Budget Speech Delivered By The Honourable Finance Minister Dr. Bhekh Bahadur Thapa For the Fiscal year 1977-78 To Rastriya Panchayat On 4th July ' 1977

Honourable Chairman

Nepal's drive for development is a challenging proposition. In this endeavour to redesign a better future for; ourselves, we have achieved progress in certain areas, but, as we move along, our problems are getting more complex. The present state of the economy is such that it calls for some hard thinking on our part. I do not imply, however, that there is a cause for alarm.

The annual budget, as you all know, is a medium through which we take stock of the existing economic conditions and problems and adopt measures that are responsive to their solution. I, therefore, take the rostrum, once again) to present the budget which, I believe, is guided by the present day reality and the inherent challenges as we forge ahead towards the desired goal. A review of the present state of the economy reveals that we have made headway in some sectors but our problems are getting more serious in others. Much as we like to take solace from the signs of modernity that we see around the capital city and some other urban centres, or from a few large projects in the public sector, or the sight of a few tractors scattered in some rural areas, the economic conditions of the majority of our people continue to be a vexing problem. In the preparation of this budget, His Majesty's Government have taken into account the totality of this situation and formulated investment and revenue policies. The formulation of development policy and programmes should be a collective national effort. The opinions expressed by the Honourable Members and the active and countrywide interest of fellow Panchas have thus been a major guiding influence in formulating the budget I present today. For this, I express my gratitude to all concerned.

His Majesty the King in the Royal Address have enjoined upon us all to "endeavour to reach that economic stage wherein we can become self-reliant to meet the minimum basic needs of our people". The estimates of revenue and expenditures and the underlying economic policies that I am presenting now constitute an effort in this direction.

The Economic Survey will provide an overview of the existing economic situation. Allow me now to highlight here some of its major features.

As I indicated earlier, despite some encouraging achievements from our past efforts, the present day economic situation calls for greater vigilance and special efforts to improve our performance in certain sectors. The semi-annual review of the current Five Year Plan has revealed that, in the implementation of development programmes, the overall performance index has increased this year to 64 per cent as compared to 54 per cent during the same period a year before. This encouraging trend demonstrates an improvement in the administrative capacity of the Government to implement development programmes.

On the production front, there has been a significant increase in industrial production and that of cash crops. However, the production of food grains has declined. Adverse weather is the principal factor effecting food grains production. The fall in the prices of food grains for the last two years 3;Ud its disincentive effects on farmers has also affected food grains production. That Nepalese farmers have begun to be influenced by trends in price level in planning their farm production is an encouraging development. Pricing policy of His Majesty's Government has, therefore, to take note of not only the interest of consumers but also of the effects it will have on the majority of producers. Looking at the trends of agricultural production, it is also clear that weather is the main variable affecting production. Of the total cultivated land, only a small fraction receives irrigation facilities and the agricultural development efforts have yet to reach the majority of the farm population. As a result, whatever the increase in production in those areas that are within the fold of agriculture development activities, the adverse weather conditions this year, have led to a fall in the production of paddy by 8.4 per cent and that of wheat by 6.5 per cent. In cash crops, the production of sugarcane, jute and tobacco has increased by 23 per cent, 7.1 per cent and 6.2 per cent respectively. As regards industrial production, the production of tea has increased by 19 per cent, that of sugar by 53 per cent and that of cement by 70 per cent.

The balance of payments continues to be favourable, and the indications are that there will be a sizable surplus of over Rs. 320 million by the end of the year. Foreign exchange earnings have increased considerably. There has been a 10 per cent rise in tourism and earnings from this source have increased by Rs. 90 million as compared to last year. The foreign assets have increased by Rs. 220 million in the first nine months of the current year and have reached a level of Rs. 1713.3 million. Despite the favourable trends in the balance of payments the situation in the trade front is a cause for concern. On the export side, in spite of a 5.7 per cent increase in exports to overseas in the first 9 months of the current, year, there has been a fall of 8.5 per cent in exports to India. The overall effect is a 5.1 per cent fall in total exports. Similarly, on the import side, though there has been a fall of 22.1 per cent in imports from overseas countries, imports from India have increased by 9.7 per cent. As a result, total imports have declined by 1.8 per cent only. The overall effect is a higher deficit in the balance of trade as compared to the last year. The need for imports will, no doubt, increase with the gain in momentum in development. Hence the urgency of increasing exports rapidly. This calls for renewed efforts to boost export promotion and import substitution. What is needed, therefore, is a programme of industrial expansion, but the opportunity for import substitution within the agricultural sector should not be overlooked. His Majesty's Government will remain effortful on both fronts.

