Rs. 65.3 million and 67.2 million respectively. Similarly aid will be available from the United Kingdom and the*

Soviet Union as in the last year. In the next fiscal year, Rs. 25.8 million is also expected from the United Nations Deployment Fund.

On behalf of His Majesty's Government of Nepal and the Nepalese people I express my gratitude to all our friendly countries and international agencies for their interest in the economic development of Nepal.

Honourable Chairman, now I present the estimate of earnings and expenditures 9f convertible foreign exchange for the fiscal year 1970/71.

The revised estimates of income and expenditure fcr the fiscal year 1969/70 a(e Rs. 250.5 million and Rs. 180.1 million respectively. These represent a fall of Rs. 13.1 million in income and a rise of Rs. 63.1 million in expenditure over the 1968/69 figures. As a result, a lower surplus of Rs. 70.4 million is expected as against the surplus of Rs. 146.6 million last year. Receipt from merchandise exports is estimated to decrease by Rs. 46.7 million to Rs. 90.6 million. This sharp drop in export receipts is primarily the result of uncertain atmosphere in industrial and commercial activities created by the inconclusive trade talks with the neighbouring country. The increase in expenditure is due chiefly to the marked increase in merchandise imports.

For the fiscal year 1970/71, income of convertible foreign exchange is expected to increase marginally by Rs. 1.5 million to Rs. 252 million but expenditure is estimated 10 go up fast by Rs. 104.7 million to Rs. 284.8 million. Receipt from merchandise exports is again estimated to decrease by Rs. 10.6 million to Rs. 80 million, whereas Rs. 17 million to Rs 37 million estimates income from invisible exports and foreign aid respectively. Expenditure on merchandise imports is expected to rise sharply by Rs. 83.3 million to Rs. 207.5 million. As a result of estimated sharp rise in expenditure, a deficit of Rs. 32.8 million is expected for the fiscal year 1970/71.

Honourable Chairman, I have submitted the estimate of revenue and expenditure and the programmes to be carried out under the next year's development budget. The fourth plan document, which will be implemented from the next year, has already been presented. The plan and the annual budget are the instruments designed to implement development programmes. But, however well designed a plan and a budget may be, it looses its significance if we fail to implement the programmes properly. The annual growth of government sector expenditures reflects our growing aspirations and whatever success we have achieved so far provides us encouragement. But there is still much that remains to be done. In the present stage of development, it is but natural that we should have ambitious objectives, but I would like to repeat that these objectives should conform to the reality of the country's situation and within the reach of our capability. The country has to progress step by step because economic development is a continuous process that has to pass through closely inter-related stages. To set over ambitious objectives that could not be attained may ultimately frustrate people, which, in the long run, may hamper the task of economic development.

Today the major bottleneck in promoting development is not so- much the lack of financial resources but rather a dearth of skilled technical and administrative manpower. Our own history of development, however short it may be, proves that it takes time to acquire the needed degree of know-how both technical and managerial. Administrative machinery in Nepal has a short history as is the case with our efforts to launch development programmes and yet we must admit that it has made considerable progress and has contributed significantly to the progress the country has achieved. We should however continue to take measures that will add to its effectiveness through added incentives.

The annual budget is, in fact, an indicator of the country's problems, needs and available resources. It is an instrument by which we direct our efforts to achieve the desired objectives in disciplined manner. Today the country is moving towards a well-defined goal. The Panchayat system has clearly defined the duties and responsibilities of the Panchas, thereby arousing a sense of active participation in the country's developmental efforts. Development of the country is the responsibility of each and every Nepalese. In this, everyone is an active partner and contributes either through promoting his personal business, participating in industrial enterprise or by taking active part in government-sponsored projects. All Nepalese who aspire for the country's better future is not isolated from this process? With the belief that faithful implementation of the policies and programmes set forth in the proposed budget is possible, I conclude my speech.

Thanking you.