



Budget Policy & Fiscal Framework

Bhutan's Macro-economy and Public Finances in the Medium-Term

Eleventh Round Table Meeting
THIMPHU

2nd September, 2011

Ministry of Finance
Royal Government of Bhutan



Outline

1. The Budget Policy & Fiscal Framework (BPFF)
2. Macroeconomic Outlook in the Medium Term (Fiscal Years 2009/10 – 2013/14)
3. Projections of Public Finance
4. Public Expenditure Management Initiatives
5. Domestic Financing Trends
6. Official Development Assistance



The Framework: Basis

1. Result of reforms in **Good Governance** (2005).
2. A starting point for the Government's **Resource Allocation Mechanism** (RAM).
3. A first, necessary step for implementing *Multi-year Rolling Budgets* (MYRBs).
4. Links policies and plans (i.e. *Five Year Plans*, *Vision 2020*, and *MDGs*) to the annual budgets.
5. Adopted as per the *Public Finance Act* 2007.

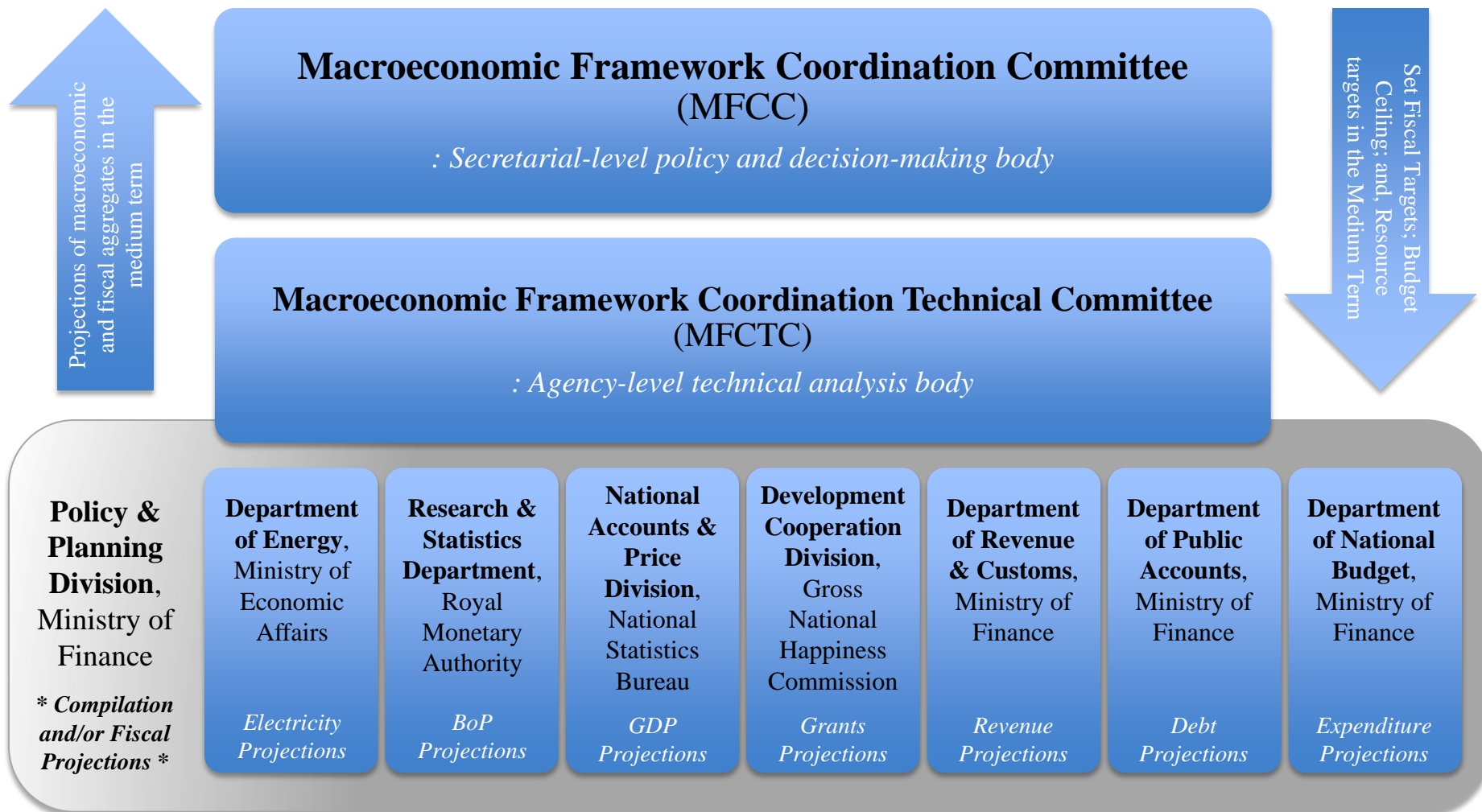


The Framework: Principles

1. A move from **needs-based** to **availability-based** budgeting.
2. Determines **resource envelope** and project **revenue requirements**.
3. Fundamental principles:
 - a. Maintain **aggregate fiscal discipline**.
 - b. Allocate **budgetary resources efficiently**.
 - c. Ensure **value for money spent**.
4. Typically covers a period of current year's estimate and actuals or projections for two outer years on a **rolling (1+2) basis**.



The Framework: Process





Macroeconomic Outlook

Table 1. BPF: Macroeconomic Aggregates

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Estimate	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
Real GDP Growth (%)	8.73	8.11	6.45	8.50	10.50	8.48
Nominal GDP	66,494.82	75,690.51	84,399.86	95,898.33	110,948.91	97,082.36
Agriculture, Livestock & Forestry	15.22	14.33	13.71	12.87	11.86	12.81
Industry	45.11	46.03	45.98	46.93	49.02	47.31
Services	36.93	36.90	37.54	37.42	36.38	37.11
Inflation	5.73	8.16	6.49	4.00	4.00	--
Current Account Balance	-8,754.90	-6,000.80	-10,075.52	-21,283.18	-25,701.40	-19,020.03
