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PARLIAMENT OF BHUTAN
PUBLIC ACCOUNTS COMMITTEE

Report of the Public Accounts Committee to the Fifth Session of the Second Parliament

(15th May, 2015)

Committee Members:

1. Hon. Choida Jamtsho (NA MP-Nganglam-Pemagatshel),
Chairperson;
 2. Hon. Pema Dakpa (NC MP-Zhemgang), Dy. Chairperson;
 3. Hon. Karma Tenzin (NA MP-Wamrong, Trashigang), Member;
 4. Hon. Karma Damcho Nidup (NC MP-Eminent), Member;
 5. Hon. Dopphu Dukpa, (NA MP-Kabji-Talo), Member
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PUBLIC ACCOUNTS COMMITTEE REPORT TO THE FIFTH SESSION OF THE SECOND PARLIAMENT

1. Introduction

The Public Accounts Committee (PAC) has a statutory duty to examine all reports of the Auditor General that are presented to the Parliament of Bhutan and reports the results of its deliberations to the Parliament. The Committee has considered the Audit Report on Public Debt Management, April 2014, for further review considering the significance of audit findings and the public interest arising from the report. Further, the Committee got the clarification on this report through the following:

- Presentation by Royal Audit Authority (RAA) on Audit Report on Public Debt Management on 7 May 2015
- Presentation on the updated public debt, budgetary, fiscal and monetary situation by the Ministry of Finance (MoF), the Royal Monetary Authority (RMAB) of Bhutan and Gross National Happiness Commission (GNHC) on 7 May 2015.
- Status of the action taken report on audit recommendations by MoF and the Audit's further comments on the action taken report.

This report of the Committee's examination draws attention to the main issues raised in the audit report and where appropriate, the Committee has commented on issues and made recommendations.

In addition, the Committee will be presenting the Rules of Procedure (RoP) of PAC as per the resolutions of third and fourth sessions of the 2nd Parliament. The Committee consulted with the experts of the World Bank and compiled the rules in to fifteen chapters.

2. Audit Report on Public Debt Management

1.1. Background

The global economic crisis in 2008 had a significant impact on the level of public debt in many countries. The average external debt to GDP ratio remained above 60% in a number of countries including the developed ones. Bhutan too was no exception.

According to the Debt Sustainability Analysis (DSA) carried out by International Monetary Fund (IMF) in 2011 (Article IV), Bhutan falls under moderate but significant risk of debt distress as most of the indicative thresholds were temporarily breached.

The Constitution of the Kingdom of Bhutan and the Public Finance Act 2007 clearly stipulates that the level of public debt should not result in undue burden to the future generation.

1.2. Objectives and Scope of Audit

The RAA in accordance with mandate bestowed by the Constitution of the Kingdom of Bhutan and the Audit Act conducted the audit of public debt management and some of the other related macro-economic management functions to ascertain whether the public debt is managed in a prudent and sustainable manner.

In particular the scope and objectives of the audit included the review and ascertainment of the following:

- (i) Existence and adequacies of legal, policy and institutional framework governing the management of public debt;
- (ii) Prudent and sustainable management of the public debt including foreign reserve management;
- (iii) Adequacy of co-ordination and information sharing arrangements, debt analysis, monitoring and control;
- (iv) Compliance with extant legal and other requirements including loan covenants; and
- (v) Adequacy of system of record keeping, financial reporting and disclosure of information on the public finance and public debt in particular.

While the RAA's review was confined mostly to the period 2008-09 to 2012-13, inferences were also made to the preceding and succeeding periods. The verification and review of records were confined to the following agencies:

- (i) Department of Public Accounts (DPA), MoF;
- (ii) Debt Management Division (DMD), MoF;
- (iii) Public Enterprise Division (PED), MoF;
- (iv) GNHC;

- (v) Department of Hydropower and Power Systems (DHPS), Ministry of Economic Affairs (MoEA); and
- (vi) RMAB

3. Concept of Public Debt in Bhutan

The public debt or total external debt in Bhutan could be categorised into Public and Publicly Guaranteed (PPG) external and internal debts.

