Honourable Chairman,

1.1 I have the honour to present in this august House the Budget for the fiscal year 1983-84.

1.2 Under the dynamic leadership of His Majesty King Birendra, the achievements of the Party less Democratic Panchayat System have been significant. The successful completion of elections at different levels of Panchayat and Class Organizations has further strengthened the System. The enforcement of the Decentralization Act will promote the institutional development of Panchayat. We are confident that the system will now be geared towards attaining development objectives. It is evident that the main interest of the people lies in the economic development. Against this conducive, environment we are determined to forge ahead to achieve our development goals and at the same time meet the aspirations of the people.

1.3 I have already presented in this House the Economic Survey for the fiscal year 1982-83. I hope that Honourable Members are now familiar with the current economic situation: However, I would like to highlight some of the major issues and development.

1.4 We are now in the third year of the current Sixth Plan. Progress during the first two years of this Plan was quite encouraging. The growth rate of GDP was about 6 per cent in the first year and about 4 per cent in the second year. Agricultural production increased by about 17 per cent in the fiscal year 1981-82 and by about 3 per cent in 1982-83. Industrial productions decreased by about 3 per cent in the first year of the Plan whereas it increased by about 15 per cent in the second year. Foreign assets increased by Rs. 194.1 million in the fiscal year 1981-82 and Rs. 501.5 million in 1982-83. Government revenue also in- creased by about 29 per cent in the fiscal year 1981-82 and by about 11 per cent in 1982-83.

1.5 There was thus a gradual improvement in our economy. Unfortunately we had to encounter severe drought this year. In an economy like ours which is predominantly agricultural, such drought entails numerous hardships, which result in not only a sharp decline in agricultural production but also in an adverse effect on the resource base of the economy. This leads to problems like price rise, decline in export and revenue receipt. The economy had to face similar hardships in the fiscal year 1979-80 when food grains production had gone down by 13 per cent due to the spell of drought.

1.6 There has not been any improvement in the international economic situation in the last few years. The world economy is in a difficult situation. While the developed countries are beset with problems like economic recession and unemployment, the developing countries are suffering from falling export prices, limited export market, increasing burden of debt services and growing trade deficit. Moreover, the problems faced by the developing countries have been further aggravated by the inadequate response of the developed countries towards their solution.

1.7 It is not that no efforts have been made by the international community to help solve the problems faced by the developing countries. The second report of the Brandt Commission, the Ministerial Meeting of the Group of 77 held in Buenos Aires and the resolutions of the Summit Conference of the non-aligned countries are noteworthy to this end. The summit meeting of the industrialised countries was recently held at Williamsburg. Except expressing sympathies on the problems of the developing countries, no significant results were attained in this direction. Even after the conclusion of UNCTAD VI held in Belgrade, some of the important issues in the fields of international trade, money and finance have remained unresolved.

1.8 Against this background, I will now review briefly the current economic situation. With the efforts to improve the supply of agricultural input coupled with the favourable weather condition, there was an encouraging trend in the economy in the last few years. However, we had to face severe drought in the current year. The agricultural production is estimated to decrease by about 10 per cent as compared to the last year. Production of food grains has decreased by 12 per cent, whereas production of cash crops has increased by 5 per cent. In view of the failure of the main crops, a crash programme was launched to increase the production of winter crops. Apart from increasing the irrigation facilities, distribution of inputs such as seed, fertilizer, credit and extension activities were carried out in a coordinated manner. I believe, Honourable Members will agree with me that these measures are in the right direction.

1.9 Industrial production has been satisfactory in the current year as in the previous year. The industrial production increased by about 15 per cent in the last fiscal year. It is expected that this will increase by about 19 per cent in the current year. There has been a satisfactory increase in the production
of cement, iron goods, cotton textiles, sugar and soap. Of late, a conducive environment has been created for industrial investment. Following the Solidarity Ministerial Meeting, which was held at Kathmandu this year, foreign investors have shown interest to set up some industries in Nepal. Progress in the field of cottage and small industries has also been noteworthy.

1.10 It is natural that at a time when GDP does not increase it will cause difficulties in several fronts. In the first nine months of the current year the national consumer price has increased by about 8 per cent as compared to about 5 per cent in the same period of the last year. The price rise of this year is mainly due to the increase in the prices of food grains. A further rise in price has been arrested as a result of the timely arrangement made for the procurement and distribution of food grains. Moreover, necessary measures have been undertaken to ensure regular supply of essential goods and construction materials.

1.11 In the first nine months of the current year, money supply has increased by about 17 percent. Credit to the government has increased partly to finance procurement and distribution of food grains and also to maintain the level of investment in the priority sectors. In order to discourage hoardings, commercial banks were directed not to extend credit against the pledge of food grains. As a result, the rate of increase in credit to the private sector has decreased to a great extent.

1.12 Agricultural products constitute a major proportion of our export trade. As regards industrial products, jute, leather-and handicrafts are the main items of export. There has been a significant decline in the export of agricultural products this year due to shortfall in the agriculture production. Moreover, the recession in the industrialized countries has also affected export adversely. As a result in the first nine months of this year export has decreased by 33 per cent as compared to the same period of the last year. However, import has increased by 29 per cent in this period. Apart from the increase in the import of essential goods, construction materials, machineries and industrial raw materials, we had to import food- grains as well. Thus the huge deficit in trade has caused deterioration in the balance of payments this year.

1.13 Our main export industries like leather and jute industries had financial difficulties as a result of the declining price of their products in the international market. In order to help these industries to overcome such difficulties, cash subsidies have been provided on their overseas export including financial assistance to jute industry.

1.14 The effect of this slow-down in the economy has affected the government finance as well. Revenue collection is expected to be less than the budget estimate. In view of the growing budgetary deficit, government expenditure has to be curtailed to the extent possible.

1.15 As the exchange rate of Nepalese Rupees was pegged with both US Dollar (Dollar) and Indian Rupees, a broken cross rate used to emerge frequently. Due to major fluctuation in the international foreign exchange market in this year the broken cross rate prevailed beyond the specified limit. To eliminate this adverse situation the Nepalese currency was de-valued by 8 per cent against the Dollar on December 17, 1982. However, until the Nepalese currency is pegged with Dollar and Indian Rupees, the possibility of emergence of broken cross rate continues. Hence a system of pegging to the basket of currencies was adopted on June 1, 1983 to avoid recurrence of the broken cross rate and also to keep the exchange rate of Nepalese currency in line with the prevalent situation in the international foreign exchange market.