The above-mentioned increase in foreign assets and in other liabilities of the banking sector as well as the deficit in the public sector has led to a sharp increase in money supply. While money supply increased by Rs. 141 million during the first 9 months of the previous year, it has increased by Rs. 470.4 million or by 32.4 per cent during the same period of this year. Though this rate of increase in money has apparently surpassed the desirable limit, there are no indications that this has had its adverse impact either in prices or on foreign ex- change reserves. Nevertheless, I see a need for controlling money supply in this coming year.

The price situation had shown a general improvement in the previous year and the fall in the prices of agricultural products had in fact been a matter of concern. Even this year, rise in general price level is not that evident. However, indications of upward pressure on prices are now increasingly discernible. From the beginning of the fiscal year to the middle of May, consumer price index is recorded to have increased by 4.8 per cent. Major items contributing to this increase are pulses, edible oil and ghee. Price changes in other items are negligible. In fact, if we were to take monthly average of price changes over the whole year the increase this year may not be more than I per cent as compared to 3.7 per cent during the previous year. The price situation during the period under review is, therefore, by and large, and sound. Nevertheless, the more recent market trends in the country, the upward pressure on prices in the neighbouring market and shortages of certain essential goods require us to remain on guard. In addition, the fiscal and monetary measures should be designed to curb this undesirable trend. Since most of the manufactured goods are imported and the bulk of our domestic agricultural products are exported, it is almost impossible to seal off domestic market from external influences. Even if we succeed in doing so through various fiscal and monetary measures we may end up in a dubious position where depressed prices affect a majority of the farmers and hence the economy in general.

In the monetary field, the resources of the banking sector had been increasing this year at a rate of Rs. 50 million per month while bank credit rose by only Rs. 20 million per month. The public enterprises borrowed less than they did last year and also paid back they're past loans. As a result the net increase in bank credit this year has been only in the order of Rs. 5 million per month.

As a result of the decline in prices of food grains, the purchasing power of the farm population had been eroding since last year and there had been a general slowdown in the economy. Some fiscal and monetary measures were immediately adopted by His Majesty's Government to reinvigorate the economy. Interest rates were revised to strike a better balance between the resources of the banking sector and its investment. Similarly, tariff rates were revised to make our market more competitive. These monetary and fiscal measures have begun to show results and the economy is gradually picking up. The bank credit to the private sector is again increasing and economic activities have taken an upturn.

On the revenue side, the collection this year is 18.9 per cent higher than the actual receipts of the preceding year, but the revised estimate for the current year is far short of the original estimate. It now appears that the present tax structure has reached a limit as far as our capacity to mobilise additional resources is concerned. In spite of this lower level of revenue collection, His Majesty's Government have provided resources as per the targets and programmes envisaged in the Plan.

Foreign assistance has an important place in our development efforts. The flow of external resources is increasing while the sources are getting diversified. With the establishment of Nepal Aid Group this year, we have now a forum to mobilise aid from many friendly countries and international agencies in a more effective and coordinated manner. The increasing interest of friendly countries in Nepal's development efforts demonstrates recognition by the international community of Nepal's development aspirations under the able guidance of His Majesty King Birendra and the success of our foreign policy. I take this opportunity to express, on behalf of His Majesty's Government, sincere thanks to all the friendly countries and international organisations for their continued goodwill and understanding. ,

It is against the reality of the situation I explained above that the economic policies for the coming year are formulated. I shall now dwell on these policies and programmes.

I mentioned above the need for His Majesty's Government to remain vigilant on the price front. Under the given conditions where we have to import a majority of goods to meet our daily needs, the evident pressure on prices in the external market and the ensuing trends can have further adverse effects on the price level. In order to check this pressure, the fiscal policy is oriented towards reducing the budgetary deficit. Measures will also be undertaken to effectively utilize foreign exchange reserves in order to check its expansionary effect on money supply. Without improvement in supply conditions, administrative controls may only distort natural market forces. Therefore, in order to ensure regular and adequate supply of essential goods. A more liberal import policy will be followed to facilitate import of essential commodities from overseas as well. At the same time, to avoid a situation, which may foster artificial increase in prices, and to develop the internal market in a competitive spirit, restrictions on inter-district movement of goods or imposition of local taxes or tees on such goods will be disallowed. These measures together with an improvement in public distribution system should have favourable impact on prices.

In foreign trade, I have already expressed concern about the continuous trade deficit. This is not a problem, which is amenable to easy arid quick solution. Nevertheless, it is high time, we took concrete measures in this respect. One note worthy step that has already been taken this year, is the abolition of export duties on 179 out of 200 export items as an incentive for export promotion. Some headway will also be made next year in import substitution with the completion of a new textile mill and the beginning of construction works for another cement plant. The Government's policy is also to develop raw materials needed for these industries within the country. The cottage industries sector is already making a significant contribution to import substitution in textiles and some other product~. New fiscal measures will be undertaken to further promote this sector. Mention may be made here of the credit extended by the banking sector to the tune of Rs. 36.4 million for the "small sector" as a result of the requirement for the commercial banks to invest 7 per cent of their deposits in such sectors. I believe the amount of such credit win continue to grow.

