BUDGET SPEECH

OF

THE FISCAL YEAR

1968-69

The text of the Budget Speech Delivered by the honourable Finance Minister Surya Bahadur Thapa to the Rastriaya

Panchayat on 5th July' 1968

Honourable Chairman,

An economic survey for the year 1967-68 was presented before the House in which an analysis of current economic problems as well as our achievements was discussed. The details of current economic situation could be understood from the report. I would, however, like to review briefly the major economic events as well as policies to be adopted during the coming fiscal year before submitting the budget.

Honourable Chairman, it gives me great satisfaction to state that there has been considerable improvement in the economic situation of the country. While presenting the supplementary budget a few months ago, I had pointed out the difficult economic situation the country had faced and the measures government had adopted to solve them. I consider it appropriate to indicate that those measures have been effective in bringing about gradual improvement in the economy and that an atmosphere conducive to rapid development for future has been created. I wish to deal briefly with certain aspects of economic condition before I submit the details of the budget.

Following the devaluation and other economic measures adopted along with it, there has been marked improvement in both domestic as well as external trade and in the foreign exchange reserve position. Markets along the Terai border regions have flourished again, our external trade have been expanding and foreign exchange reserves have started to increase. The gold and foreign exchange reserve held by the Nepal Rastra Bank has increased by Rs 139.6 million during the 7-month period following the devaluation. This increase can be attributed largely to the increase in overseas trade and higher net purchase of Indian rupees. In mid-June 1968, gold and foreign exchange reserves held by the Rastra Bank amounted to Rs 598.7 million of which Rs. 94 million was in gold, Rs. 373.6 million in convertible currencies and Rs. 130.8 million in Indian rupees. During the period between mid-December 1967 and mid-March 1968, fixed and savings deposits with the commercial Banks increased by 30 percent. These developments indicate the growing confidence of our people in our own currency, which will result in greater mobilization of resources for development purposes. The above developments are, needless to say, significant for the long- range development of the country.

The production of food grain and that of cash crop is estimated to have increased by 9 percent and 8.9 percent respectively as the result of various measures taken to improve agriculture and of favourable weather condition as well. In the first eleven months of the current fiscal year, 16,000 metric tons of chemical fertilizer, 3,850 metric tons of improved seeds and 1,980 pieces of agricultural implements were supplied to farmers. A total of Rs. 6 million for minor irrigation and Rs. 14.4 million for major irrigation schemes were estimated to have been spent during this year. In order to expand and intensify agricultural facilities, an Agricultural Development Bank was set up during the year. The Agricultural Tools Factory has started production and the construction of storages in Kathmandu and Birgunj has been completed.

Industries that faced set backs last year are expected to improve their production during this year. In the private sector, some industries were established. The Cigarette Factory in Janakpur is for the first time running at a profit. The Brick, and Tile Factory in Kathmandu has already started its production.

Construction of major highways like Mahendra Raj Marg, Siddhartha Raj Marg and Prithvi Raj Marg are progressing satisfactorily. The distribution of power generated from various plants is under way.

Program to extend banking facilities throughout the country is progressing satisfactorily. A National Insurance Corporation has started functioning, which will help checking the outflow of capital in the form of insurance premium.

Honourable Chairman, from what I have said above, I do not mean to imply that the road to progress is easy or that there are no obstacles on the way. Our achievements have been encouraging but our problems are much more difficult. Agriculture, which is the source of the livelihood of majority of our population, has been accorded top priority consistently in our plans. Yet progress in this sector is limited. The major burden of increasing agricultural production lies in the hands of the tillers. Though His Majesty's Government, in the last few years, made serious attempts to provide facilities such as irrigation, fertilizer, improved seeds, agricultural implements and agricultural credit, we realize our attempts are still inadequate. As a result of good harvest in neighbouring countries, prices of agricultural products are gradually decreasing. Such a decrease in prices of our major export items can have adverse effects upon the level of income, employment and balance of payments. During this year, devaluation has helped to neutralize some of the effects. Due to the increase in population as well as in the level of investments, it is evident that our import, especially that of capital goods, will continue to rise. In order to finance the rapidly increasing volume of imports we have to expand our export earnings. Since bulk of our export comes from the agricultural sector, it has become imperative that we aim at substantial increase in agricultural production.