1.16 In view of the increasing trade deficit necessary measures have been undertaken to curtail import, in particular, of the luxury items. In addition, restrictions were imposed on the import of the licence-free goods.

1.17 Special emphasis was laid to protect and to promote the domestic industries. Import of raw materials required for the industries was liberalised. Steps were taken to protect those industries, which were not able to compete even in the domestic market due to the decline in the international price of their products. Moreover, the cottage and small industries development programme has been intensified.

1.18 In order to channelize the resources of the banks towards the productive sector an intensive credit programme was carried out in the forty-six branches of the commercial banks. Under this programme, associations of borrowers are formed and the banks provide credit to a member against the guarantee of the association. Thus a person who is unable to give collateral security is also eligible to borrow from the bank. This programme has benefited a number of people who were deprived so far from the bank credit.

1.19 Government expenditure was curtailed in the current year in view of the increasing amount of the budgetary deficit and the adverse situation of the balance of payments. Similarly considering the current level of foreign exchange reserve, restrictions were imposed on the use of foreign exchange. Moreover, follow-up action was taken to expedite reimbursement of the foreign aided projects from the donors, which were released from treasury in advance.

1.20 A comprehensive study was undertaken on the difficulties faced by the sick enterprises in the public sector. Financial support was provided to such enterprises this year taking into account their capital structure and working capital in line with the policy guidelines of His Majesty's Government. There are indications that these enterprises, which were running in losses, will now be in a position to earn profit from the coming year. It is thus expected that these enterprises will contribute to the government revenue instead of being a burden. The performance of these enterprises has improved with the appointment of the professional personnel in the top management. I believe that the objectives, responsibilities and control mechanism of the public enterprises have been clearly defined with the policy announcement of His Majesty's Government this year regarding their autonomy.

1.21 The progress made this year in promoting economic cooperation among the countries of the South Asia region is significant. The Ministerial Meeting of the Nepal-Bangladesh Joint Economic Commission held at Kathmandu has further expanded the area of mutual economic cooperation. In this connection Bangladesh Industrial Exhibition was held at Kathmandu recently. An agreement to establish the Nepal-Pakistan Joint Economic Commission was signed and its first Ministerial Meeting was held at Kathmandu this year. This will help promote cooperation between the two countries. Similarly it has been agreed in principle to establish a Ministerial Level Joint Commission between Nepal and India in order to extend economic cooperation further.

1.22 I have already mentioned the measures taken to correct the adverse trend of this year as indicated by the economic indicators. In the Budget for the coming fiscal year I have also proposed necessary measures to this end.
Honourable Chairman,

3.1 I have taken into consideration the present economic situation and the performance of the government budgets of the fiscal years 1981-82 and 1982-83 in framing the budget for the coming fiscal year. The main objectives of the proposed budget are:

(a) Strengthening of the productive sectors of the economy;
(b) Stabilising the economy; and
(c) Improving the external payment situation.

3.2 In the previous budgets I had emphasised on the need to accord high priority to the productive sectors such as agriculture and industry. I had further indicated that efforts by the government alone would not be adequate to attain the desired rate of growth and that there was need to increase the private sector investment in this area.

3.3 The infrastructures, which have been created so far, have facilitated coping with the problems of procurement and distribution of food grains, which resulted from the shortfall in the production of major crops this year. This has also revealed the inadequacy of irrigation facilities in the country. Therefore, priority needs to be given to irrigation development projects.

3.4 The present arrangement for the supply of agricultural inputs through the existing institutions is not adequate to meet the growing need of such inputs. It is essential to enlist the active participation of the private sector in these activities. Hence farmers will be encouraged to be involved in the production and distribution of inputs such as improved seeds, fruit saplings and livestock breeds.

3.5 More attention has to be given to the industrial development to substitute import and to be self-reliant in essential commodities. Accordingly, His Majesty's Government has provided necessary incentives to the private sector and at the same time has established some of the basic industries in the public sector. This will be pursued further in the coming year. The results of the cottage and small industries development programme and the intensive banking development programme have been encouraging. These programmes will be intensified in the coming year.

3.6 His Majesty's Government has been providing various incentives in terms of tax concession and lower interest rate to promote industrial development. In addition, the domestic industries have been protected from foreign competition. The industries on their part should reduce the cost of production instead of seeking only government protection to avoid its adverse effect on the price level. It is therefore essential that the industries should give more attention to increase productivity. To maintain the competitiveness of the domestic industries the increase in wage rate has to be related with the productivity of labour. The policy to promote cottage and small industries will be continued in the coming year.

3.7 Greater use of water resources, which is abundantly available in the country, is vital for all aspects of our development. This will determine the structural change of the economy, which is predominantly agricultural at present. Even for the agricultural development itself we will have to utilise available water resources to a greater extent. It is imperative to maximise the use of water resources for agricultural development as well as to help develop other sectors of the economy. Priority has been accorded to implement major and minor irrigation projects. Similarly, stress has been laid on the implementation of medium as well as large hydroelectric projects.

3.8 Now I should like to deal with the policies aimed at economic stabilization. Our efforts for speedy development will in fact be undermined without controlling the rate of inflation. Hence the budgetary deficit has to be contained to the possible extent. This requires restraint and austerity in the government expenditure on the one hand and greater mobilization of internal resources from tax and non-tax sources on the other. In addition, mobilization of savings through the banking sector will have to be intensified.


3.9 The measures now being implemented to improve the management of the public enterprises will be pursued vigorously in the coming year. The operation of these enterprises will be guided basically by the market mechanism. Moreover, the present system of evaluating these enterprises will be made more effective. With a view to ensure proper utilization of resources in these enterprises, a mechanism will be developed to monitor their activities.

3.10 The present information and control system is not adequate for the management of the development projects. As a result it has not been possible to take remedial actions on the basis of the information now being received from different projects. This has caused not only delays in project implementation but has also increased cost of projects. The information and control system will be improved so as to facilitate timely actions for the smooth implementation of the development projects.