In the context of Bhutan, the PPG external debt can be further classified under three categories:

Table 1: Debt Category

Category	Types of Debt
Category I	1. Government Budgetary Debt
	2. Government Corporate Debt
	3. Central Bank Debt
Category II	1. Hydropower Debt
	2. Non-Hydropower Debt
Category III	1. Rupee Debt
	2. Convertible Currency (CC) Debt

Prior to development of Medium Term Debt Strategy (MDTS) for FY 2013-14 to 2017-18, the government had used the following strategy with an objective of minimising financing costs.

When all the available resources are lined up at the stage of formulating the next year's budget, the Department of National Budget provisionally allocate internal revenue for meeting government expenditure (current & capital). If the internal revenue is not adequate, then a customary approach of maximising grants first, followed by tapping concessional credit lines from multilateral and bilateral agencies are considered.

In general, the internal revenue (tax and non-tax revenue) constitutes more than 54% of total outlay to meet the government expenditure (Capital and Current) and the balance is met from the external sources in the form of grant and loans (more than 34% grants and 10% loan). This is how the public debt has been built-up in Bhutan over the years.

Debt is raised mostly from external sources since the domestic debt market in Bhutan is still underdeveloped. There is a lack of alternative sources of government finance within the country, and as such Government had to resort to raising external grants and borrowings.

4. Existing Legal and Institutional Structures

Public Debt Management in Bhutan is guided by the provisions of the Constitution of the Kingdom of Bhutan 2008, the Public Finance Act 2007, Public Finance (Amendment) Act 2012 and the Royal Monetary Authority Act of Bhutan 2010.

5. RAA's Findings

The audit findings incorporate range of issues including legal and policy framework, institutional arrangements, public debt and macro-economic situation, debt servicing and cash flow management, borrowing and debt servicing costs, foreign reserve management. Most pertinent findings and recommendations summarised here under:

- a. Absence of a clear policy framework, guidelines on the public debt and benchmarks on borrowing limits may pose risk of raising borrowings, thus endangering the credit worthiness and national solvency, inconsistent borrowing practices impeding effective decision-making and optimal & sustainable management of public debt.
- b. Lack of convergence of existing laws could lead to excessive and unsustainable borrowings, excessive risk exposure, and non-incorporation of such debts and guarantees in the total public debt position of the Nation.
- c. The debt situation reports have not been made public, thereby impeding disclosure and transparency of public debt situation.
- d. While the developmental activities as envisaged in the Five Year Plan documents had to be implemented, one of the resultant effects had been the accumulation of public debt over the years. With the widening gap between the growth of the total expenditure and the total revenue, the fiscal situation of the country may deteriorate further.
- e. The dependence on external borrowing would continue in the absence of clear strategies to use funds available in the domestic capital market and to augment growth of domestic capital market.
- f. The major shift in the current plan for downsizing the capital outlay is a result of failure to appreciate the importance of maintenance budget for infrastructure management during the prior plan periods.

- g. Savings at the cost of non-implementation of planned works would be undesirable, as it would ultimately mean non-delivery of services or deferral of service delivery.
- h. The alarming ratios crossing the World Bank-IMF threshold level of 35% (Debt Service to Revenue) forewarns possible symptoms of high indebtedness.
- i. The repayments will have to be met from the internal revenue, and therefore, there would be more stress on the limited internal revenue and current expenditure of the government.
- j. The government relied on Ways and Means Advances (WMA) and T-Bills to manage Government Consolidated Accounts (GCA), which ultimately were also used for financing the debt repayments.
- k. While hydropower projects have had a huge impact in the country's socio-economic development, the time and cost overrun of the current projects will have multiple impacts such as loss of revenue, higher generation cost, increased loan and interest burden and consequential increase in repayment obligations.
- l. Lack of clear guidelines and instructions and adequate scrutiny of project proposals could result in improper allocation of borrowed funds.
- m. The Balance of Payment (BoP) situation with India and inadequate Indian currency reserves has exerted more pressure on convertible currency reserves.
- n. In the absence of accurate repayment projection and non-availability of repayment schedule with the RMAB well in advance, a realistic or proper cash flow and investment planning was not carried out.
- o. Given that India is the major trading partner of Bhutan for the import of goods and services and that the trade deficit is showing an increasing trend, the INR reserve maintained is inadequate.
- p. Hydro power debt is executed and managed by MoEA and the other borrowings are handled by MoF (DMD and PED), GNHC, RMAB and Druk Holding and Investment (DHI). Such scattered debt management functions and responsibilities may impede proper borrowing decision making due to non-availability of timely and requisite information.