The fundamental economic need of the day is to accelerate the process of development and to devise a distribution system """hereby the majority of the people receive the fruits of such development. If our problems of poverty can only be remedied through increase in production, a more equitable distribution of existing resources is of immediate importance. The major objectives of the next year's budget is, therefore, to expedite the development process, to make its scope more wide-ranging, to mobilise greater volume of resources and to enlist greater people's participation for all-round development through gradual changes in the taxation system.

In order to make budgetary estimates more realistic and to obtain a better balance between the financial targets and administrative capability, the rate of increase in annual budgetary allocation has been moderated for the next year. The level of investment proposed for the next year is, therefore, not only in conformity with the targets of the Fifth Plan but will also allow the Government to undertake some special projects. If the increase in regular expenditure has been kept minimal, adequate allocation has been made under the development budget, though emphasis is now on effective utilisation of available funds rather than on continuing the tendency to overestimate the expenditure. The investment policy of the Government is thus guided, this year, by a sense of pragmatism.

Apart from this increase in the level of investment of His Majesty's Government, the budget envisages some concrete steps to encourage people's participation at the local level and to render the benefits of development more meaningful for the masses. The programmes of His Majesty's Government are only a part of national efforts for development. Development schemes such as small irrigation canals, minor roads, drinking water facilities, erosion control and a forestation are some of the activities that are more effectively implemented at the local level through traditional means and technology. Such arrangements will not only be more economical but will also ensure adequate maintenance afterwards. Above all, such arrangements will bring together the entire population within the fold of our development campaign. Accordingly, allocation for local development has been increased considerably and new schemes of local roads and village canals have been introduced.

In spite of rationalising the investment policy and programmes as above, the need t for mobilising additional revenue, every year, to fulfil even the minimum targets of the Fifth Plan is a problem before us. In view of the existing economic situation and the inherent constraints in the economy the possibility of mobilising additional revenue within the

4; given tax structure is limited. At the same time, if we really want to activate the local Panchayats to launch a nationwide drive for development, the need for resources at the local level has also to be taken care of. The need of the hour is therefore, to mobilise adequate resources not only for investment programmes of His Majesty's Government but also for local levels programmes as well.

Apart from being a means of resource mobilisation, taxation policy is also an instrument of channelling investment in the desired direction and has a bearing on distribution of social benefits. Guided by these considerations, the revenue policy for the coming year will be as follows:

1.To initiate a system of taxation which permits greater mobilisation of revenue from agriculture to meet the needs of the centrally executed programmes as well as of those at the local level.

2. To give some relief to farmers at the lowest income bracket;

3. To encourage cottage and village industries in the private sector;

4. To mobilise resources in the private sector through financial institutions;

5. To increase the use of foreign exchange reserves;

6. To gradually involve local level Panchayats in the process of resource mobilisation to help them to be more active and self-reliant.

7. To strengthen the revenue administration; and

8. To obtain reasonable return on investment in public enterprises.

The programmes and allocation of expenditure for the next year are based on considerations dictated by the present state of the economy and the various policy measures, I have enumerated above. May I now explain them in brief?

Agriculture is the mainstay of the national economy, in our context; economic development can be possible only through agricultural development. In spite of the heavy investment made in this sector for the last several years, agricultural production in Nepal continues to be dependent on weather. It follows then that water is a more critical agricultural input than extension, research or any other. The allocation of funds for irrigation for the next year has, therefore, been increased by 59 per cent. In addition, a sum of Rs. 5 million has been set side to help implement small irrigation schemes and canals at the local level. Likewise, a sum of Rs. 12 million has been earmarked for farm irrigation with a view to derive higher benefits from existing facilities through better water management. Except for the programmes of crop diversification, allocation for other continuing projects in the agricultural sector has not been changed significantly. A study of existing agricultural extension system is contemplated for the next year. A comprehensive study and evaluation of the present system has become necessary to institute a system of more effective and well- integrated programme. For the time being, such programmes will be continued at the present level. However, adequate provision has been made for all types of agricultural inputs for those areas, which are already under irrigation.

In order to make the village and town Panchayats, which are at the base of our Panchayat System, and the district Panchayats more effective participants in the development *r* process, allocation for various activities to be carried out at the local level has been increased considerably. The allocation for village roads, canals, water supply, roofing for primary, schools and integrated rural development projects has been increased by more than 75 per I cent over the current year's original estimate. With a programme of mobilising local resources and manpower on a massive scale, increasing people's participation will be the main driving force in the implementation of various special programmes of local development including remote area development.