3.11 Now I would like to mention the policies regarding the improvement of the external payments situation.

3.12 First of all our trade policy should aim at promotion of export and control of import. Emphasis should, however, be given to reduce the present rate of increase in import. So far we have been pursuing liberal import policies. It is recognised that unrestricted import has caused distortion in our economy. Control of import has therefore become very urgent. As regards export, commodities having export potentialities will be identified. His Majesty's Government will encourage production of such commodities through fiscal and monetary policies and by providing technical and material support as well. At present there is no export credit guarantee scheme available to the exporters. Thus there is a need of facilities such as credit guarantee scheme, forward foreign exchange market to cover their exchange risk and pre-shipment credit arrangement.

3.13 Tourism is a major source of foreign exchange earning with considerable potential for additional receipts. Presently the hotel capacity has been increased significantly, and other infrastructure services for tourism have also been relatively developed. So we should endeavour to increase the tourist inflow in the country.

3.14 Foreign aid has played a significant role in the economic development of the country, particularly in the field of power, irrigation, transport and industry during the last three decades. In view of the need to increase the level of investment for accelerating the pace of development, it is obvious that internal resources will not be adequate. We will have to seek external assistance at an increasing level for some years to come. Hence we will continue our efforts to mobilise and use external resources being guided by the national development policies and priorities and also to ensure coordination between different executing agencies in this regard.

3.15 While, on the one hand there is need for mobilising external resources at an increased level, it is essential to ensure effective use of these resources on the other. In this context we must pay more attention in the process of identification, formulation and appraisal of the projects and at the same time improve our absorptive capacity.

Honourable Chairman,

3.16 I have already mentioned the problems we are facing now and the tasks ahead. I believe that these problems are not insurmountable. This calls for vigilance, concerted efforts and determination on our part. This has given us an opportunity to ascertain our plan of action and also enhance the implementation capacity. Above all, our goals are well defined and we are in the right direction.

3.17 Now I would like to mention about the measures, which have been taken to implement the policies I have mentioned above.

3.18 In order to strengthen the productive sector of the economy we have to focus our attention mainly in increasing agricultural production. Dependence on weather conditions has to be reduced to prevent the frequent decline in agricultural production. This is all the more essential to ensure a stable growth in the agricultural sector. Based on these considerations, special attention will be given to augment irrigation facilities in the coming year. Similarly, it is envisaged to carry out effectively various crop development programmes.

3.19 Active participation of the private sector is indispensable for the agricultural development. The farmers have an important role to play in increasing agricultural production. Hence a coordinated effort has been made to provide technical assistance along with agricultural credit and other inputs to the farmers. Emphasis will be given to simplify the operational procedures in implementing the small farmers development programme and agricultural credit programme. The door-to-door services to make credit available to the farmers will be further extended in the coming year.

3.20 In industry, our policy will be continued to give necessary protection to the existing industries. I would also like to reiterate that His Majesty's Government is committed to provide necessary facilities to the new industries. With a view to uplift the weaker section of the society, the priority sector credit programme will be further expanded. Necessary provision has been made to make financial and technical assistance available for this purpose. 3.21 Water resource is a major natural resource of the country. Development of this resource is essential not only for increasing production but this has also a good potential for earning foreign exchange. Accordingly: I have proposed to accelerate implementation of major irrigation projects such as Babai, Sikta and Bagmati in the coming year. In the field of power, some of the hydroelectric projects such as Devighat and Second Kulekhani that are under construction will be completed as soon as possible. Moreover, the construction work of the Marsyangdi Hydro-electric Project will commence from the coming fiscal year. As regards the large scale projects such as Karnali and Sapta Gandaki, we will continue our efforts to seek bilateral and multilateral cooperation in accordance with the long-term programme for the development of water resources.

3.22 Now I would like to explain the policy measures that will be pursued to remove the imbalances of the economy.

3.23 Financial balance and economic order are the prerequisites of economic development. So I believe that the prospect of increasing investment in future largely depends on these factors. In this connection our main aim should be to control inflation. I have therefore endeavoured to maintain the size of the budget at this year's level; excluding the amount allocated for the debt services there is no increase in the regular budget. The positions, which have remained vacant so far, will not be filled in general. Moreover, the capital expenditures under the regular budget have been curtailed drastically for the coming year.
3.24 The estimate of development expenditure for the coming year is almost at this year's level. In preparing this estimate, I have taken into consideration the performance of this year and have also curtailed unproductive expenditures. Moreover, a study group of the National Planning Commission, Ministry of Finance and concerned Ministries will be formed to undertake a detailed evaluation of the cost and benefit of the continuing projects and those that are found uneconomic will be discontinued or their size will be reduced.

3.25 Since our expenditure base is much larger than the revenue base, deficit will tend to increase. In order to obviate this situation, growth rate of revenue should exceed the rate of increase in expenditure. In other words, we should aim at raising the base of revenue to that of expenditure. With this objective the office of the Financial Comptroller General to scrutinise the present pattern of expenditure will carry out a study.

3.26 The objective of stabilization of the national economy is not possible to be attained by the efforts of the government alone. Equally significant is the role of the private sector in reducing expenditure and increasing savings and productivity. Accordingly, fiscal and monetary measures will be adopted to enforce austerity in the private sector as well. At present public enterprises are predominant in the industrial sector. It is natural that an increase in the wage rate of these enterprises will have its repercussion in other enterprises of the private sector reducing their competitiveness. Therefore, any increase in wage rate in the industrial sector will henceforth be related to productivity.

3.27 In order to encourage savings in the private sector, interest rate on bank deposits has been increased. However, there seems to be excessive liquidity in the society, which is exerting pressure on prices. Hence I have adopted necessary measures to encourage their savings in the form of financial assets.

3.28 In order to channelize the resources of the banks and financial institutions in the productive sector, a National Credit Council will be established which will be chaired by the Governor of the Nepal Rastra Bank. This Council will also look after the priority sector credit programme. It will also issue guidelines to the financial institutions in respect of their investment portfolio.

3.29 Now I will dwell upon the measures to improve the external payments situation. In this connection our primary consideration is to reduce the existing trade gap. During the last few years the trade deficit is increasing. Hence, on the one hand, we have to take immediate steps to enhance the export base and on the other we have to control the growth rate of import. Accordingly, the present system of licence-free import of some commodities has been abolished. Thus, licence will be required for all commodities to be imported from overseas. Similarly, quantitative restrictions have been imposed on the import of commodities which are now included in the list of open general licensing system. However, this will not affect adversely the import of construction materials, petroleum products and other materials required for the development of agriculture and industry. The concerned officials will assess requirement of import for different sectors and the government will fix the quantum of import on their recommendations based on import needs and foreign exchange position.