- q. Debt management is a highly specialised and technical job, demanding trained, specialised and adequate human resources. The DMD as a mere Division may not create incremental impact on building the expertise and skills needed to address the complexities of debt management.

6. RAA's Recommendations

- 1) A clear Policy Framework on Public Debt should be developed

MoF's Response: Based on the directives of Lhengye Zhungtshog vide letter No. C-3/40/455 dated July 10, 2014, the MoF has developed a draft Public Debt Policy, which will be submitted to the Government for approval. Debt Policy has been developed by a working committee with members from RMAB, PED, DPA, NSB and PPD of Ministry of Finance.

- 2) Public Debt Management Act, Rules & Regulations and guidelines should be framed

MoF's Response: The Public Finance Act 2007 and amendment on 2012 therefore provides broad framework on public debt management. The draft Public Debt Policy would cover provisions that are not adequately captured in the PFA. Hence, the need for a separate public debt management act will be considered once after the Debt Policy is adopted.

- 3) Convergence of existing laws on public borrowings should be ensured

MoF's Response: Recognising the importance to harmonise the existing laws on public borrowings executed by different authorities, the MoF has had consultations with the relevant agencies including DHI. The discussions are still on-going.

- 4) Comprehensive reporting on debt to the public should be made

MoF's Response: The debt information as published in the Annual Financial Statement (AFS) and Annual Budget Report has been regularly uploaded in MoF's website for public information. The quarterly debt situation report which is presently used for internal reference will be uploaded in MoF's website for public reference. Further, in August, 2014 a detailed presentation on country's debt situation was made to the members of the National Council. The presentation was well received and members recommend similar presentation be made to parliamentarians. Such activities will be initiated by the Ministry in near future.

- 5) Huge gap between public spending and internal revenue should be reviewed

MoF's Response: The gap between public spending and internal revenue is viewed as part of the budget preparation and reported to Lhengye Zhungtshog during the budget presentations every year. The MoF has been issuing circulars to all budgetary agencies to rationalise expenditure on non-development activities such as annual conferences, coordination meetings, expenditure on operation and maintenance, etc. On the subsidy component, as observed by the RAA, the MoF's ultimate objective is to make the subsidy recipient agencies self-sustaining in the long run. The government is also adopting a policy of time bond and targeted subsidy. Therefore, the MoF has been emphasizing that unless the subsidy recipient agencies do not cover their recurrent cost (at least the maintenance), RGoB will not continue its subsidy for long.

Towards this, the MoF has allowed introduction/revision of fees from time to time in some Thromdes so that it can generate revenue to manage on its own in the process. Further, MoF is also exploring possibility to burden tax base.

- 6) Budget forecast and determination of borrowing needs to be made more accurate

MoF's Response: Recognising the need to have realistic forecast to better manage our borrowings, Macro-economic Framework Co-ordination Committee (MFCC) supported by Macro-economic Framework Coordination Technical Committee (MFCTC) from key economic agencies have been entrusted with the task of carrying out realistic resource forecast. Further, the Department of National Budget as part of its Performance Management targets, the budget allocation is being reviewed to improve the forecast and allocation formula.

The Department of Public Accounts has also initiated expenditure plan for spending agencies which is targeted to help in determining borrowing needs in the short-run. In determining government's financing needs in the medium to long term, the capital market development has been initiated with the help of Asian Development Bank (ADB). The MoF envisages coming up with calendar for issuing government securities in the near future. Such initiatives are expected to enhance forecasting resource envelope.