In transport, the construction of the remaining sections of Mahendra Raj Marga will be continued more vigorously and several north-south roads will also be constructed. In view of the topographical conditions of the country, the previous four plans gave highest priority to the transport sector. Even then the gaps in this sector continue to be critical. How- ever, roads by themselves cannot solve all our problems. Several other activities have to be carried out simultaneously in order to derive appropriate benefits from such roads. It is there- fore envisaged that the road projects such as Bandipur-Dumre-Besi Sahar, Tulsipur-Salyan, Phidim-Taplejung and Baitadi-Darchula will involve mobilisation of local manpower to the maximum possible extent. Future road projects will also be carried out within the framework of this policy.

Soil erosion has become a major problem in the country. Should we fail to take appropriate measures from now onwards the problems may overtake us. The budget has paid special attention to this problem. However, this is an activity, which has to be carried out on a nation wide scale, and Government's efforts alone cannot meet the requirements. What is needed in this respect is the contribution of each and every individual at the village level. Taking erosion control as an integral part of rural development and taking cognisance of the need to meet the basic daily needs of the people in the affected areas, an integrated pilot scheme is to be implemented next year in the Tinao Khola area. Erosion control programmes will also be implemented in the catchments areas of Bagmati, Phewa Tal, Lother, Bering, Khokre, and Ikram.

In the preparation of the budget, I have also been guided by the strategy of the balanced regional development. The regional allocation of resources continues to improve in general terms. Of the total allocation, 13.78 per cent has gone to projects at the national level, while 11 .45 has been allocated for Eastern Development Region, 42.18 per cent for Central Development Region, 14.60 per cent for Western Development Region, and 17.92 per cent for Far Western Development Region. The Kulekhani Hydel Project and Hetauda Cement Plant have pushed up the allocation for the Central Development Region this year.

Coming now to the actual and revised estimates for the fiscal years 1975/76 and 1976/77, actual expenditure last year stood at Rs.1913.36 million as against the revised estimate of Rs. 1981.436 million. As for the revenue, actual receipts amounted to Rs. 1115.624 million as against the revised estimate of Rs. 1182.63 million As compared to the revised estimate of total receipts from foreign grants and external loans of Rs. 520. 164 million, actual disbursements amounted to Rs. 505.654 million. As a result, there was a deficit of Rs. 292.082 million, which was met by raising internal loan of Rs. 200 million and by drawing Rs. 92.082 million on the cash balance.

At the time I presented the budget last year, I submitted to you the following criteria of allocation of development expenditures:

1. Emphasis on rural development with the active participation of local panchayats; 2. Maximum investment on productive sectors; and
3. Emphasis on exploitation and use of water resources.

I should like to report to you today on the implementation of these policies. The rural development activities are being implemented as planned. I t is estimated that about 85 per cent of the allocation will be expended on this sector. With 35.6 per cent of the development expenditure allocated for productive sector, additional 21,567 hectares of land has been provided with irrigation facilities as against the target of 26,000 hectares, compared to 7,277 hectares of additional land irrigated last year. The revised expenditure on this sector for the current year stands at 35.8 per cent of the total development expenditure. Another 15.3 " per cent has been invested on the exploitation of water resources according to the revised estimate for the current year compared to the original estimate of 17.63 per cent of the development expenditure. This shortfall is largely due to the delay in execution of the Kulekhani Hydro Electric Project. Thus the implementation of investment policy incorporated in the current year's budget has been satisfactory.

Of the total estimated development and regular expenditures of Rs. 2718.714 million including supplementary estimates, it appears that a total of Rs. 2371 .63 million, which is 87.23 per cent of the estimate, will be spent this year. Development expenditure alone is expected to be 82.4 per cent of the estimate.

The revised estimate of revenue for the current year stands at Rs. 1321 .249 million as against the original estimate of Rs. 1545.8 million. This represents a shortfall of 14.5 per cent. A significant shortfall has been recorded in receipts from forests, repayments of debt and interest, dividends, customs, excise and sales tax. The shortfall in the receipts from forests is expected to be about 52 per cent due to the effects of transition to a new sales system of forest products. Similarly, the receipts from the debt and interest and dividends are expected to fall short of the original estimates by 26 per cent. This is caused by default in debt servicing by some enterprises and a lower dividend than anticipated earlier. Receipts from customs, excise and sales tax are also expected to be lower than the original estimates by 14.5 per cent, 13.6 per cent and 9 per cent respectively. The shortfall is the result of the general economic slow down in the first half of the current fiscal year and, also of the changes in tariffs and excise in mid-year.

In foreign aid, total disbursement including grant and loan amounted to Rs. 592.335 million.