3.30 At present the export base is quite narrow. It has, however, a high potential for growth. Lack of exportable products is a major weakness of our export sector. Our exporters and traders have not shown interest in the product development. The fiscal and monetary incentives designed so far have benefited only the traders. As a matter of fact, the producers have not benefited from these incentives. As a result, there was no progress in the production and development of exportable products. The geographical condition of the country has also been a constraint on export. The competitiveness of our export has been weakened to the extent of the additional transit cost that has to be borne by the exporters. Moreover, there is no facility for disseminating the up-to-date information on demand, supply, prices and consumers' preferences. Necessary steps will be taken to remove these constraints.

3.31 In view of the fall in the international price and the difficulties faced by our exporters necessary cash subsidy will be provided to the exporters on the basis of the international market condition. An Export Development Fund will be created in the Nepal Rastra Bank for providing such subsidy. The management of this fund by the Bank will facilitate in ma- king available cash subsidy to the exporters. The amount of cash subsidy to be given on the selected commodities for overseas export will be based on the international as well as domestic market condition. Importers will be required to contribute in the Fund a fixed percentage of the import-value as expressed in their licences. This will not apply in the case of import of fertilizer, petroleum products and development goods. Importers of quota goods from India will also be required to contribute a fixed percentage of the value of their imports.

3.32 At present, the commercial banks are providing credit for export at a concessional rate. But this facility is available to the exporters only for the post-shipment activities. There is no provision of pre-export financing even though the foreign buyers open a firm letter of credit in the name of the exporters. In the absence of the export credit guarantee scheme it is natural that the banks are reluctant to provide such facility. Therefore, a export credit guarantee arrangement will be made in the coming year to facilitate export financing. Similarly the Nepal Rastra Bank will make necessary arrangement for forward foreign exchange market in order to protect the exporters from the exchange losses. I am confident that these measures will be effective in improving our trade balance.

3.33 The Royal Nepal Airlines is operating in a limited number of countries in this region. In order to increase the inflow of tourists in the country, permission will be given to the air- lines of other countries to establish airlines with Nepal. This will be helpful in increasing the foreign exchange receipts.

3.34 We will continue our effort to explore additional sources for external assistance. Moreover, we have to arrange for co-financing from different sources to implement major projects. In this context the institutional arrangement such as Nepal Aid Group under the aegis of the World Bank has been very helpful. The fifth meeting of this Group is scheduled to hold in December of this year. I take this opportunity to express our appreciation to the friendly countries and international organisations for their cooperation in our development efforts.
Honourable Chairman,

4.1 Now I present the budget estimate for the fiscal year 1983-84. I propose regular expenditure of Rs. 2429.3 million and development expenditure of Rs. 7093.3 million as compared to the revised estimate of the current year, the proposed regular expenditure is estimated to be higher by 13 per cent and the development expenditure by 48 per cent. As compared to the budget estimate of the current year, expenditure for the coming year is higher by 4 per cent only. In the last few years the budget estimate has increased by about 30 per cent whereas the actual expenditure has not exceeded 78 per cent of the budget estimate. Therefore, I have tried to make the estimate realistic, taking into consideration the implementing capacity as well. However, adequate funds have been allocated for the continuing projects to ensure their timely completion.

4.2 Of the proposed regular expenditure, Rs. 61.5 million has been allocated for constitutional bodies, Rs. 364.7 million for the general administration, Rs. 62.6 million for the revenue administration, Rs. 29.3 million for the financial administration and planning, Rs. 44.3 million for the judicial administration, Rs. 59.3 million for the foreign service, Rs. 463.4 million for defence, Rs. 394.1 million for the social services, Rs. 204.2 million for the economic services, Rs. 544.8 million for loans and investment and loan repayment and interest and Rs. 201.2 million for miscellaneous purpose.

4.3 Of the proposed development expenditure, Rs. 5137.7 million has been set aside for the economic services, Rs. 1828.6 million for the social services while Rs. 127.0 million has been allocated for the financial administration and planning and miscellaneous. Under the economic services Rs. 1734.9 million has been allocated for agriculture, land reform and irrigation; Rs. 284.6 million for the forest and soil conservation; Rs. 1229.1 million for the transport; Rs. 887.7 million for the electricity; Rs. 777.1 million for the industry and mining; and Rs. 224.4 million for other economic services. The proposed total expenditure under social services consists of Rs. 745.3 million for education, Rs. 450.7 million for panchayat and local development, Rs. 320 million for health, Rs. 233.6 million for drinking water and Rs. 79.1 million for other social services.

4.4 As the agriculture sector predominates our economy, agricultural production programme continues to receive special emphasis. The proposed expenditures under this programme include agriculture research and extension, crop protection, horticulture, livestock and fisheries development. An amount of Rs. 193.2 million will be made available to the Agriculture Development Bank to support its agricultural credit programme. Similarly Rs. 99.9 million will be provided to the Agriculture Inputs Corporation for the procurement and distribution of agriculture inputs. In addition, adequate amount of credit will be provided to the farmers through the regular programme of the Agriculture Development Bank and the Sajha (Cooperatives).

4.5 A sum of Rs. 59.8 million is allocated for non-ferrous mineral exploration, promotion of mineral industries and other programmes of mining and geology.

4.6 In forestry, attention will be given to strengthen the forest administration, enlarge the area of soil conservation projects, streamline resettlement programme and protect and conserve the wildlife reserve. In addition the forest development programme includes projects related with environmental study, resource conservation, community forest development, processing and marketing of medicinal herbs and watershed development.

4.7 An amount of Rs. 649.9 million has been earmarked for industrial development. To accelerate implementation of construction works of the Hetauda Cement Company Rs. 444 million has been allocated. A sum of Rs. 57.3 million has been allocated for the Bhrikuti Paper Industry of 10-ton daily production capacity to be established at Gaindakot of Nawalparasi district. Preliminary works will be started for the establishment of the proposed Udaipur Cement Factory and the Nepalgunj Paper Factory. Provision has been made for the storage of the essential commodities within the respective programmes.

4.8 An institution arrangement has already been made for the development of cottage and small industries. A total of Rs. 67.4 million has been earmarked for this sector including Cottage and Small Industries Project.