There has been a tendency for money supply to increase since the last few months. This year during the 4 months between mid-December 1967 to mid-March 1968, money supply increased by 16 percent. Though the rate of growth this year compares favourably with that of the last year, it deserves serious attention for the future. The rise in the foreign exchange holdings and the level of credit extended to the private sector contributed to such an increase. During the current year fiscal policy did not have expansionary effect upon the money supply as a result of improvements in government finance. Part of the increase in the money supply can be attributed to the rapidly expanding market economy and the motorisation of the barter areas. However, if the money supply increases at a rapid rate, it will be difficult to achieve the objectives of economic development. During the next year, we shall seek to co-ordinate fiscal and monetary tools in order that money supply does not expand beyond 15 percent.

In the light of above discussion, I would now briefly discuss certain policy measures to be adopted by His Majesty's Government during the next fiscal year. The main objective of all economic efforts will be to increase production. Therefore, we intend to concentrate in completing the existing schemes or to run the completed projects in their full capacity before undertaking new projects. The limited resources will thus be concentrated in projects that are already under way or completed.

I have indicated above that agriculture will be accorded top priority. Development of agriculture, however, is as difficult as it is important. The role of His Majesty's Government in agricultural development is one of assisting the peasants through the provisions of various facilities and know-how. Besides, without increase in marketing facilities of farm products, tillers cannot get the full benefit of their labour. Therefore, along with agriculture, development of transport will be accorded priority; but such development will be based primarily on the needs of agricultural development. Land Reform program has been initiated with the view to provide incentive to the farmers to increase the production. His Majesty's Government is fully aware of the need to make the present land reform program more effective and progressive. Along with these, resources will be made available to the Agricultural Supply Corporation and the Agricultural Development Bank in: order to extend facilities to the farmers. Agriculture, therefore, will be accorded top priority in the formulation of schemes in future.

In the industrial field, His Majesty's Government will adopt the policy of running the existing industries more effectively and in their full capacity through the provision of capital and know-how. In order to promote industrial development in the private sector, His Majesty's Government has continued to provide various incentives including exemption from tax, excise and customs as a measure to protect them from foreign competition. The government is aware that such a protective policy has also encouraged industries that do not serve our national purpose, i.e., industries that do not fall in high order of priority in national development. It is not the policy of His Majesty's Government to provide continued protection to such industries that can exist only under monopolistic condition or under heavy protection. Only industries that will give lasting benefits to the economy and can stand on their own would receive protection. We feel that the time has come to evaluate carefully this issue and to provide protection on a selective basis only to such industries that are vital to the national development. His Majesty's Government will be guided by this consideration in developing industries in the future.

In the field of power development, efforts will be made to increase power supply by completing the continuing schemes and increasing the capacity of completed ones. In the field of transport development, we shall seek to expand services through early completion of the continuing schemes. Social services will be consolidated at the present level except for family planning, which will be accorded high priority.

Development programs initiated by His Majesty's Government is only one aspect of the national development. In fact, major burden of national development lies in the private sector in agriculture, industry or in commerce. In order to render more services in all these activities, financial, commercial, and monetary institutions will be provided with larger resources so that they could increase their scope of activities and function with greater effectiveness. Emphasis will be placed in strengthening such institutions in future. In the context of increases in foreign exchange holdings, we shall adopt a policy of making greater use of these resources for national development instead of investing them in foreign countries at lower rate of interest.

In the Panchayat system, we find co-existence of private, public and co-operative sectors. I have mentioned above the measures that will be taken by the government to run projects more effectively and to increase facilities for the private sector development. Panchayat at various levels have taken praiseworthy steps to be self-sufficient and yet it is evident that Panchayat programs have to be made much more effective. His Majesty's Government considered it a duty to assist Panchayat and class organizations at various levels to make their role effective. While presenting supplementary budget, I had mentioned that review would be made of the progress made by Panchayat in local development in order to outline future policies. Our experience to date shows that, Panchayat have extensive powers to raise local taxes and yet we cannot find examples where Panchayat have collected taxes in planned manner Or effectively utilized the taxes so co1lected. His Majesty's Government will review the existing authority of Panchayats to raise taxes and formulate regulation so that their future work will be consistent with the cover-all fiscal policy of the government.

In order to ensure that assistance received by Panchayats in the form of grants are utilized in a planned manner, all future grants will be sanctioned on a project basis. Special attention will be paid to the recommendations made by the Administrative Reform Commission that projects worthy of government grants should be productive and that they must be available for timely audit.

Though attempts have been made to strike a balance in developing different parts of the country, there are areas, which are yet untouched by the crosscurrent of modern changes. During the next year, special attempts will be made to develop certain areas, which have been left untouched until now. Balanced regional development will be the guiding principle in formulating future plans and programs.