To meet the total expenditure of this year, thus, there was a deficit of Rs. 458.046 million. Towards closing this deficit, an internal loan of Rs. 300 million was raised and remaining Rs. 158.046 million was met by drawing on cash balance.

I explained the investment and revenue policies earlier. May I now submit the estimates of revenue and expenditure for the next fiscal year? The development expenditures are estimated at Rs. 2148.898 million and the regular expenditures at Rs. 938.526 million for the fiscal year 1977/78. The total budgetary allocation of Rs. 3087.424 million is 30.18 per cent higher than the revised estimates of the current year.

Of the total regular expenditure, Rs. 30.196 million is allocated for Constitutional Organs; Rs. 145.511 million for General Administration; Rs. 27.995 million for Revenue Administration; Rs. 22.082 million for Economic Administration and Planning; Rs.14.216 million for Judicial Administration; Rs. 28.84 million for Foreign Service and Rs. 173.458 million for Defence. Similarly, Rs. 160.921 million is allocated for Social Services; Rs. 104.799 million for Economic Services; Rs. 9.5 million for Loan and Investment; Rs. 136.63 million for Debt Servicing and Rs. 84.378 million for miscellaneous items.

Of the total development expenditure for the coming year, Rs. 1572.745 million is allocated for Economic Services; Rs. 538.339 million for Social Services; Rs. 37.814 million for Economic Administration, Planning, Miscellaneous and Contingency. In Economic Ser- vices, Rs. 494.385 million is earmarked for Agriculture, Irrigation and Land Reform, Rs. 91.614 million for Forest; Rs. 152.724 million for Industry and Mining; Rs. 279.633 million for Power; Rs. 501 .803 million for Transport and Communications; Rs. 52.586 million for Cadastral Survey and other Economic Services. In Social Services, Rs. 204.097 million is set aside for Education; Rs.116.803 millions for Health; Rs. 88.556 million for Water Supply; Rs. 96.497 million for Panchayat and

Rs. 32.386 million for Other Social Services. On the resources side, Government revenue from the existing sources is estimated to be Rs. 1572.295 million for the coming year. This estimate is 19 percent higher than the revised estimate of the current year. Of the total estimated revenue, tax revenue is estimated to be Rs. 1236.27 million and non-tax revenue to be Rs. 336.025 million.

Within tax revenue, Rs. 441.07 million is estimated to accrue from customs. This constitutes 28.05 per cent of the total revenue. Taxes on production and consumption of goods and services are estimated to yield Rs. 487.2 million, which is 30.99 per cent of the total revenue. Revenue from land tax and registration is estimated at Rs. 156.2 million while the taxes on income, profit and property together are estimated to contribute Rs.151.8 million.

The non-tax revenue is estimated at Rs. 336.025 million. Of this, Rs. 107.61 million is expected to be collected from the sale of public goods and services. Rs. 77.3 million is estimated to receive from public enterprises as dividend. Another Rs. 20.6 million is expected to accrue from the disposal of Government property and royalty. Similarly, repayment of principal and interest is to contribute Rs.70.24 million; Rs. 34.05 million from Mint, Rs. 14.725 million from fees and other charges, and Rs. 11.5 million from miscellaneous items.

Under foreign aid, it is estimated that Rs. 505.885 million will be received in the form of grants and Rs. 614.689 million in the form of concessional credit.

With the total expenditures thus estimated at Rs. 3087 .424million and with the total receipts from the existing sources of revenue and foreign aid estimated at Rs. 2692.869 million, the resource gap will thus amount to Rs. 394.555 million. Before proceeding to explain the ways and means of meeting this deficit, I would like to deal with the estimates of receipts and expenditure of convertible foreign exchange.

I discussed earlier in detail about the current situation in balance of payments, foreign trade and the changes in foreign assets. I should, now, like to go over the income and expenditure of convertible currency in brief.

The estimate of foreign exchange receipts for the current fiscal year has been revised at Rs. 940 million as against the actual receipts of Rs. 830.45 million in the fiscal year 1975/76. On the expenditure side, revised estimate amounts to Rs. 605 million for the current year compared to the actual expenditure of Rs. 608.202 million last year.

According to the revised estimate of income from invisible exports this year, a total of Rs. 61.26 million will be received over and above the level reached the year before. Similarly, the revised estimate of income from exports of goods during the current year now shows an increase of Rs. 39.724 million over the last year. Among other heads of foreign exchange earnings, receipts from diplomatic missions, are expected to increase by Rs. 20.008 million this year. Receipts from other heads, however, are expected to decline.

Estimate of expenditure on invisible imports, this year, is expected to decrease by Rs.25. 33 million while the expenditure on other heads is expected to increase in comparison to previous year. On the whole, there will be a surplus of Rs. 335 million in the current year as against a surplus of Rs. 222.203 million during the last year.