7) Absorption capacity of the Government to be studied

MoF's Response: In order to provide the agencies with requisite institution and technical capacity, the government has been allocating huge resource for human resource development including the private sector. Further, the government has initiated organisational development exercise which is expected to address the absorption capacity. Lack of absorptive capacity in the implementing agencies has resulted in under-utilisation of budget which has been periodically reported to the government and the parliament. Signing performance agreement is also expected to address the issue of absorptive capacity of the implementing agencies. For any new loan projects to be availed in future, the lender assess the technical capacity of the agencies before loan financed project is approved.

8) Domestic capital market to be developed

MoF's Response: As an initiative to develop domestic capital market, the RMAB and MoF, with financial assistance from ADB, have developed a policy paper on developing the government securities market in Bhutan. This policy paper provides strategies and policies to develop government securities market.

9) Level of public debt should be reviewed

MoF's Response: The Public Debt Policy being developed will provide the level of the public debt to be maintained at sustainable level. The policy will provide the threshold and benchmarks of public debt that government will avail.

10) Maximum debt threshold should be set

Ministry of Finance's Response: The Public Debt Policy being developed will provide the level of the public debt to be maintained at sustainable level. The policy will provide the threshold and benchmarks of public debt that government will avail.

11) Liquidity monitoring of public debt should be instituted

MoF's response: The liquidity monitoring of public debt is covered in the periodic DSA carried out both by the MoF and IMF. The DSA provides clear picture of the liquidity situation of the public debt. Further, the Debt Policy which is being drafted would, in a many ways, provide mechanism to monitor the liquidity situation of the public debt.

- 12) Exchange rate fluctuation risk against convertible currency debt needs to be minimized

MoF's Response: Medium Term Debt strategy (MTDS) of the MoF ensures desired composition and currency of debt which helps to minimise the adverse impact of foreign exchange risks. Further, MoF has started on-lending by passing on the foreign exchange risks to the corporations.

- 13) Government should take steps to minimize adverse impact of debt service burden concentration in particular months

MoF's Response: During the time of loan negotiations, MoF will ensure that the proposed dates for debt service are spread out evenly throughout the year based on revenue flows from Hydropower plants and other sources and not concentrated in particular months.

- 14) Government short-term borrowings should be included in Public Debt stocks

MoF's Response: Starting from June 2014, the quarterly debt situation report includes T-Bills outstanding as part of total public debt. Further, such treatment will also be incorporated in the Annual Financial Statements for FY2013-14.

- 15) Rollover risk of Indian Rupee debt should be addressed

MoF's Response: The rollover risk of INR debt would be addressed by MTDS and the public debt policy is currently being developed by the MoF.

- 16) Cost of Monetary Policy should be minimized

MoF's Response: The Public Debt Policy being developed will ensure thresholds to minimise such costs.

- 17) High dependence on grants, concessional loans and short-term borrowings to be minimized

MoF's Response: Based on the directives of the Lhengye Zhungtshog, the MoF is presently studying the economic self-reliance objective of the country. This paper would provide recommendations and strategies as to how high dependence on grants, concessional loans and short term borrowings will be reduced. Further, the Debt Policy would also help to attain this objective.