Honourable Chairman, now I present the summary report of the economic transaction of the Government sector in the fiscal year 1966-67. The actual revenue during the year is mounted to Rs, 256.7 million as against the revised estimate of Rs.305.5 million. Thus, the actual revenue was 16 percent lower than the revised estimate. The revenues, particularly from customs, excises and land revenue fel1 far behind the expectation. The revenue was, however, higher by Rs. 40.2 mil1ion or 19 percent in comparison to the actual revenue of 1965-66.

The actual regular and development expenditures amounted to Rs. 170.6 mil1ion and Rs. 268.2 mil1ion respectively as against the revised estimate of Rs. 183.3 mil1ion and Rs. 309.5 mil1ion. Thus, there was a shortfal1 of about 11 percent in the total expenditures as compared to the revised estimate. The contributions of His Majesty's Government and foreign aid to the development expenditure were Rs. 126.0 mil1ion and Rs. 142.2 mil1ion respectively as against the revised estimate of Rs. 142.9 mil1ion and Rs. 166.6 million respectively.

But compared to the actual for 1965-66, the regular expenditures increased by Rs. 23.3 mil1ion or 16 percent whereas the development expenditures fel1 by Rs. 12.6 million or 4 percent. One of the reasons for this shortfall was due to the decrease in foreign aid receipts by Rs. 33.1 mil1ion from the level of Rs. 175.3 mil1ion in 1965-66. However, His Majesty's Government's contribution to the development expenditures was high by Rs. 20.5 million. The actual deficit amounted to Rs. 39.9 mil1ion as against the revised estimate of Rs. 20.7 mil1ion. Of the deficits, Rs. 3.7 mil1ion was met by foreign loan, Rs. 0.7 mil1ion by the issue of prize bonds and the remaining Rs. 35.5 mil1ion by drawing down the cash balances.

As against the revenue of Rs. 307.0 mil1ion estimated in the supplementary budget, the revised estimate is placed at Rs. 306.8 mil1ion for the current fiscal year. This amount is higher by Rs. 50.1 mil1ion or 20 percent compared to the actual revenue of 1966-67.

The estimate of the regular expenditure was Rs. 200.6 mil1ion and according to the revised estimate it wil1 be Rs. 186.0 mil1ion or 93 percent of the original estimate. On the development part of the budget, the revised estimate of expenditure is placed at Rs. 295.1 million as against the original estimate of Rs. 370.6 million or 80 percent of the original estimate.

In comparison to the actual expenditure of 1966-67, the revised estimate of 1967-68 will be higher by Rs. 15.4 million or 9 percent and by Rs. 26.9 million or 10 percent in the regular and development parts of the budget respectively. As regards the sources of financing the development expenditure, originally His Majesty's Government's contribution was estimated to be Rs. 144.3 million and foreign aid contribution to be Rs. 226.3 million, but according to the revised estimate the contribution of His Majesty's Government 3.nd foreign aid I will be Rs. 127.5 million and Rs. 167.6 million respectively.

But as compared to the actual I of 1966-67, His Majesty's Government contribution will be higher by Rs. 1.5 million and foreign aid contribution by Rs. 25.4 million.

As against tile deficit of Rs. 38 million anticipated in the supplementary budget, it is now estimated that the deficits will amount to Rs. 6.7 million only. When presenting the supplementary budget, I had assured this House to reduce the magnitude of deficits as far as possible through strict financial control so as to avoid excessive monetary expansion and other accompanying problems like price rise. Accordingly, restraints were put upon unnecessary expenditures. Taking account of the issue of new development bonds amounting to Rs. 10 million, the gross surplus will amount to Rs. 9.8 million. But taking into account of Rs. 6.5 million cash balances of the last year lying in the projects to be spent in the current year, the net surplus will amount to Rs. 3.3 million.

Honourable Chairman, now I present the estimate of revenue and expenditure for the fiscal year 1968-69. Compared with the revised estimate of 1967-68 the revenue at existing tax rates is estimated to increase by Rs. 33.6 million or 11 percent to Rs. 340.4 million. The foreign aid receipt is expected to increase by Rs. 108.8 million Or 65 percent to Rs. 276.4 million. On the expenditure side, regular expenditure is estimated to increase by Rs. 23 million or 12 percent to Rs. 209 million and development expenditure by Rs. 163.3 million or 55 percent to Rs. 458.4 million.