For the next fiscal year, while the income is estimated at Rs. 1000 million as against the expenditure of Rs. 1063.689 million, there will be an estimated deficit of Rs. 63.689 million.

Earnings from most of the sources are estimated to increase next year. Of the estimated total expenditure of Rs. l063.689 million for the next year, Rs. 70

Million is estimated to spend on invisible imports and Rs. 900 million on imports of goods. The balance has been allocated for diplomatic missions, debt servicing and miscellaneous items. Expenditure of convertible currency for the next year is expected to be considerably higher due to the fact that level of import in the current year has been low because of higher level of stocks of development goods, which are now exhausted.

As I stated earlier, tax policy cannot be based on revenue considerations alone. Taxation is also an instrument of resource allocation and a mechanism for improving social distribution. The revenue measures that I propose today are, therefore, dictated by the reality of existing situation in monetary field, price, foreign trade and production, apart from the need for additional revenue to met the potential budgetary gap.

Even while presenting the budget in previous years, I had emphasized the need to make tax structure more equitable and collection system more efficient and I have been taking appropriate steps in that direction. This year, in the royal address, His Majesty the King has again directed us to make structural changes in tax system and to promote social justice. Guided by these basic principles and the policy measures I have mentioned above, I now propose the following changes in direct taxes.

As a relief to small farmers at subsistence level, I have made provisions for 50 % rebate on land revenue in respect of land ownerships that, in total, do not exceed one bigha of land. This measure will lead to a revenue loss of Rs. 10 million to His Majesty's Government. This loss will, however, be compensated by expected additional receipts of land revenue from resettled areas, for the registration of which effective measures will be under- taken.

In order to encourage payment of land revenue in time and to check arrears a rebate of 5 per cent in land revenue will henceforth be given to those landowners who pay the due amount by the end of Magh (Mid-Feb.). I should also mention here that a bill to provide for an improvement of land revenue administration would be presented in the House in the Dear future.

From the next fiscal year the registration fee on transfer of property in specified urban areas has been revised except on deeds with a value of Rs. 0.1 million. The registration fee on transfer deeds with a value above Rs. 0.1 million and under 0.5 million will now be 12 per cent and for those with a value above Rs 0.5 million the registration fee will be 15 per cent. The registration fee on transfer of property in other areas has been maintained at the present level in respect of those deeds with a value of Rs. 0.1 million.

However, the registration fee on transfer deeds for these areas also has now been revised upwards in respect of those deeds with a value above Rs. 0.1 million and under Rs. 0.5 million. The registration fee in such cases will be 10 per cent and on deeds, with a value above Rs.0.5 million, the fee will now be 12 per cent. Similarly, on endowment deeds to be effective before or after death, the registration fee on deeds with a value of up to Rs. 0.1 million will now be 6 per cent. For deeds with a value between Rs. 0.1 million and Rs. 0.5 million, the fee will be 10 per cent and for those with a value above Rs. 0.5 million the fee will be 12 per cent. I have also made arrangements for assessment of such fees on all endowment deeds on the basis of current market value. These measures are estimated to yield an additional Rs. 5 million.

In a country where 68 percent of the national income is generated from the agricultural sector, the contribution of this sector to development finance has been less than proportionate. Therefore, with a view to raise the contribution of this sector in meeting the needs it the national as well as local levels, Panchayat Development and Land Tax will be levied in some districts of the Kingdom. Such tax is now in operation in some panchayats of Jhapa and Morang districts. Experience shows that this tax can be an appropriate instrument of mobilising resources through changes in tax structure. Also in view of the demand made by the various district panchayats, this process is being initiated from the coming fiscal year and within the next five years this tax should cover the entire country. The land revenue will not be levied in those districts where the Panchayat Development and the Land Tax is in operation. Since this tax yields resources for local development as well, His Majesty's

Government will continue to provide grants-in-aid only in those districts where this tax is not in operation. In view of the fact that a new system of taxation on agriculture is being introduced, income from agriculture will not be assessed for the purpose of income tax from next year. This change will lead to a loss of Rs. 2.5 million in government revenue.

In spite of continuous efforts for more effective collection of taxes from urban property the revenue receipt from this source is far below the potential level. His Majesty's Government will therefore endeavour to spread the net more widely with the cooperation of concerned town panchayats. If such arrangements lead to the satisfactory results one third of actual collection from this source will be transferred to the concerned town panchayats as grants-in-aid. The rates of urban houses and land tax will remain unchanged.