4.9 Necessary funds will be made available to the Nepal Industrial Development Corporation to provide financial assistance to the industries to be established in the private sector. In addition, arrangement has also been made to augment its resources from other sources. The funds thus provided, I believe, will greatly help private sector industrialists to set up new industries. Similarly the commercial banks and the Agriculture Development Bank will provide credit facility for the cottage industries.

4.10 Under the mining and geological exploration programme, Rs. 37.3 million has been allocated for the petroleum exploration works. An amount of Rs. 59.8 million is allocated for non-ferrous mineral exploration, promotion of mineral industries and other programmes of mining and geology.

4.11 Allocation for tourism development amounts to Rs. 9.7 million. The programme includes distribution of publicity materials, construction of tourist information centres, resort area development, extension of tourist services and survey for tourism promotion.

4.12 A sum of Rs. 155.1 million has been earmarked for electricity. The proposed expenditure includes Rs. 155.1 million for the Marsyangdi Hydro-electric Project and Rs. 181.4 million for the Second Kulekhani Project. The Devighat Hydro-electric Project to be commissioned in the next fiscal year has been earmarked Rs. 117.4 million.

4.13 A sum of Rs. 317.8 million has been allocated for the expansion of transmission line and mini hydro-electric projects.

4.14 Road transport, being an important infrastructure, was given priority in the past. In allocating funds for the next fiscal year, attention has been given to completing roads under construction, accelerating construction of the North-South roads and building additional feeder roads in the inaccessible districts. Accordingly, Rs. 244.4 million has been allocated for the construction of the remaining portion of the Mahendra Highway, Rs. 67.8 million for the feeder roads, Rs. 89.5 million for the North-South highways. A sum of Rs. 118.5 million has been allocated for the rehabilitation and major remedial works. Thus a total of Rs. 902.4 million has been earmarked for the road transport development programme in the next year.

4.15 With a view to extending air transport facilities to those areas that are inaccessible by road transport, necessary fund has been allocated for the construction of airports and improvement of the physical facilities in the existing airports. A sum of Rs. 108,1 million has been set aside for the
construction of Tribhuwan International Airport Terminal Complex and Rs. 49.7 million for the runway improvement. An amount of Rs. 23.5 million has been earmarked for the installation of various equipment including solar communication equipment in different airports.

4.16 A sum of Rs. 82.3 million has been allocated for the construction of bridges including suspension, bridges in the remote areas.

4.17 Under the programme of communications development, additional branch post offices will be opened in the coming year. Telephone distribution will be expanded under the Third Telecommunications Project. Feasibility study of the rural telecommunication network will be completed in the next fiscal year. A total of Rs. 111.6 million has been allocated to implement these programmes.

4.18 The total expenditure for education is estimated at Rs. 745.3 million. Science Education Project will be implemented in the secondary schools to upgrade the quality of science education in the next fiscal year. Attention will be given to make qualitative improvement in both primary and higher education. Out of the total allocation for the education programme, Rs. 308.1 million has been set aside for primary education and Rs. 314.1 million for higher education. Emphasis has also been given to develop technical and vocational manpower required for various development activities. Adequate amount has also been set aside for the newly established Royal Nepal Academy of Science and Technology.

4.19 The health programme in the next year includes expansion of health facilities, addition in physical facilities to the hospitals, and expansion of family planning and malaria eradication programme. Accordingly a sum of Rs. 60.6 million has been set aside for the family planning programme, Rs. 41.6 million for community health services, Rs. 68.2 million for malaria eradication and Rs. 58.6 million for construction of various hospital buildings.

4.20 An amount of Rs. 97.1 million has been set aside for the other social services, which include the town planning in Dipayal and other places, the Lumbini Development Programme and the Solid Waste Management Programme. Similarly Rs. 14 million has been earmarked for the Social Services National Coordination Council.

4.21 The proposed expenditure for panchayat and local development programme includes Rs. 37.2 million for the rural drinking water projects and Rs. 43.5 million for the remote and hill areas development projects. Provision of Rs. 143.2 million has been made to give grants-in-aid for the development projects to be implemented at the local level.

4.22 Revenue receipt during the next fiscal year from the existing sources is estimated at Rs. 3902 million, which is higher by 28 per cent than the revised estimate of the current year.

4.23 Thus the total expenditure including regular and development expenditures is estimated at Rs. 9522.6 million of which Rs. 3902 million will be met from the existing sources of revenue and Rs. 4000.6 million from external assistance. There will be a deficit of Rs. 1620 million.

Honourable Chairman,

5.1 Now I would like to submit the proposals to raise additional revenue in order to meet the deficit of the budget for the coming fiscal year.

5.2 Meanwhile, I would like to mention that despite of a marked decline in agriculture production and adverse effect of global economic recession on our foreign trade, the collection of revenue during the current fiscal year is estimated to go up by approximately 14 percent over the previous year's level. On the basis of the current year's experience, it is evident that the effective implementation of the existing tax rates through improved and efficient tax administration is more preferable to additional new taxes. I would like to continue the same pragmatic approach of revenue collection from both tax and non-tax revenue and also for the realisation of the arrears, to step up the revenue surplus for development.

5.3 While formulating the tax proposal I have given due consideration to create conditions for an increase in productions by encouraging the flow of investment towards priority sectors set by our planned programmes for development and also to discourage activities which do not corroborate with achieving national objectives. In framing the tax proposals, I have been greatly helped by the comments and recommendations made by Honourable Members as well as Central Tariff Board, Federation of Chambers of Commerce and Industries, economists and others.

5.4 I shall now first deal with my proposals in the area of indirect taxation.

5.5 In order to provide greater incentives for our exports, the duty on major exportable products like dried ginger and leather is exempted. The export duty on linseed, wheat bran and herbs is lowered.

5.6 However, in order to discourage the export of unprocessed raw material the export duty on mustard seeds, Sal seeds, some forest products, sabai grass has been raised. The duty to be levied on the export of sheep and goats per head is Rs. 51. Similarly, the duty on all kinds of stones including gypsum, magnesite and sand has been raised.

5.7 The duties on the import of commodities like bitumen, synthetic glue, glazed tiles, pipe tobacco, electric switchboard have been revised upward. This brings the duty on the imports from the third country at par with those from India taking into consideration the refund to His Majesty's Government of excise duties on such commodities imported under AR-I form.