Out of the estimated increase of revenue by Rs. 33.6 million from the existing tax rates, the receipts from customs, land revenue, taxes and excises are expected to increase by Rs. 12.4 million, Rs. 7.5 million, Rs. 6.5 million and Rs. 3.5 million respectively. Similarly receipts from the Government trading departments such as irrigation and water supply, and transport and communications are estimated to yield Rs. 2.3 million more, and additional receipts of Rs. 1.2 and Rs. 0.2 million are expected from forest, and interest and dividend respectively. There will be no change in the receipts from registration, civil administration and miscellaneous items.

Out of the additional expenditure of Rs. 23 million on the regular part of the budget, 24 percent is allocated to defence, 16 percent each to civil administration and social services, 13 percent to economic services, 6 percent to foreign services, 5 percent each to economic administration and planning, and miscellaneous, 4 percent to constitutional bodies and 2 percent to judiciary. Of the additional provision of Rs. 0.9 million made for constitutional bodies, expenditure 9n all heads will increase except on His Majesty and Royal Family and Election Commission. On general administration, additional provision of Rs. 4.2 million is made for police but the expenditures on Council of Ministers and miscellaneous heads have been reduced. Expenditure on revenue and tax administration is expected to increase by Rs. 2.9 million, particularly for the improvement of customs and excise administration. Out of the add1tional provision of Rs. 1.1 million on economic administration and planning, a greater proportion is allocated for Mint and Accountant General Office. Similarly on judiciary and foreign services, Rs. 0.4 million and Rs. 1.3 million more will be spent respectively. On the social services sector, Rs. 1.2 million more will be spent on education, Rs. 1.1 million on health ~s. 0.2 million on publicity and broadcasting and Rs. 1.1 million on Panchayat.

On the economic services sector, expenditures will be increased by Rs. 0.1 million on agriculture, Rs. 0.3 million on forest, Rs. 0.6 million on communications and Rs. 1.9 million on investment, loan and interest. But the expenditures on industry and commerce, transport, electricity and construction have been estimated to be lower. On defence, and additional expenditure of Rs. 5.5 million has been allocated. An additional amount of Rs. 1.1 million will be spent on miscellaneous items excepting compensation and contingencies.

The necessity of allocating more expenditure on the Department of Auditor General, Public Service Commission and Panchayat is mainly due to the creation of additional posts in view of the workloads. In the heads of revenue administration and foreign services expenditure has increased for the sake of clearing the old dues. In case of Mint expenditure has risen because of the transfer of expenditure for the existing development budget to the regular part of the budget. An additional amount has been included in the budget heads of investment, loan and interest for the payment of interest on internal loan. But in the other budget heads additional funds have been allocated specially to meet the increment in annual allowances and travelling allowances.

Out of the additional development expenditure amounting to Rs.163.3million, 87 percent has been allocated for economic services, 12 percent for social services and 1 percent for economic administration and planning. On the economic services sector, Rs. 93.5 million more will be spent on construction, Rs. 32.7 million on investment, loan and interest, Rs. 7.4 million on agriculture, Rs. 3.9 million on transport. Rs. 2.9million on communication, Rs. 2.2 million on forest, Rs. 0.2 million on commerce and industry and Rs. 40 thousand on engineering. But expenditure on electricity has been reduced by 0.5 million. On the social services sector, Rs. 7.6 million more will be spent on health, 7.4 million on education, Rs. 4.6 million on Panchayat and Rs. 0.4 million on publicity and broadcasting. Rs. 1.9 million will increase expenditure on economic administration and Rs. 1.1 million will reduce planning and expenditures on miscellaneous items.

In keeping with the priority given to the agricultural sector, expenditures on agriculture and irrigation have been increased. Expenditures on education and health have been increased mainly because of the increase in expenditure on the Tribhuvan University arid Budhanilakantha model school, establishment of maternity hospitals in the different parts of the country, and increase in expenditure of family planning. Additional funds have to be allocated for interest, loan and investment to make repayment of loans to U. S. S. R. amounting to Rs. 12.0 million and to redeem the development bonds amounting to Rs. 13.1 million during the coming fiscal year. Expenditure on Panchayat has also increased mainly due to an increase of Rs. 4.0 million for local development. On transport and communications, additional amounts have been set aside for civil aviation and for trunk telephone lines. On the head of construction, additional funds have been allocated for completing the construction of the Siddhartha Raj Marg. Construction work in the Dhangadi-Dadeldhura-Doti road will be stepped up in the coming fiscal year and for this provisions of additional funds have been made. In comparison to the revised estimate, there will be no change in the expenditure on industry. But funds have been provided for the completion of the remaining construction works in industries such as Brick and Tile Factory and the Agricultural Tools Factory, and also for the operation cost of these industries for four months. Besides, Rs. 10 million has been set aside for extending loan to industries and enterprises running at low capacity owing to the difficulties in getting working capital.