Trade Balance	-13,938.19	-11,006.62	-15,844.89	-20,064.28	-23,722.71	-19,877.29
Capital & Financial Account	7,008.98	12,495.15	19,528.44	25,173.52	27,944.89	24,215.62
Overall Balance	4,401.40	6,494.35	9,452.92	3,890.34	2,243.49	5,195.58



Macroeconomic Outlook

Table 1. BPF: Macroeconomic Aggregates (Continued)

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Estimate	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
External Debt Outstanding	35,736.67	42,035.83	55,020.52	67,187.02	79,121.72	67,109.75
<i>As a % of Nominal GDP</i>	53.74	55.54	65.19	70.06	71.31	68.85
Rupee (India) Debt	18,277.6	18,572.00	25,043.80	34,145.50	44,776.80	--
Hydropower Debt	22,294.50	25,378.80	33,306.61	42,796.51	53,870.67	43,324.60
<i>As a % of Total Debt</i>	60.60	59.14	59.77	63.20	67.79	--
<i>As a % of Total External Debt</i>	62.39	60.37	60.53	63.70	68.09	64.11
Total External Debt Service	4,272.12	3,950.86	4,069.65	4,332.17	5,552.37	13,954.18
<i>External Debt Service Ratio</i>	13.14	13.47	13.31	12.70	14.41	--
Gross International Reserves (\$)	856.31	1,018.28	1,162.95	1,190.06	1,233.52	--
<i>In Months of Imports of GNFS</i>	11.01	13.56	14.37	13.80	13.27	--



Macroeconomic Updates

1. Projections of growth **rely disproportionately** on accurately **sequencing construction cycles of hydropower projects**.
2. Recent **price pressures** threaten to erode strong gains in growth.
3. Favorable overall balance albeit **import and aid dependency**.
4. Foreign reserve accumulation **not a result of export performance**.



Macroeconomic Updates

5. Unemployment rate at **3.3%** in CY 2010.
6. **Price, interest, and exchange rates** in Bhutan, for the most part, fluctuate in tandem with rates in India.
7. Significant increase in public **external debt obligations** on account of ‘commercially viable’ hydropower projects.
8. Excluding private debt, government **debt service ratio** at 14% (of exports of goods & services).