5.8 With a view to protect domestic industries and enable their products to compete with the imported ones, the custom duties on import of noodles, bricks, vegetable ghee, insulated wires, woollen yarn, ammunitions, explosive materials, toothpaste, stainless steel utensils have been raised up to additional 15 percent and surcharge up to the maximum of 5 percent in the existing rate.

5.9 In view of the fact that a large number of people of low income group are privately engaged in carpet and sweater weaving and in order to promote such gainful self-employment, a reduction of 20 percent is made in the import duty of woollen and acrylic tops.

5.10 As a measure to raise additional revenue, I propose to increase the duty on the third country import of goods like van, minibus, silk and synthetic textiles, telephone equipments, electronic and video games, stapler type of hand operated sewing machines, toothpaste, lighter, lighter flints, toilet soap, torch, etc., which will not affect the people in low income group. These duties will be effective from today.
5.11 The duties on the temporary entry of trucks without carnet into the Kingdom has been raised from its present level of Rs. 100 to Rs.200 per day.

5.12 With a view to provide only desirable facility to the passengers, Baggage Rules now in operation have been amended, which will be effective on and from Shravan I, 2040.

5.13 It has been made obligatory from this date onward that the exporters as well as importers should mention clearly the CCCN code number along with the particulars in their application form. The authorised licence would be issued accordingly.

5.14 The proposed changes in the custom duty are listed in Annex I, 2,3,4. The additional revenue from these measures is estimated to be Rs. 115 million. 5.15 The outcome of the provision of rebate system in excise to encourage the higher utilization capacity has shown favourable trend. Accordingly, the remission on excise duty for increased utilisation of installed capacity granted presently to specified industries has been extended to all industries from the beginning of the next fiscal year.

5.16 An additional excise duty will be levied on the synthetic textiles on the basis of weight in addition to the existing duty based on length and width. It will come into effect from today.

5.17 The excise on lower grade cigarettes and bidi is lowered. This would reduce the prices of such goods, resulting in an increase in production in the organised sector. The revised rates of excise on cigarettes and bidi would be as follows:

<table>
<thead>
<tr>
<th>Cigarette</th>
<th>Ex-factory price up to Rs. 25/-</th>
<th>Rs. 25/01 to Rs. 35/-</th>
<th>Rs. 35/01 to Rs. 50/-</th>
<th>Rs. 50/01 to Rs. 75/-</th>
<th>Rs. 75/01 to Rs. 125/-</th>
<th>Rs. 125/01 to Rs. 175/-</th>
<th>Rs. 175/01 to Rs. 225/-</th>
<th>Rs. 225/01 to Rs. 275/-</th>
<th>Rs. 275/01 to and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Rs. 12/-</td>
<td>Rs. 24/-</td>
<td>Rs. 62/-</td>
<td>Rs. 90/-</td>
<td>Rs. 158/-</td>
<td>Rs. 185/-</td>
<td>Rs. 185/-</td>
<td>Rs. 200/-</td>
<td>Rs. 225/-</td>
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<td>b.</td>
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<td>c.</td>
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<td></td>
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<td></td>
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<tr>
<td>Bid per one thousand sticks</td>
<td>Rs. 5/-</td>
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</tbody>
</table>

5.18 The practice of levying lower excise duties on un bottled liquor has now been modified and an additional Re. 1/- per L. P. litre will be levied effective from today, on such liquor over and above the excise on bottled liquor. Moreover, the revised rate of excise would be Rs. 16/- per L. P. litre on lower brand bottled liquor of 40-50 UP strength.

5.19 The excise on sawn timber and tea has now been changed from specific to ad valorem. This change, however, would not affect their prices.

5.20 I have also introduced the rate of excise duty on additional items like corrugated sheets, vegetable ghee etc.

5.21 The proposed changes in the excise duty, which are listed in Annex 5, would yield additional revenue of Rs. 50 million.

5.22 For the purpose of sales tax a new classification of commodities has been prepared which will be effective from today. Sales tax on commodities like spare parts, paints, cold drinks, mosquito coils, feeding bottles, eraser, pen, pencil has been reduced. Sales tax has been increased on commodities like sugar cube, chocolates based on cocoa, synthetic textiles, knitted clothes, corrugated sheets. The present system of giving rebate of 25 per cent on sales tax payable by the domestic industries will be continued.

5.23 With a view to improve the competitiveness of the domestic industries, the sales tax on industrial raw materials are kept at lower level than that on the finished products.

5.24 A facility of granting 60 per cent rebate to the 'sick' industries would be continued in the coming fiscal year.

5.25 The proposed schedule of sales tax is given in Annex 6 and will come into effect immediately. The proposed changes will yield estimated additional revenue of Rs. 80 million.

5.26 To motivate the proprietors for improving the existing facilities in the cinema halls, the entrance fee and the new rates of the entertainment tax, which will come into effect from Sravana 1, 2040, will be as follows:

<table>
<thead>
<tr>
<th>Entrance fee of</th>
<th>Rs. /52</th>
<th>92 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;</td>
<td>Rs. 1/55</td>
<td>110 &quot;</td>
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<tr>
<td>&quot;</td>
<td>Rs. 2/-</td>
<td>150 &quot;</td>
</tr>
<tr>
<td>&quot;</td>
<td>Rs. 2/50</td>
<td>210 &quot;</td>
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<tr>
<td>&quot;</td>
<td>Rs. 3/-</td>
<td>217 &quot;</td>
</tr>
<tr>
<td>&quot;</td>
<td>Rs. 3/38</td>
<td>225 &quot;</td>
</tr>
</tbody>
</table>

Henceforth, a rebate of 20 per cent on entertainment tax will be given to the film show outside the valley and of ~o per cent to the film show in the cinema halls situated within 1 km. of the border.
5.27 The estimated revenue from the proposed changes would be Rs. 1 million.