His Majesty's Government's contribution to the development budget will be Rs. 182.0 million or 40 percent of the total development expenditure. In comparison to the revised estimates for 1966-67, this amount is higher by Rs. 54.5 million or 43 percent. As regards the contribution made by the aiding countries to the development part of the budget, Rs. 145.8 million or 32 percent will be received from India, Rs. 61.2 million or 13 percent from China, Rs. 59.3 million or 13 percent from U. S. A., and Rs. 10.1 million or 2 percent from U. S. S. R., U. K., Switzerland and UNESCO. In this occasion, 1 would like to take the opportunity of thanking all the friendly countries and the international institutions for their help in our development efforts.

Honourable Chairman, as I have mentioned above, the total estimated expenditure is Rs. 667. 4 million and the revenue are estimated to be Rs. 340. 4 million calculated on the basis of the existing tax rates, and Rs. 276. 4 million is expected as foreign aid, so I now present proposals for some new taxes in order to meet the estimated deficit of Rs. 50.60 million.

The changes in the tax rates ~re proposed with a view to meet the following objectives: (I) simplification of the procedures of revenue administration, (2) enabling domestic products to stand in fair competition with the imported commodities, (3) discouraging expenditures on luxuries resulting from enhanced purchasing capacity of the people, (4) generating more revenue to meet the requirements of the development projects. Among these objectives, special attention will be devoted to make revenue administration more comprehensive, effective and simple. The tariff schedules have been simplified to some extent and further studies will be undertaken on the subject. Similarly, efforts will be continued to bring about changes in the administration of other taxes with a view to minimize any harassment encountered by the tax-payers and to enlarge the coverage of effective administration. Economists, people's representatives and taxpayers will be consulted to make the tax schedules and the revenue administration scientific, practical and oriented to the economic situation of the country.

Honourable Chairman, in view of the past experience of excessive increase in the custom rates promoting tendency towards evasion of customs duties and in pursuance of the new monetary policy, many of the surcharges were abolished in the last December. The effect of the abolition of those surcharges is conspicuously visible in the form of increased commercial activities in our markets adjacent to the southern borders. However, as all nationals at all levels must contribute to the development of the country, His Majesty's Government has accepted the recommendation made by the Economic Advisory Council to re-impose a few of those surcharges at reasonable rates. These surcharges are either equal to or less than the rates of the fiscal year 1965-66. If we consider the then prevailing exchange rate of the Nepalese currency and the present exchange rate, the proposed surcharges will be still less than the surcharges of that year. Similarly, His Majesty's Government has accepted the recommendation of the Economic Advisory Council to impose excise duty on some commodities manufactured or processed in the country.

Besides, unless some reasonable return is realized of the investment made by His Majesty's Government in the last several years in the various projects, it will be difficult to expand the sphere of such projects. It has become necessary to make adjustments in the existing rates of the postal, civil aviation, and telephone services.

Honourable Chairman, in view of the objectives and bases, which I have outlined, I, now, present details of the changes made in various taxes for the coming fiscal year.

On the customs side, surcharges on import duties have been imposed at the rate of 2 percent on cotton textiles, 3 percent on woollen, silken, nylon and terrylene cloths, 5 percent on tea, coffee, and cocoa, 5 percent on nylon buttons, 2 percent on washing soap, 5 percent on toilet soap, 5 percent on dry batteries, 5 percent on all glass materials, except on powered lens and glasses to be used in the laboratories, and 5 percent on porcelain, plastic and rubber materials. Import duties on cars have been increased by 18 to 30 percent, on tin containers by 2 percent, on fasteners by 4 percent, and on hard wares by 2.5 percent. Import duty at the rate of 5 percent on raw meat has also been imposed. On the commodities imported from overseas, import duties at the rate of Rs. 78/- per quintal on sugar, and Rs. 400/- per ton on cold rolled sheets have been imposed. Similarly import duties on camera, films, transistor radios and tape recorders have been increased by 5 percent and on artificial ornaments and sunglasses by 10 percent. The temporary import duties on buses and trucks have been fixed at Rs. 20/- per day and motorcycles at 50 paisa per day.

On the export side, duties have been raised by 1 paisa per kilogram on paddy, maize, wheat and oat, by 5 paisa per kilogram on mustard, sesame, etc., by 3 paisa on linseed, and by 2 percent on bide leaves.