- 18) Management of CC Reserve should be improved

MoF's Response: Action taken report waited from the RMAB

- 19) Management of INR Reserve should be improved
MoF's Response: Action taken report awaited from the RMAB
- 20) Value of essential imports should be updated and corresponding foreign currency reserve requirement clearly defined
MoF's Response: The value and types of essential imports have been defined and approved by the Government in 2012. The Multi-Sector Task Force which was recently formed will also be assessing the list and proposing to the government a new value of essential imports.
- 21) Abnormal delay in release and transfer of fund to be avoided
MoF's Response: The government is continuously pursuing with the donors to ensure timely release. It is also decided to minimise pre-financing because of the evident problems it has caused in the past.
- 22) Huge variation in cost absorbed and recovered on on-lending operation should be minimized
MoF's Response: The variations have occurred mainly due to the foreign exchange fluctuations. As such, MoF has started on-lending by passing on the foreign exchange risks to the corporations as stated above.
- 23) Hydropower export market to be extended
MoF's Response: Since most of the hydropower projects are financed by GoI, Indian remains the major hydro power export market for Bhutan. Export tariff determination is based on bilateral agreement, the MoEA leads the tariff determination team. The export tariff of Chukha hydro power was negotiated in March, 2014.
- 24) Appropriate strategy and back up plans should be instituted against hydrological and other associated risks
MoF's Response: Although, hydrological risks are external risks that cannot be anticipated to its full extent, as per the Department of Hydrology Measures are already in place to study such risk at the time of conducting the Detailed Project Report (DPR).
- 25) Use of loan proceeds should be rationalised
MoF's Response: The allocation of loan proceeds is determined during the loan negotiation. Presently, loan money is not allowed to be used for purchase of vehicles, capacity building and training. Further, MoF will ensure proper allocations are made for intended activities.

- 26) Complete disclosure of contingent liabilities and government guarantees should be made
MoF's Response: Complete disclosure of contingent liabilities and government guarantees will be made in Annual Financial Statement (AFS) for FY 2013-14 which is presently under preparation.
- 27) Debt management functions and responsibilities to be streamlined
MoF's Response: The Public Debt Policy being developed proposes up-gradation of DMD to a Department level agency under MoF to consolidate all debt related functions which are presently fragmented. Capacity development of the Public Debt Management agency is also pursued as a priority of the MoF.
- 28) Hydropower information sharing and reporting mechanism to be established
MoF's Response: To strengthen information sharing and reporting, arrangements that are already in place are being reinvigorated. More contacts are being made with the project authorities through the representatives in the government agencies.
- 29) Existing arrangement of handling of external grants by the GNHC to be reviewed
MoF's Response: The Organizational Development Exercise is expected to address the issue.
- 30) Specific Job description in Debt Management Division to be prescribed
MoF's Response: Standard Operating procedures will be developed after the Public Debt Policy is adopted.
- 31) There should be proper segregation of duties in the DMD
MoF's Response: Standard Operating procedures will be developed after the Public Debt Policy is adopted.
- 32) Institutional Capacity of DMD to be reviewed
MoF's Response: The Public Debt Policy being developed proposes up-gradation of DMD to a Department level agency under MoF to consolidate all debt related functions which are presently fragmented.
- 33) Coordination between the Ministry of Finance and the RMAB should be strengthened

MoF's Response: Strong contact and coordination exist between the MoF and RMAB for better monetary fiscal coordination. RMAB is represented in the Macro-economic Coordination Committee and the MFCTC both at the technical and the decision making levels.

7. PAC's Review on the Audit Report

7.1. Public debt situation in Bhutan

The RAA had conducted a review of public debt situation in three plan periods

1. Ninth Five Year Plan period (2003-04/2007-08),
2. Tenth Five Year Plan period (2008-09/2012-13), and
3. Projected Eleventh Five Year Plan period (2013-14/2017-18).

The public debt for two plan periods has been categorised as follows:

Table 2: Public Debt Situation by Plan Period

Particulars	9th Five Year Plan					10th Five Year Plan				
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Public & Publicly Guaranteed External	23,710.34	25,850.18	30,884.29	30,237.32	32,092.82	52,801.28	53,174.10	63,402.01	78,797.02	94,143.07
Government External Debt	23,710.34	25,850.18	30,884.29	30,237.32	31,668.58	52,529.91	52,904.11	63,168.10	78,590.76	93,980.51
Publicly Guaranteed External	0.00	0.00	0.00	0.00	424.24	271.36	269.99	233.91	206.26	162.55
Public & Publicly Guaranteed Domestic	500.00	2,253.02	1,753.02	1,577.72	4,345.46	3,984.43	3,809.12	3,554.25	3,227.26	2,951.05
Domestic Debt	500.00	2,253.02	1,753.02	1,577.72	1,402.42	1,227.12	1,051.81	876.51	701.21	525.91
Publicly Guaranteed Domestic	0.00	0.00	0.00	0.00	2,943.04	2,757.31	2,757.31	2,677.74	2,526.05	2,425.14
Total Public Debt	24,210.34	28,103.21	32,637.31	31,815.04	36,438.28	56,785.71	56,983.22	66,956.26	82,024.28	97,094.12
Growth in Public Debt		16.08%	16.13%	-2.52%	14.53%	55.84%	0.35%	17.50%	22.50%	18.37%
Nominal GDP	30,409.76	33,978.84	38,817.87	45,490.10	52,100.45	57,968.20	66,860.10	79,038.60	90,961.20	105,381.45
Growth in Nominal GDP		11.74%	14.24%	17.19%	14.53%	11.26%	15.34%	18.21%	15.08%	15.85%
Growth Gap between Debt and GDP		4.34%	1.89%	-19.71%	0.00%	44.58%	-14.99%	-0.71%	7.42%	2.52%
Hydro Power Debt	16,154.18	19,215.58	21,172.86	20,914.13	20,475.09	35,970.55	36,461.46	43,738.53	52,134.49	54,527.54
Non Hydro Power Debt	7,556.16	6,634.60	9,711.42	9,323.19	11,617.73	16,830.73	16,712.64	19,663.48	26,662.53	39,615.53
Domestic Debt	500.00	2,253.02	1,753.02	1,577.72	4,345.46	3,984.43	3,809.12	3,554.25	3,227.26	2,951.05
Total Non Hydro Power Debt	8,056.16	8,887.62	11,464.44	10,900.91	15,963.19	20,815.16	20,521.76	23,217.73	29,889.79	42,566.58
% to Total Public Debt										
% of Hydro Power Debt	66.72%	68.38%	64.87%	65.74%	56.19%	63.34%	63.99%	65.32%	63.56%	56.16%
% of Non Hydro Power Debt	33.28%	31.62%	35.13%	34.26%	43.81%	36.66%	36.01%	34.68%	36.44%	43.84%
% of Domestic Debt	2.07%	8.02%	5.37%	4.96%	11.93%	7.02%	6.68%	5.31%	3.93%	3.04%
% of External Debt	97.93%	91.98%	94.63%	95.04%	88.07%	92.98%	93.32%	94.69%	96.07%	96.96%
% to Nominal Gross Domestic Product										
% of Hydro Power Debt	53.12%	56.55%	54.54%	45.98%	39.30%	62.05%	54.53%	55.34%	57.32%	51.74%
% of Non Hydro Power Debt	24.85%	19.53%	25.02%	20.49%	22.30%	29.03%	25.00%	24.88%	29.31%	37.59%
% of Domestic Debt	1.64%	6.63%	4.52%	3.47%	8.34%	6.87%	5.70%	4.50%	3.55%	2.80%
% of External Debt	77.97%	76.08%	79.56%	66.47%	61.60%	91.09%	79.53%	80.22%	86.63%	89.34%
Debt as % of Gross Domestic Product	79.61%	82.71%	84.08%	69.94%	69.94%	97.96%	85.23%	84.71%	90.18%	92.14%

It was observed that during the 9th FYP and the 10th FYP, the major portion of the debt pertained to investment made in the construction of hydropower projects.

While the debt to GDP ratio was 69.94% by the end of the 9th FYP, it had increased to 92.14% by the end of the 10th FYP.

The hydro power debt had increased from Nu.16,154.12 million to Nu.20,475.09 representing an average of 64.38% of the total public debt during the 9th FYP. Similarly, during the 10th FYP, it increased from Nu.35,970.55 to Nu. 54,527.54 million representing an average of 62.47% to the total public debt.

Though the ratio of hydro power debt to total public debt had decreased during the 10th FYP as compared to the 9th FYP, the absolute amount had increased from Nu. 20,475.09 million to Nu. 54,527.54 million.

The hydropower debt to GDP was around 50% during the 9th FYP period and around 56% during the 10th FYP. The hydro-power debt is not considered risky in terms of debt servicing since the repayments were projected to be met from the projects on their commissioning.