5.28 I now submit my proposal in the area of direct taxation.

5.29 In view of the price rise in the market and the difficulties faced by low and fixed income group, the ceiling of exemption limit in respect of income tax has been raised to Rs. 15,000/- from the present level of Rs. 10,000/- for unmarried, and to Rs. 20,000/- from Rs. 15,000/- for married couple or family. The revised income tax rate schedule would be as follows:

<table>
<thead>
<tr>
<th>After exemption</th>
<th>Rs. 5,000/-</th>
<th>10 per cent</th>
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</thead>
<tbody>
<tr>
<td>Then after</td>
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<tr>
<td>&quot;</td>
<td>Rs. 5,000/-</td>
<td>15 &quot;</td>
</tr>
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<td>&quot;</td>
<td>Rs. 10,000/-</td>
<td>20 &quot;</td>
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<td>&quot;</td>
<td>Rs. 15,000/-</td>
<td>25 &quot;</td>
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<tr>
<td>&quot;</td>
<td>Rs. 15,000/-</td>
<td>30 &quot;</td>
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<td>&quot;</td>
<td>Rs. 30,000/-</td>
<td>40 &quot;</td>
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<td>&quot;</td>
<td>Rs. 2,00,000/-</td>
<td>50 &quot;</td>
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<tr>
<td>And above</td>
<td></td>
<td>55 &quot;</td>
</tr>
</tbody>
</table>

For firms, companies, corporate bodies and non-resident taxpayers, there would be no income tax exemption and the rates would be as follows:

<table>
<thead>
<tr>
<th>On income up to</th>
<th>Rs. 5,000/-</th>
<th>5 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Then after</td>
<td></td>
<td></td>
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<tr>
<td>&quot;</td>
<td>Rs. 5,000/-</td>
<td>10 &quot;</td>
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<tr>
<td>&quot;</td>
<td>Rs. 5,000/-</td>
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<td>Rs. 10,000/-</td>
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<td>&quot;</td>
<td>Rs. 15,000/-</td>
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<td>&quot;</td>
<td>Rs. 15,000/-</td>
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<tr>
<td>&quot;</td>
<td>Rs. 30,000/-</td>
<td>40 &quot;</td>
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<tr>
<td>&quot;</td>
<td>Rs. 2,00,000/-</td>
<td>50 &quot;</td>
</tr>
<tr>
<td>And above</td>
<td></td>
<td>55 &quot;</td>
</tr>
</tbody>
</table>

5.30 The additional tax on income from trading of the firms, companies and corporate bodies has now been raised from its present level of 5 per cent to 10 per cent. Similarly, the additional tax on the income of non-resident has also been increased from its present level of 7 per cent to 12 per cent.

5.31 The estimated revenue yield from the proposed measure would be Rs. 33 million.

5.32 The programme of updating the record of urban house and land taxpayers will be intensified and assessment of this tax will be made on the spot itself. However, the facility of paying arrears on instalment basis within five years has been provided. But the tax for the current year should be paid within the stipulated period and in the case of default, a penalty of 5 per cent per annum will be imposed.

5.33 No change has been made in urban house and land tax rate schedule. However, from the proposed administrative measure the estimated additional revenue will be Rs. 20 million.

5.34 The road/bridge maintenance tax, which was introduced this year on six different bridges of the highway, has now been proposed to extend to additional six other bridges. The facility of exemption on vehicles registered in the respective Zones is now withdrawn. However, motorcycle, scooter, tractors and government owned vehicles are exempted from such tax. 10 percent of the tax thus collected will be utilised for the maintenance of the bridges. The proposed tax rates on the additional bridges and place of collection would be as follows:

### Additional bridges and place of collection:

1. Tribhuvan Rajpath, Naubise Bridge
2. Siddhartha Rajmarga, Ramdi Bridge
3. Mahendra Rajmarga, Kosi Barrage Bridge
4. Dharan-Jogbani Rajmarga, Duhabi Bridge
5. Arniko Rajmarga, Dolalghat Bridge
6. Trisuli Rajmarga, Tadi Bridge

### Tax rate (for each movement)

1. Tempo & other three-wheeler Rs. 1/-
2. Car, Jeep, Pick-up vans Rs. 5/-
3. Minibus Rs. 10/-
4. Bus and Truck Rs. 15/-

The tax could be paid at the first collecting point for the entire journey.

5.35 The additional revenue from this tax would be Rs. 30 million.

5.36 Tourism is one of our major sources of earning convertible foreign exchange. Therefore, attention has to be paid to attract and facilitate in the inflow of tourists into the country. So far there is no direct air-link with the countries of tourist origin, especially the European countries. Royal Nepal Airlines Corporation is now operating its external flight only to the countries of Asian region. In the absence of such direct air-Link the tourists have to incur additional cost to visit Nepal. In this context, His Majesty’s Government would take needful decisions to allow foreign airlines to conduct their operations using Tribhuvan International Airport, Kathmandu, on their international flights. Such flight should originate in the countries where Royal
Nepal Airlines Corporation has not operated its external flight. This measure would help promote tourist industry and also in earning substantial foreign exchange because a large number of tourists would include Nepal in their itinerary of travelling Asia.

5.37 Taking these facts into consideration, foreign exchange facility up to 20 percent of the earning of this sector is proposed to be made available for promotional purposes 1) abroad and also to run the tourist industry at home.

5.38 This arrangement would result in a marked increase in earning foreign exchange and also help collect estimated additional revenue of Rs. 30 million through Hotel tax and Embarkation tax in the next fiscal year.

5.39 The prevailing rate of land revenue and land tax shall, however, be continued in the coming fiscal year. The land tax has been levied only in the urban land of the town panchayat. I would like to mention that the Land Revenue Act amendment bill on the existing penalty rate of 35 percent for the non-payment of land revenue is being submitted to the current session of the House. A necessary arrangement has been made for the immediate disbursement of land revenue to the District Panchayat. The budgetary provision has also been made for the remaining amount of land revenue of this year, which has to be given to the concerned District Panchayat.

5.40 As regards the registration fee, I have proposed to maintain uniformity in the rate both on the deeds of transfer of property and endowment deeds. The system of minimum rate would now be introduced all over the Kingdom in the registration of deeds amounting to Rs. 5000:- relating to transfer of property, endowment and partition. The prevailing rate of registration fee of the transfer deeds in urban area which goes up to 21 per cent in total has been lowered and the proposed rates to be paid by the buyer and the seller of such property will now be 5 percent and 7 percent respectively. The rate on the deeds of transfer and endowment in areas other than the urban land would be 7 per cent.

5.41 The rate or registration fee on partition deed will henceforth be 5 per cent.

5.42 As regards the deed, minimum value of the property will be fixed by the government on the basis of prevailing price in the area. This will apply in those districts where Land Revenue Act, 2034 is in effect.

5.43 With a view to encourage institutional lending the prevailing registration fee of 3-percent on bank lending is now withdrawn.

5.44 To discourage the practice of registration of the transfer of land property in another district it is proposed to increase the additional fee from its present level of 5 per cent to 7 per cent.