As import duties on some agricultural products like maize, oats, millets, etc. have been less than the export duties on these items, the import duties on those items have been made either higher than or equal to the export duties with a view to provide more incentive to the agriculture sector. Further, some increases have been made on the import duties on such items, which the national industries are in a position to produce in sufficient quantity. Exemption from import duties on fertilizers have been continued and tractors for agricultural purposes have also been so exempted. Besides the remission on import duty granted on diesel used for agriculture purposes will be continued during this fiscal year as well, while exemption from import duty has been granted to pumps and related materials used for irrigation.

Import duty on some medicine has been reduced to 1 percent from the present 2 percent rate. In order to encourage processing industries, import duty on empty bottles has been reduced by 6 percent. In connection with the "Back to the Village" national program, the import duty on all kinds of cotton yarn has been fixed at 1 percent and complete exemption from import duties has been granted on spinning wheels and hand looms.

As the existing custom schedules contain various columns for duty rates and surcharge rates, thereby causing much inconvenience, only two columns for the custom duty rate and the surcharge rate respectively are being provided in the new schedule.

In accordance with the provision of the Trade Agreement existing between Nepal and India, the rate of import duty on goods imported from third country has to be at least equivalent to the excise duty imposed in India on similar goods, some upward adjustments have been made in keeping with the new exchange rate of the Nepalese currency, and so some increment in the duty rates have become visible in the schedule. On the recommendation of the Customs Co-operative Council, many of its member nations have defined "value" as the value taken at the place and time of Import of the goods. Henceforth, this definition of "value" will be adopted in this country as well. In other words, the value of the goods shall be assessed on the basis of the actual cost and the freight and the insurance charges, incurred up to the border of the kingdom.

In other cases, the customs tariff rates will apply as per the schedules. The old schedules have been abolished as from today.

It is estimated that the changes in the tariff rates will yield extra revenue of Rs, 10.6 million. ,

Our country is in an initial stage of industrialization. Therefore, it has not been possible to raise more revenue from the excise duty. However, since the existing industries are expected to effectively contribute a certain portion to the development of the country and the only industry in considerable number are the food processing industries, henceforth an excise duty at the rate of 1 paisa per kilogram shall be realized from the rice mills on their products. Similarly, excise duties have been imposed at the rate of 1 rupee per 1 thousand on kiln bricks, at Rs. 13.36 per quintal on Khan sari (unrefined sugar), at 3 percent ad vale ram, instead of the present duty rates, on cloths made out of artificial yarn and at Rs. 1.25 per 1 thousand on bidi. As a sudden escalation last year on the duty rates on some of the agricultural products has led to the avoidance of excise duty m large number resulting in the frustration of the declared objective thereon, the excise duty on those product shall be realized at the rate of Rs. 3,500 per bigha in the coming fiscal year. It has been estimated that these adjustments in the excise rates will yield Rs. 4.5 million as additional revenue. During the coming fiscal year, effective steps will be taken to abolish the monopoly system based on lump-sum contracts in respect of certain raw materials and distillery products and efforts will be made to encourage the establishment of industries utilizing these materials Duty rates, other than those which have been hereby changed, shall continue at the existing rates.

On the taxation side, it is felt that instead of increasing the tax rates, the tax administration should be simplified and made more comprehensive. The exemption rates on the net income of individuals, married couples, families, firms limited companies and corporations have been maintained at the existing rates but the income tax rates have been fixed as follows:

Up to Rs. 10 thousand 7%
" next 10 thousand 10%
" " 10 thousand 20%
" " 10 thousand 35 %
Up to any amount thereafter 55 %

Individuals, firms or companies in residence for a period of less than one hundred and eighty days in a year shall not be entitled to any exemption and they shall have to pay income tax at the following rates:

Up to Rs. 10 thousand 15 %
" next 15 thousand 25 %
" " 15 thousand 35 %
Up to any amount thereafter 55 %

Regarding the sales tax, the existing rates have been maintained but some commodities have been shifted from one schedule to the other. However, canned foodstuffs excepting baby food, tea, coffee, nuts and dry fruits, etc., shall be subject to the sales tax as per schedule 'A' with effect from today.

All other taxes have been retained at the existing rates.

During the coming fiscal year, efforts will be made to make the tax assessment procedures brief, simple and free from undue harassment. These efforts combined with the changes that are being made in the tax rates are estimated to give additional revenue of Rs. 6.5 mil1ion. The land revenue rates and the registrations fees have been kept at the existing rates for the present.

