

INDICATIVE ESTIMATE OF IMPACT FROM REVENUE REFORMS

1. The following table presents the fiscal projections reflecting the impact of the revenue reforms supported under the Strengthening Economic Management Program II.

Fiscal Projections

Item	FY2013 (Actual)	FY2014 (Revised)	FY2015 (Budget)	FY2016 (Projection)	FY2017 (Projection)
A. Total Resources					
Nu million	30,656.1	33,171.8	31,959.3	42,867.6	46,436.8
\$ million	515.8	556.1	493.2	632.4	654.9
% of nominal GDP	29.3	28.5	24.6	30.0	29.7
1. Domestic Revenue					
Nu million	21,101.7	21,860.9	24,599.0	26,952.3	30,283.5
\$ million	355.1	366.5	379.6	397.6	427.1
a. Tax					
Nu million	15,403.1	15,353.6	17,619.7	20,253.0	23,386.0
\$ million	259.2	257.4	271.9	298.8	329.8
b. Non-Tax					
Nu million	5,698.6	6,507.3	6,979.3	6,699.3	6,897.6
\$ million	95.9	109.1	107.7	98.8	97.3
2. Grants					
Nu million	9,562.6	11,179.8	7,360.2	15,915.2	16,153.2
\$ million	160.9	187.4	113.6	234.8	227.8
3. Other Receipts (Net)					
Nu million	(8.2)	131.0	...	...	...
\$ million	(0.1)	2.2	...	...	...
B. Outlay					
Nu million	34,900.8	37,773.3	35,406.3	44,145.8	46,301.0
\$ million	587.3	633.2	546.4	651.2	653.0
% of nominal GDP	33.4	32.5	27.3	30.9	29.6
1. Total Expenditure					
Nu million	36,527.8	39,620.5	37,098.0	46,227.0	48,315.6
\$ million	614.6	664.2	572.5	681.9	681.4
a. Current Expenditure					
Nu million	18,096.6	19,261.3	21,895.7	24,281.4	25,883.4
\$ million	304.5	322.9	337.9	358.2	365.0
b. Capital Expenditure					
Nu million	18,431.3	20,359.1	15,202.3	21,945.6	22,432.2
\$ million	310.1	341.3	234.6	323.7	316.3
2. Net Lending					
Nu million	(739.9)	(1,847.1)	(1,691.7)	(2,081.2)	(2,014.6)
\$ million	(12.4)	(31.0)	(26.1)	(30.7)	(28.4)
3. Advance/Suspense (Net)					
Nu million	(887.1)	...	...	...	...
\$ million	(14.9)	...	...	...	...
C. Fiscal Balance					
Nu million	(4,244.7)	(4,601.6)	(3,447.1)	(1,278.2)	135.8
\$ million	(71.4)	(77.1)	(53.2)	(18.9)	1.9
% of nominal GDP	(4.1)	(4.0)	(2.7)	(0.9)	0.1

Item	FY2013 (Actual)	FY2014 (Revised)	FY2015 (Budget)	FY2016 (Projection)	FY2017 (Projection)
Financing					
Nu million	4,244.7	4,601.6	3,447.1	1,278.2	(135.8)
\$ million	71.4	77.1	53.2	18.9	(1.9)
Net Borrowing					
Nu million	492.3	66.2	(1,358.1)	371.6	9.7
\$ million	8.3	1.1	(21.0)	5.5	0.1
1. Borrowing					
Nu million	16,463.5	2,824.3	1,558.7	3,664.5	3,042.3
\$ million	277.0	47.3	24.1	54.1	42.9
2. Repayment					
Nu million	15,971.2	2,758.1	2,916.8	3,292.9	3,032.7
\$ million	268.7	46.2	45.0	48.6	42.8
Resource Gap^a					
Nu million	(3,752.4)	(4,535.4)	(4,805.2)	(906.6)	145.4
\$ million	(63.1)	(76.0)	(74.2)	(13.4)	2.1
% of nominal GDP	(3.6)	(3.9)	(3.7)	(0.6)	0.1
Nominal GDP					
Nu million	104,473.0	116,283.4	129,831.4	143,039.9	156,545.4
% annual growth		11.3	11.7	10.2	9.4
Exchange Rate					
Nu/\$	59.4	59.7	64.8	67.8	70.9

... = data not available, () = negative, FY = fiscal year, GDP = gross domestic product, Nu = ngultrum.