Public Finance Projections

1. BPF projections **going forward; critical assumptions:**
 - a. Capital expenditure remains **dependent** on external financing.
 - b. No **new (ODA) commitments** beyond the end of the Tenth Five Year Plan (FY 2012/13).
2. Current expenditures **fully met** through domestic revenues in the medium term.



Public Finance Projections

Table 2. BPF: Public Finance Aggregates

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Budgeted	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
Resource (Revenue + Grants)	30,990.68	30,549.66	32,546.04	24,696.37	19,249.91	25,497.44
Domestic Revenue	15,638.43	16,962.55	18,606.98	18,825.05	19,249.91	18,893.98
Tax Revenue	9,655.78	11,097.89	12,857.02	12,382.40	12,564.19	--
Grants	11,118.88	13,314.00	13,859.12	5,871.32	0.00	6,576.82
Project-tied Grants	9,149.55	11,430.20	11,958.38	4,269.62	0.00	5,409.34
Programme Grants	1,969.33	1,883.79	1,900.74	1,601.70	0.00	--
Outlay (Total Exp. + Net Lending)	29,888.99	34,196.62	37,857.80	28,635.90	31,616.57	32,703.42
Total Expenditure	25,831.83	35,073.08	37,954.70	29,727.33	33,504.94	33,728.99
Current Expenditure	12,902.69	15,772.27	17,185.31	18,945.83	18,657.04	18,262.73
Capital Expenditure	12,929.14	19,300.82	20,769.40	10,781.50	14,847.91	15,466.27



Public Finance Projections

Table 2. BPF: Public Finance Aggregates (Continued)

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Budgeted	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
Net Lending	-400.37	-876.47	-96.91	-1091.44	-1888.37	--
Fiscal Balance	1,101.69	-3,646.96	-5,311.76	-3,939.52	-12,366.66	-7,205.98
<i>As a % of Nominal GDP</i>	1.66	-4.82	-6.29	-4.11	-11.15	-7.18
Financing	-1101.69	3,646.96	5,311.76	3,939.52	12,366.66	--
Borrowing	2,817.51	3,106.37	2,403.20	2,622.46	733.03	--
Repayment	2,735.53	2,348.06	2,353.41	2,535.90	2,768.99	--
Resource Gap	-1,183.67	2,888.65	5,261.97	3,852.96	14,402.62	Σ 23,517.56
<i>As a % of Nominal GDP</i>	-1.78	3.82	6.23	4.02	12.98	7.74



Public Finance Updates

1. Government **spending drives overall growth** in Bhutan.
2. Internal resources adequate to meet current expenses as per **Constitutional stipulation.**
3. Projections of sustainable fiscal balances upto the end of the 10th FYP assumes **continued inflow of already committed ODA.**



Public Finance Updates

4. **Predictable and adequate capital inflows** (grants, aid, concessional loans) in the medium to long term important for framing a robust **resource picture** for Eleventh Five Year Plan.
5. Fiscal size expected to contract – *ceteris paribus* – in the medium term as **10th FYP winds down.**
6. **Public debt burgeoning** despite being deemed sustainable under most scenarios of **sensitivity analyses.**



PEM Initiatives

1. Multi Year Rolling Budget (**MYRB**)
 - a. Web-based budgeting and budget management module.
 - b. Move towards **performance budgeting**.
 - c. Central part of the Government's efforts to ensure **effective use of public resources**.

2. Public Expenditure Management System (**PEMS**)
 - a. Web-based system introduced to strengthen the Government's **financial management system**.
 - b. Upgraded from the former **Budget & Accounting System** (BAS).



PEM Initiatives

3. Public Financial Management Accountability Assessment (**PFMA-A**) – The World Bank (2010)
 - a. **31 key indicators** of aggregate fiscal discipline; strategic allocation of resources; efficient service delivery; and, overall reform processes.
 - b. Finds a **strong foundation** for public finance management and good governance in place.



PEM Initiatives

4. Debt Management Performance Assessment (**DeMPA**) – The World Bank and Debt Relief International (2010)
 - a. Assessment of a country's **capacity to manage its debt**. Finds Bhutan's policy and institutional settings are **strong**.
 - b. Bhutan's debt structure poses **low (fiscal) risks** as purposes for borrowing are **clearly specified; in line with primary legislation; and, not to finance current expenditure**.