I need not emphasize the needs of encouraging savings in private sector to mobilise resources for development. Increase in savings not only provides additional resources for development but also helps check money supply. Therefore with a view to increase savings, the earnings from interest on bank deposits will, from the next year, not be lumped together with earnings from other sources for income tax purposes. Instead, the earnings from interest on bank deposits will be assessed separately as per the following schedule:

Annual earnings from interest	**Tax rate -**
Up to Rs. 1,000	nil
Up to Rs. 3,250	5 percent
From Rs. 3,251 to Rs. 6,500	10 percent
From Rs. 6,501 to Rs. 13,000	15 percent
From Rs. 13,001 and above	20 percent

While this arrangement may lead to some loss in revenue for income tax the provision of separate assessment of income for interest including the provision for deduction at source is expected to yield a net additional revenue of Rs. 17 million.

I have introduced tax on bank credit with a view to check the evident pressure on money supply. From the next year, the commercial banks will be required to deposit with the government 0.75 percent of each loan and advance out of which the bank will collect 0.50 percent from the borrower and provide 0.25 on it's own. However, with a view to avoid tax burden on those who have to borrow from banks for some essential purposes, the loans against gold and silver are exempted. Similarly, exemption is given on those sectors in which the banks are required to advance loan by statutory rules and also on productive sectors such as agriculture and industry. This will yield Rs. 11.2 millions. I believe this measure will encourage the banks to advance loans on priority sectors.

I propose to raise the embarkation tax on international flight from Rs. 30 to Rs.40 per air passenger from the next fiscal year. However, the air flight tax on domestic flight will remain unchanged. This will yield additional revenue of Rs. 1.1 million.

From the coming fiscal year, the hotel tax will be collected at the rate of 10 percent as against the prevailing rate of 5 percent. The additional revenue from this source is estimated at Rs. 5.5 million. .

These above measures will yield additional revenue of Rs. 37.3 millions. All other direct taxes will be levied as before.

Now let me present proposals on indirect taxes.

The small and cottage industries provide a greater scope for employment, production and redistribution of income in the society. Therefore, to encourage such industries, I propose to exempt the excise duties on the production of industries with a fixed capital of Rs. 0.2 million except processing industries such as, rice mill, oil-mill, flour-mill and industries which produce alcohol and beverage cigarettes, bidi, matches and Kattha. This measure will help our small industries to compete with foreign import and will help in import-substitution.

From now on the excise duty on low-grade liquor and high-grade liquor will be levied at the rate of Rs. 7 and Rs. 35 per litre respectively as against the prevailing rate of Rs. 5 and Rs. 25. This will yield additional revenue of Rs. 5 million. All other excise duties are maintained at the present level. The craftsmen engaged in the manufacture of metal utensils have been contributing to the national production. There is scope for further employment in this field. Besides, the curio and handicraft industries are also growing rapidly. Therefore, to encourage these industries, import duties, of 1 per cent on imports from India and Rs. 6255 per metric ton from third countries on copper and copper alloys, sheets, wires, strips, circle and coils have now been changed. Likewise, the import duties of I per cent on imports from India and Rs: 5560 per ton from third countries on imports of copper alloys (with 50 per cent and above copper in weight) and unprocessed copper have also been changed. An import duty of Rs. 1,00 per metric ton will be charged on imports from overseas countries on the above-mentioned goods.

Radio, transistors are not only the means of entertainment but also a very important / medium of communication. With a view that our fellow countrymen may get better acquainted with the development works being executed in the country, the import duties on low-priced radio and transistors with a value not exceeding Rs. 600 has been lowered to 20 per- cent for import from India and 25 percent ad valorem on the import from overseas countries as against the prevailing rate of 75 percent and 90 percent respectively. However, only a surcharge of 15 percent will be levied on imports from India under A. R. I. Form. The duty on rectified spirit has been raised from Rs. 1.5 per litre to Rs. 10.0 per litre.

The present practice of charging I percent ad valorem customs duty and exempting sales tax not only to cottage industries but also to others on the recommendations of the Department of Tourism and Department of Industry has given rise to imports of goods, which are locally available. Therefore, to encourage the use of domestic products a customs duty of 10 percent will henceforth be charged on such imports. However sales tax exemptions will be continued. This measure is expected to yield additional revenue of Rs. 5 millions.

All other custom duties will remain unchanged. With a view to encourage cottage industries, cotton yarn, staples, raw wool and other similar raw materials are all exempted from sales tax. In addition, the products of small industries with fixed assets of less than Rs. 0.2 million and which have been exempted from excise duty as proposed above will also be exempted from sales tax. All other sales taxes will be continued as at present.

Taking cognisance of the provision made in the Five Year Plan to utilise foreign exchange reserves as a means of financing development and in view of the adverse effects of increasing foreign exchange reserves on money supply and price level, I propose to use a portion of these reserves in the import of development materials and essential consumer goods. To avert the possible setback on the competitiveness of domestic industries, a special license fee will be levied on such imports. It is estimated that Rs. 35 million will be received from such fees. With the increase in level of imports, this arrangement will further yield additional revenue of Rs. 50 million from import duties and sales tax.