In order to make the postal services paying and to expand its sphere, the postal charge for letters within Nepal and to India weighing up to fifteen gram will be raised from 15 paisa to 25 paisa from the new fiscal year. Other postal rates will be increased in the same proportion. This is estimated to yield an additional revenue of Rs. 0.8 million.

With regard to the telephone charges, commencing from the fiscal year of 1968-69, the monthly rate shall be Rs. 40 per month, with one hundred calls per month free of charges, and for each call thereafter, charges at the rate of 20 paisa per call shall be made. This is estimated to bring Rs. 1.4 million as additional revenue.

During the next fiscal year water rates in Kathmandu shall be realized at the rate of Rs. 7 per month for one-half-inch diameter pipe and Rs.2per month for each of its branch lines. Wherever a meter has been installed on the water supply line, charges will be made at the rate of 1 paisa for every 20 litre or at the above mentioned monthly rate, whichever is higher, provided that the public hydrants and those used in the government buildings shall be exempted from such charges. This change in the rate is estimated to give an additional revenue of Rs. 0.2 million.

In the civil aviation service, landing rates for international flights will henceforth be Rs. 60 and Rs. loo respectively for D.C.-3 and the like aircrafts and for F-27 and the like aircrafts. The existing landing charges in respect of the internal flights will continue. Parking charges for all types of aircraft shall be Rs. 50. The airport tax will be Rs. 10 for each person in international flights. These changes are estimated to bring Rs. 0.6 million as additional revenue.

Honourable Chairman, His Majesty's Government has been making investment in the various projects in the country every year from local as well as from friendly foreign aid resources. His Majesty's Government is of the opinion that the time has come when the investments should show visible benefits in the form of additional revenue of the country. The Government further feels that indefinite reliance mainly on the increment of the customs rates and the land revenue rates for additional revenue is not a good thing. In the coming fiscal year a Revenue Board of the concerned administrative officials will be formed to under- take analytical studies of the investments made by His Majesty's Government and to find out the basic reasons why these investments are not giving due returns to the government and to take measures to obtain a fair return from the investments on such commercial undertaking.

In this way, although estimated additional revenue of Rs. 24.6 million will be obtained from the additional revenue there will still be a deficit of Rs. 26.0 million. Out of this to make up an amount of Rs. 20 million, I propose to Boat a long-term development bond of Rs. 20 million. This year's budget provides from the repayment of loans of Rs. 26.4 million. The present proposed loan being of Rs. 20 million only, His Majesty's Government's total burden of debt will be reduced by Rs. 6. 4 million. The remaining deficit of Rs. 6.0 million, if not balanced by savings in expenditures in keeping with past experiences, will be met out of the reserve fund.

Honourable Chairman now I present the estimates of foreign exchange earnings and expenditures for the fiscal year 1968-69. I have already mentioned above that the foreign exchange reserve has been rising rapidly after the devaluation of the rupee.

The revised estimate of convertible foreign exchange earnings for the fiscal year 1967-68 is Rs. 220.4 million as against the original estimate of Rs. 100 million. In the expenditure side, as against the original estimate of Rs. 94 million, the revised estimate is Rs. 113.4 million; the surplus thus will be Rs. 107 million as against the original estimate of Rs. 6 million. One of the reasons for the wide disparity between the original estimate and the revised estimate is due to the valuation of the transactions for the remaining part of the post-devaluation period of the current year at the new exchange rate. In comparison to the actual of 1966-67, the earnings and expenditures will increase by Rs. 98 million or 80 percent and by Rs. 42.8 million or 58 percent respectively. There was a surplus of Rs. 50.8 million in the previous fiscal year.

As compared to that of previous year, receipts have increased from almost all the sources of earnings. The receipts from merchandise exports are estimated to have increased by Rs. 36.5 million to Rs. 94 million. The rapid increase in receipts from merchandise exports is quite encouraging. It is also an indicator of the success of our trade policy to diversify our foreign trade and increase our exports. Similarly, there has been a marked increase in receipts from tourism. As the earnings from our traditional sources of invisible exports are limited and have shown a declining tendency, tourism has to be the main source of foreign exchange earnings. His Majesty's Government, thus has given attention to the development of Tourism. Necessary steps have been undertaken to develop aviation and hotel facilities to attract more tourists in the country. Thus it can be expected that tourism will be the main source of foreign exchange earnings in future. The receipts from the miscellaneous heads will also increase by Rs. 4.5 million. Thus the receipts from all sources have increased. The expenditures have also gone up by 58 percent as compared to the last year. Such a marked Increase in expenditures is partly due to the provision made for export bonuses amounting to Rs. 61.5 million this year. This year His Majesty's Government did not have to utilize the-foreign exchange fund, which was earmarked for the import of consumption goods with a view to, stabilize price level as the necessary consumer's goods were imported out of export bonus entitlements.