PEM Initiatives

5. Cost Reduction Measures

- a. To control and minimize wasteful expenses in office **utilities and stationeries; pool vehicles; hospitality; advertisement;** and, purchase of **computers.**

6. Reforms in **Procurement System** (2011)

- a. Establishment of the **Procurement Policy and Management Divisions** (2009 and 2011).
- b. To assess and introduce **efficient procurement methods** and standardize goods/services.
- c. **Central procurement of** widely-used goods.



Domestic Financing Trends

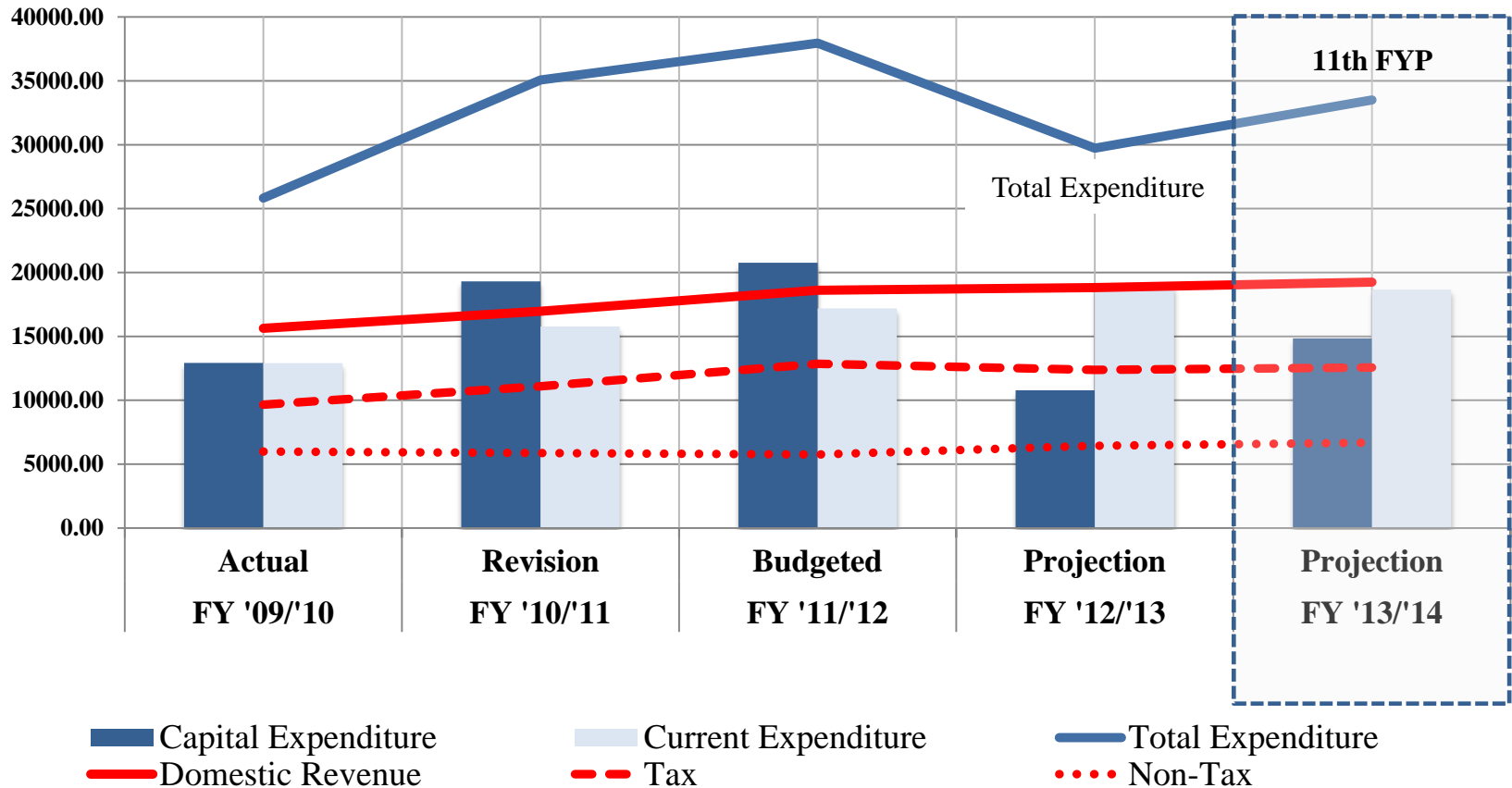
Table 3. BPF: Domestic Revenue

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Budgeted	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
Total Domestic Revenue	15,638.43	16,962.55	18,606.98	18,825.05	19,249.91	--
<i>Year-on-Year Growth</i>	<i>11.31</i>	<i>8.47</i>	<i>9.69</i>	<i>1.17</i>	<i>2.26</i>	<i>4.37</i>