On account of increase, this year, of royalty on sales of forest products, additional revenue of Rs. 20 million will be received from this source.

His Majesty's Government will further intensify efforts to increase the efficiency of public enterprise and to obtain reasonable return on investment in these enterprises.

All other taxes are maintained at the present level. The Honourable Members are aware of the continuous efforts being made for improvement in revenue administration. In this vein, Customs Border Patrolling Units will be reconstituted next year.

The above tax proposals are expected to yield Rs. 152.3 millions. With the total budgetary allocation of Rs. 3087.424 million and with revenue receipts and foreign aid estimated at and Rs. 1724.595 million and Rs. 1120.574 million respectively, the resulting budgetary deficit of Rs. 242.255 million will be met through internal borrowing.

I have presented to you a broad perspective of economic policies and the estimates of revenue and expenditure for the next year. The budget strikes a greater balance between revenue and expenditure and the efforts for resource mobilisation are guided by considerations that extend beyond the investment programme and revenue needs of the Government. What has been initiated in this respect is, in fact, a system that should facilitate resource mobilisation on a nation wide scale. Programmes are formulated with a view to extend the scope of development to rural areas so as to improve the lot of small farmers and to promote cottage and handicraft industries. In this manner, we can make development more meaningful to the majority of our population and enlist their active participation. The coming fiscal year is also the third year of the Fifth Plan. Care has, therefore, been taken to provide adequate resources for an investment programme that is commensurate with the targets of the Plan.

While allowing for a level of investment as above, the burden of additional taxation has been kept at a minimum level. In fact, the budget has granted tax relief in certain areas. Monetary and fiscal measures have been designed to check the pressure on price level. A more liberal import policy is proposed in order to ensure regular and adequate supply of goods. Without limiting its attention to measures for making government investment more effective, the budget initiates a process of making structural changes in taxation whereby the local Panchayats can gradually become self-reliant. In addition, the opportunities for the private sector have been further widened through an increase in the investment programme of the financial institutions.

Earlier, I referred to the increasing capability of the administrative machinery to execute development programme. The implementation of the report of the Administrative Reforms Commission should further contribute to the continuing efforts to make administration more effective, development oriented, and economical. With a view to gradually provide housing facilities to public employees, a programme to this effect is being prepared for implementation by the Karmachari Sanchaya Kosh. In addition, a life insurance scheme for the government employees is being devised which will be financed by a portion of the profit of the Karmachari Sanchaya Kosh and by the contributions of His Majesty's Government and the employees themselves.

The reality of the developing world is such that, while the developing countries falling in the middle-income bracket have been able to make some progress, the economic conditions of many low-income countries are becoming more difficult. According to the survey of Asian agriculture conducted by the Asain Development Bank, the production of food grains in Asia has hardly kept pace with the increase in population; in many countries, the disparity between the two has led to a fall in availability of food grains per capita. The need for a just and more equitable economic link between the developing world and the developed countries has been under discussion for sometime. This problem has also been considered in detail in various sessions of Conference on Economic Co-operation. However, not much has been achieved so far. The widening gap between the rich and the poor nations has, in fact, added tension in international relations. I am bringing up this matter on this occasion in order to highlight the reality before us. It is the common experience of most developing countries those efforts to promote growth and justice with a very limited resource base has more often than not met with disappointment. The seriousness of this problem is such that is has now become a matter of global concern.

Within the developing countries themselves, a microcosm of the global disparity appears in the widening gulf between the rich and the poor, which adds to the burden of managing development. Every developing country is now faced with an appalling problem where a majority of the people is deprived of even the minimum needs while a limited section of the population pursues it limitless consumption.

His Majesty the King drew our attention to the core of this problem when, in the Royal Address, he directed us to formulate economic programmes which will help meet the minimum basic needs of our people. As a step towards this goal, His Majesty's Government have formulated programmes of intensive local development in order to extend the scope of development activities to the rural level on a self-sustaining basis. As you all recall, during the last meeting of the National Development Council, His Majesty the King also gave directives to the National Planning Commission to conduct a mid-term appraisal of the current plan in order to redirect the programmes towards these objectives. These efforts should lead us to the desired goal more speedily.

The budget envisages greater degree of people's participation and an increased role for the Panchayats at the various levels. In a country with a limited resource base, it is only through mass participation and emphasis on local development that we can derive greater benefits from public investment. The extension of development process in this manner will also help spread benefits of development more equitably. Apart from the projects financed by Government's grant-in-aid or by the Panchayats' own resources, the Government will solicit people's cooperation also in the implementation of those programmes to be carried out by His Majesty's Government. May I assure the House that all agencies of His Majesty's Government will be guided by these objectives in the implementation of the budget I have presented today?