Note: Revised estimates are as of 31 March 2014.

^a Resource gap = [domestic revenue + grants + other receipts + net borrowing – current expenditure – capital expenditure – net lending – advance/suspense].

Sources: Non-tax revenues, grants, other receipts, net lending, net advance/suspense, net borrowing, borrowing, repayment, nominal GDP and exchange rate for all fiscal years are from Government of Bhutan, Ministry of Finance. 2014. *National Budget Financial Year 2014/15*. Thimphu. Total resources, domestic revenue, tax, outlay, total expenditure, current expenditure, capital expenditure, fiscal balance, and resource gap for FY2013, FY2014 and FY2015 are from Government of Bhutan, Ministry of Finance. 2014. *National Budget Financial Year 2014/15*. June. Thimphu, while the figures for these items in FY2016 and FY2017 are Asian Development Bank projections (as explained in paras. 2-3).

2. The assumptions and methodology for tax revenue projections under the reform scenario are as follows:

- (i) The projections for FY2016 and FY2017 are based on direct and indirect tax buoyancy figures. The direct and indirect tax buoyancies declined after the rupee liquidity crunch in FY2012. In combination with the economic recovery and reforms of SEMP II, the direct tax buoyancy is assumed to increase progressively from 1.5 in FY2016 to 1.7 in FY2017, approaching the average buoyancy of 1.8 during FY2008-FY2012, covering the pre-rupee liquidity crunch period. Similarly indirect tax revenue buoyancy is assumed to increase progressively to 1.4 in FY2016 and to 1.5 in FY2016 from an average of 1.3 during FY2010–FY2014, covering the post-liquidity crunch period.¹
- (ii) Nominal gross domestic product (GDP) growth rates increase annually at 11.7% in FY2015, 10.2% in FY2016 and at 9.4% in FY2017. (Table) Inflation is estimated at 7% during FY2015–FY2017.²

¹ Tax buoyancy data is compiled from Ministry of Finance. Department of Revenue and Customs. *National Revenue Report 2013/2014*. Thimphu, and earlier reports for FY2008–FY2012.

² Asian Development Bank. *Asian Development Outlook 2015. Bhutan: Selected Economic Indicators*. Manila.

- (iii) The growth rates of direct and indirect taxes are calculated by multiplying the associated tax buoyancy with nominal GDP growth rate of the corresponding fiscal year. Tax projections are generated using baseline tax figure in FY2015 and the calculated growth rates.
- (iv) The share of direct taxes in total tax revenue is assumed to be 69% and the share of indirect taxes is assumed to be 31%.³

3. The assumptions and methodology for fiscal balance and resource gap projections under the reform scenario are as follows:

- (i) Total resources are calculated as sum of tax revenues (projected as explained in para.2), non-tax revenues, grants and other receipts.
- (ii) Outlay is calculated as sum of total expenditure (current and capital expenditures, projected as explained in (iv) and (v) below), net lending, and net advance/suspense.
- (iii) Fiscal balance is calculated as the difference between total resources and outlay.
- (iv) Current expenditures are assumed to increase commensurate with the change in total domestic revenue (tax + non-tax) projected for FY2016 and FY2017. An average tax revenue/current expenditure ratio of 0.9 is maintained, which is comparable to the average of 0.8 during FY2010–FY2014.⁴
- (v) Capital expenditures are assumed to increase commensurate with the change in total domestic revenue (tax + non-tax) projected for FY2016 and FY2017. An average (capital expenditures + net lending)/outlay ratio of 0.45 is maintained in FY2016 and in FY2017, comparable to the average ratio of 0.50 during FY2009–FY2014.⁵
- (vi) A conservative estimate is assumed in the reform scenario with no multiplier effect on GDP from additional capital expenditures in FY2016 and FY2017, and therefore there is no additional tax collection and further reduction in fiscal deficit and resource gap to GDP ratios.

³ Tax composition data is from Ministry of Finance. Department of Revenue and Customs. *National Revenue Report 2013/2014*. Thimphu.

⁴ Ministry of Finance. Department of Revenue and Customs. *National Revenue Report 2013/2014*. Thimphu, and earlier reports for FY2008–FY2012.

⁵ Royal Monetary Authority of Bhutan. 2015. *Annual Report 2013/2014*. January. Thimphu.