<i>As a % of Total Expenditure</i>	60.54	48.36	49.02	63.33	57.45	--
<i>As a % of Current Expenditure</i>	121.20	107.55	108.27	99.36	103.18	103.60
Tax Revenue	9,655.78	11,097.89	12,857.02	12,382.40	12,564.19	--
<i>Year-on-Year Growth</i>	<i>48.95</i>	<i>14.94</i>	<i>15.85</i>	<i>-3.69</i>	<i>1.47</i>	--
<i>As a % of Total Domestic Revenue</i>	61.74	65.43	69.10	65.78	65.27	--
Non-tax Revenue	5,982.65	5,864.67	5,749.96	6,442.65	6,685.72	--
<i>Year-on-Year Growth</i>	<i>-20.93</i>	<i>-1.97</i>	<i>-1.96</i>	<i>12.05</i>	<i>3.77</i>	--
<i>As a % of Total Domestic Revenue</i>	38.26	34.57	30.90	34.22	34.73	--



Domestic Financing Trends

Figure 2. BPF: Domestic Revenue Trends





External Financing Trends

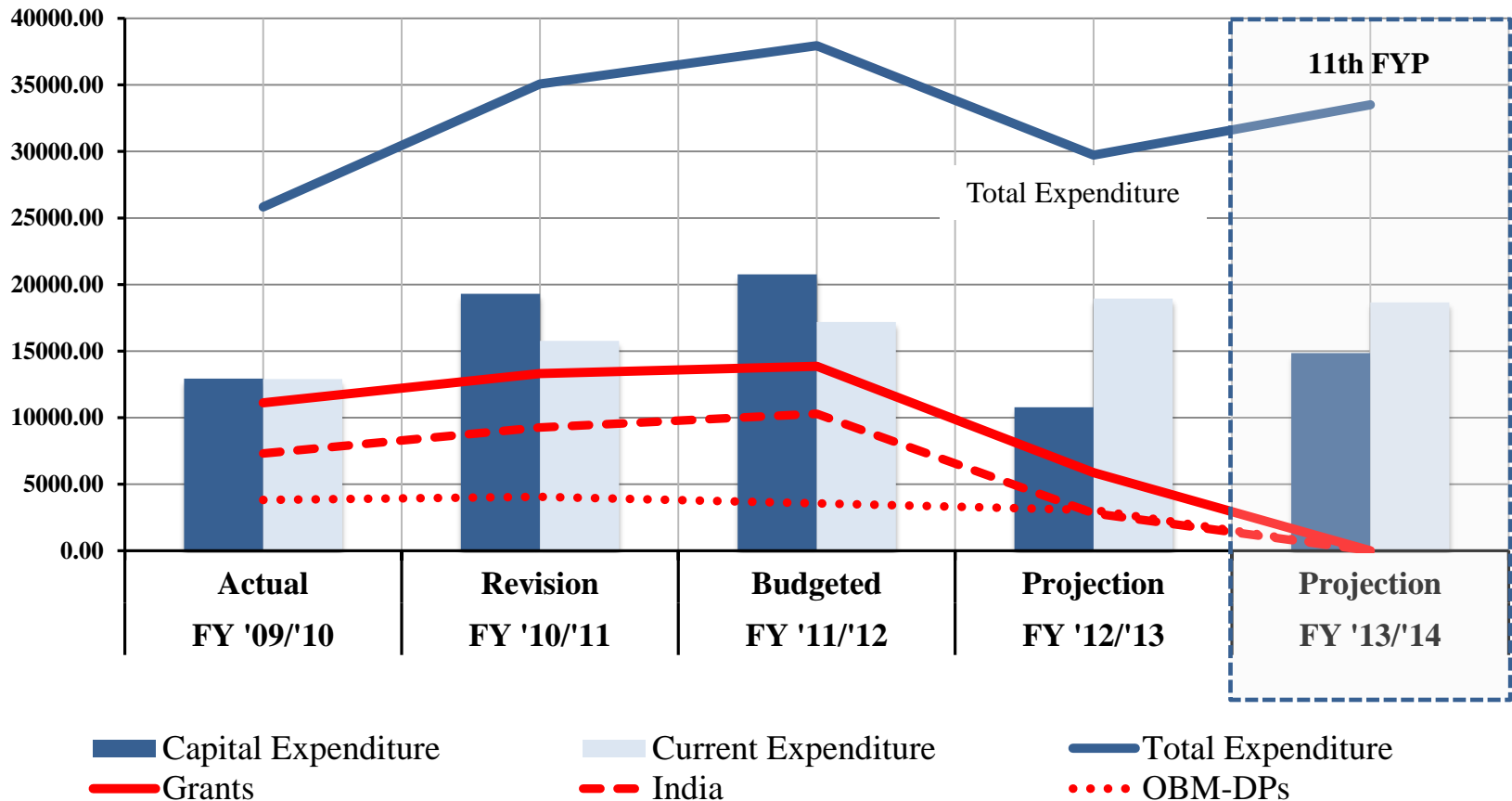
Table 4. BPF: Official Development Assistance/Grants