The income and expenditure of convertible foreign exchange for the fiscal year 1968- 69 are estimated at Rs. 215 million and Rs. 164.8 million respectively. The earnings in the coming year seem to be lower as compared to that of the current year. This is partly due to the estimation of lower foreign aid receipts in convertible currency in the coming fiscal year. But the receipts from merchandise exports and tourism are expected to be higher than the current year. The reason for the rise in expenditure this year is partly due to the devaluation and partly due to the necessity of importing more capital and consumer's goods. It has been estimated that there will be a surplus of Rs. 50 .2 million in the coming year.

Honourable Chairman, we had taken some major economic decisions like the de- valuation of our Currency during the current fiscal year. While making an evaluation of the economic programs of the current year, I had mentioned about the improvements in the economic situation that have taken place after the devaluation. Keeping in mind that the economic policies have to be adjusted with the changing situation. His Majesty's Government adopted a variety of measures including the devaluation of the currency. The consequent events following the devaluation showed the effectiveness of these measures. These measures will be further consolidated and made more effective in the coming year.

I have already mentioned that because of the improvement in the fiscal situation, we have been in a position to step up the level of development expenditure in the coming fiscal year. The next year being the fourth year of the Third Plan, it has become necessary to increase substantially the present level of development expenditure in order to achieve the targets envisaged in the Plan. Since we had to encounter heavier budgetary deficits last year, we felt it undesirable in the interest of the national economy to permit deficits of such a huge magnitude during the current year also and accordingly financial restraints were practised. Nevertheless, development expenditures have been estimated to rise by about 10 percent. The fiscal situation, which I have just portrayed, gives enough reason for us to be optimistic about the future.

Although the mobilization of resources to the extent of our developmental needs is still one of the major economic problems, the low level of our technical and administrative skill in project formulation and management stands at present as an obstruction to speedy development. This we have experienced in the last few years from the working of the Panchayat tax system and compulsory savings schemes. In order to make the process of planned economic development more effective, a new national Planning Commission consisting of experts has been formed. The Commission will modify the present Plan and also formulate the next Plan. Besides, it will help the ministries in plan formulation and implementation. In this way, I hope that in the future, it will be possible to formulate sound projects and thereby increase the effectiveness of plans.

Sir, while presenting the supplementary budget, I had mentioned about the necessity of changing the tax structure to raise additional resources rather than mere increment in the rates of present taxes. This calls for intensive study and investigation, because introduction of a new tax structure requires the creation of a practical and equally, if not more effective alternative base, His Majesty's Government had constituted an Economic Advisory Council to advise the government in this matter. I have mentioned above that some of the suggestions of the Council have been adopted in formulation the new tax proposals.

The report of the Council will be published very soon. His Majesty's Government is considering seriously the recommendations of the Council to relate the land tax base with the productivity of land. I am conscious of the need to create a more scientific land tax base, but an issue as fundamental as land tax must be studied carefully and its impact upon different sections of the population thoroughly understood. After a careful analysis of the recommendations of the Council and other possible alternatives as well, the land tax structure will be changed next year.

Sir, while presenting the supplementary budget I had expressed the doubt that administrative machinery has expanded rapidly and has become expensive relative to our needs and means. To examine the possibility of improving the administration, an Administrative Reform Commission was constituted. His Majesty's Government is studying its report at present and will try to adopt some of the recommendations this year. The report of the Com- mission will also be published for general public.

The Provident Fund was created with an objective that the Government employees should save a certain portion of their monthly salaries. His Majesty's Government makes 10 percent contribution on the amount so saved. His Majesty's Government feels that its contribution to the Provident Fund should be increased. Accordingly, the contribution will be raised to 25 percent and 50 percent for the gazetted and non-gazetted employees respectively from the coming year. The practice of paying employees who forgo their home leave has been discontinued because of its undesirable effect upon their work and efficiency.

Sir, today we have many problems before us. However, we should not be discouraged. I need not repeat that national development depends upon the concerted efforts of all of us. Progress achieved thus far by the co-operative efforts of His Majesty's Government and the people forms the basis upon which future progress depends. In order to provide impetus to the tempo of development, His Majesty has given to us the "Back to the Village" national campaign, which has been followed by all of us. If, we Panchas follow these directives, our aspirations will undoubtedly come closer to our reach.

JAI NEPAL!