5.45 The prescribed schedule of registration fee, which is enlisted in Annex 9, will be effective from today. The estimated revenue from the proposed changes would be Rs. 45 million.

5.46 The proposals, I have presented, would generate an estimated additional revenue to the tune of Rs. 404 million.

5.47 Other taxes and duties remain unchanged.

Honourable Chairman,

5.48 The non-tax revenue constitutes only 17 per cent of the total revenue. This has increased annually by 9 per cent on an average in the last four years. There is better scope for increasing revenue from this source through changes in the, rates and improvement in collection procedure. Attention will be given to improve the quality of goods and services provided by the government. An additional revenue of Rs. 90 million is estimated to be collected from this source including the rate of electricity generated from the Kulekhani Hydro-electric Project until it is handed over to the concerned corporation.

5.49 I have already mentioned the steps that have already been taken to improve the management and pricing policy of public enterprises. It would be worthwhile to mention that the developing countries have now recognised the role of the public enterprise as an instrument for mobilising revenue in conjunction with rendering services. In this context, the return on investment to the government from these enterprises is negligible. One of the reasons in this respect is the use of surplus in the expansion of capital type expenditures without paying dividend to the government. Hence, these enterprises will not be allowed to make further investments without government approval. In giving such approval the government will make an appraisal of the cost and benefit of the proposed investment. Moreover, it has been made obligatory for these enterprises to contribute certain percentage of their profit to the government and the attentions of the public enterprises have been drawn to regulate their supplies and improve the maintenance services of their property.

5.50 His Majesty's Government has already made a substantial investment in the form of loans to public enterprise and other industrial ventures. But it has now come to my notice that these enterprises are not paying the principal amount and interest in time. With a view to maintain the financial discipline, necessary instructions have been given to these corporations to reflect the loan re-payment, interest and the arrears payable to government in their cash-flow account. The additional revenue from this arrangement would be Rs. 150 million. Besides, timely auction of government property would be allowed to make further investments without government approval. In giving such approval the government will make an appraisal of the cost and benefit of the proposed investment. Moreover, it has been made obligatory for these enterprises to contribute certain percentage of their profit to the government and the attentions of the public enterprises have been drawn to regulate their supplies and improve the maintenance services of their property.

5.51 The above mentioned tax proposals are expected to yield Rs. 404 million, thus amounting to a total deficit of Rs. 1216 million, which will be met by raising internal loan. Of the total internal loan, a sum of Rs. 350 million will be raised from non-banking sector alone by issuing the security bonds which will be non-inflationary. To make this proposition attractive, the interest rate on these bonds will be 12 percent and income tax will not be levied on income from this source. Since it will be financed from non-banking sector it will have concretionary effect on money supply.

5.52 I have thus tried my level best to reduce the extent of deficit in overall framework of the proposed budget. Strict execution of the measures mentioned above along with the austerity to be observed in incurring expenditure, I hope, would further reduce the net deficit.
Honourable Chairman,

6. I The Budget I have presented for the next fiscal year aims at achieving the development goals envisioned by the Party less Panchayat System. I believe the proposed Budget will be instrumental in translating His Majesty's Government's commitment to uplift the standard of living of the people by meeting their minimum basic needs. As mentioned before, I have taken into consideration the following factors in formulating the next year's Budget:

1. the shortfall in agricultural production;
2. the need to mobilise an increasing amount of domestic resources to meet the growing needs of development;
3. the persistent deficit in foreign trade;
4. the pressure on the foreign exchange reserve due to unfavourable balance of payments;
5. the increasing rate of inflation; and
6. the need to reduce the budgetary deficit.

6.2 Under the present circumstances, I believe the management of public finance has become more complex. While the level of expenditure has to be raised to increase investment and to meet the minimum basic needs, on the contrary, this has to be reduced for controlling inflation and improving the balance of payments. While the revenue receipt has to be increased to meet the growing expenditure, on the contrary, various tax concessions and exemptions have to be provided for industries and imports have to be curtailed which, in turn, restrict the revenue base. In addition, financial assistance has to be provided for the development of agriculture, industry and the export sector. Under these circumstances, I have tried to strike a balance among the competing and conflicting objectives.

6.3 In formulating the budget, I must mention that I have been guided by the thoughtful suggestions and comments made by the Honourable Members of this House. I have attempted to reduce, to the extent possible, the level of expenditure in order to stabilise the economy. No doubt our needs and aspirations call for a manifold increase in the size of the budget. We are however compelled to adopt austerity measures. It is not possible to attain our aspirations at once with limited resources. This is the main problem confronting us today. Our entire efforts should, therefore, be focussed on charting a stable course of our economy. Given the active support and cooperation of this House, I am confident, that we will succeed in stabilizing our economy so that we will be in a position to step up the rate of investment for our development.

6.4 By and large, the success of the budget depends on its effective execution. I am confident that we will succeed only if all of us will adhere to these policies with discipline, diligence and thoughtfulness. I hope that the private sector will actively cooperate in our effort.

6.5 Economic development is a complex process in a country like ours, which is characterised by limited resource base and geographical difficulties. A collective effort is required to overcome these constraints. This calls for the active participation of the people. The people's representatives have a special role to play in educating the masses about the complex nature of the development process and thereby imbibe perseverance. They are the ones who could build confidence among the people in the underlying capacity of the System for economic development and thus motivate them to actively participate in the task of development. Equally important is their role in ensuring an equitable distribution of the fruits of development and I believe that this is the under-lying spirit of the Party less Democratic Panchayat System.

6.6 Economic development is the indicator of the success of any system. It alone can sustain our achievements in the political front. Now it is the time to make concerted effort for the country's development. Keeping this in view, I am looking forward to the mobilisation of the country's resources for attaining a speedy pace of development.

6.7 Honourable Chairman, the current economic situation both national and international should not disturb us. Nevertheless, we must be alert. I am also confident, Honourable Chairman, that there are enough reasons to be optimistic about our future. Under the dynamic leadership of His Majesty the King, we have achieved success in bringing about political stability and in further strengthening of the political institution at different levels. We have never failed to meet the challenge before us and we are always prepared to make sacrifices when needed. To conclude, Honourable Chairman, I reiterate my firm belief that we will succeed in translating the noble wishes of His Majesty the King for development into reality given the sincere efforts and sacrifices of all of us.