	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	Average: 2011 – 2014
	Actual	Revision	Budgeted	Projection	Projection	
	<i>In Millions Ngultrum (unless otherwise stated)</i>					
Total Grants	11,118.88	13,314.00	13,859.12	5,871.32	0.00	6,576.82
<i>As a % of Total Expenditure</i>	43.04	37.96	36.51	19.75	0.00	
<i>As a % of Capital Expenditure</i>	86.00	68.98	66.73	54.46	0.00	40.40
Grants from India	7,306.39	9,261.47	10,294.10	2,808.63	0.00	--
<i>As a % of Capital Expenditure</i>	56.51	47.98	49.56	26.05	0.00	--
<i>As a % of Total Grants</i>	65.71	69.56	74.28	47.84	0.00	--
Grants from OBM-DPs *	3,812.49	4,052.53	3,565.02	3,062.69	0.00	--
<i>As a % of Capital Expenditure</i>	29.49	21.00	17.16	28.41	0.00	--
<i>As a % of Total Grants</i>	34.29	30.44	25.72	52.16	0.00	--



External Financing Trends

Figure 3. BPF: ODA/Grants Trends





External Financing

1. ODAs **highly effective** for Bhutan.
2. On average, **39%** of total expenditure and **74%** of capital expenditures of **first three budgets of the 10th FYP** funded by ODAs.
3. India is Bhutan's largest development partner with **70% on average of total development assistance** from FY 2009/10 to FY 2011/12.



External Financing

4. Major bilateral development partners such as Austria, Denmark, Japan, Netherlands, and Switzerland; and multilateral partners like the UN Agencies, EU, The World Bank, ADB, IFAD, etc ... remain **key to development**.
5. International development partners funded – on average – **12% of total expenditure and 24% of capital expenditure** in the first three years of the 10th FYP.



External Financing

6. Under **current assumptions**, capital investment **expected to decline significantly** in the medium term as ODAs projected to decrease without a **clear alternative or substitute avenue for financing**;
7. And, given the growing trends in **fiscal deficits** and a projected **resource gap of over Nu. 23 billion** in the medium term:



External Financing

8. Exacerbate Bhutan's existing **external debt profile**;
9. Thus, hindering critical development investment and the full achievement of international development goals such as the **MDGs** and Bhutan's own ***Vision 2020 Goals***.
10. ODA remains a **necessary development input** to Bhutan's aspirations of **Gross National Happiness** in the foreseeable future.



Thank you