The debt outstanding as at 30 June 2013 stood at Nu.94,506.42 million. Overall, it can be seen from above that 72.06% of the debt outstanding in the respective years on average comprised Government Corporate Debt (including hydropower debt) followed by government budgetary debt representing 20%.

The Central Bank debt represented about 7.94%, which was availed for BoP purpose in the form of GoI Standby Credit Facilities (SCF) and SWAP arrangement.

The total debt stock including various government guarantees stood at Nu.97,094.12 million as of 30 June 2013.

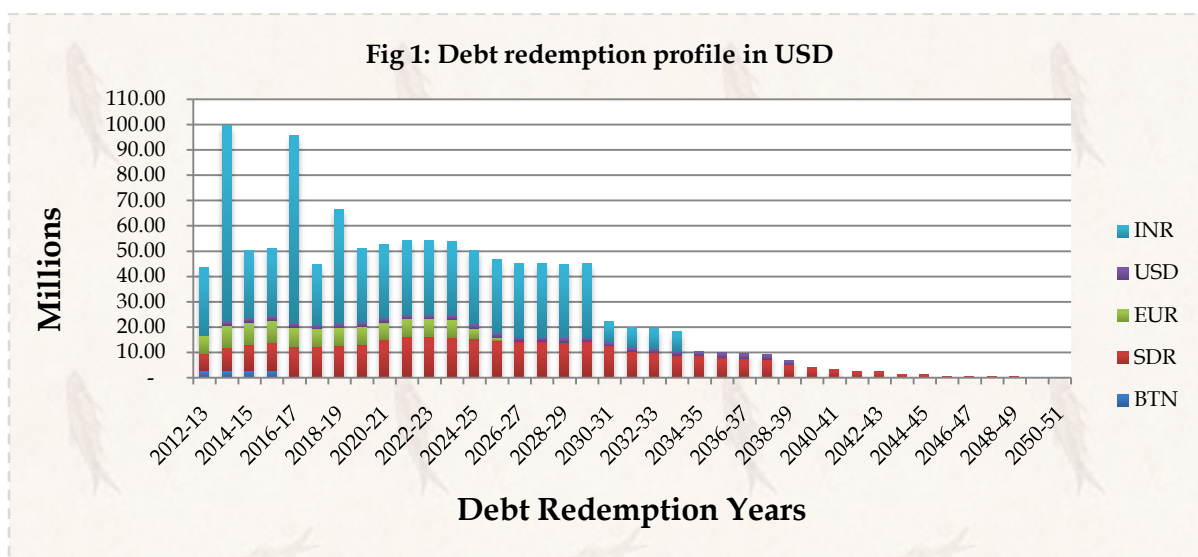
7.2. Disbursed Outstanding Debt (DOD) by currencies

As of 30th June 2013, the composition of public debt by currencies revealed that 63.25% of the total debt represented Indian Rupees (INR) debt, followed by Special Drawing Rights (SDR) at 24.10%, Euro at 6.32%, US Dollars (USD) at 3.17% and with local currency (Nu.) of 0.56%.

The loans availed for hydropower construction (46.94%) and GoI SCF and Reserve Bank of India (RBI) currency SWAP mainly to meet the BoP deficit (16.31%) constituted 63.25% of the total debt in INR.

7.3. Redemption Profile by Agreement Currencies

The debt redemption profile by agreement currencies converted into USD revealed that within 4 years Bhutan will be burdened with debt service that would require repayment of huge amount of debt in the form of INR, Euro, Ngultrum, and USD as indicated below:



As evident from the above debt redemption profile, the domestic debt will mature in 2015-16. The total debt servicing in SDR, EURO, and USD denominated were expected to rise over the years till 2030-31.

The redemption profile indicates that there is a rollover risk of Indian Rupee denominated debt, wherein considerable amounts of debt repayments are expected to concentrate within the period 2013-14 to 2029-30

The maturity profile revealed that the criticality in requirement of INR will be intensified between 2013-14 to 2029-30, wherein the maturity of existing rupee loans and repayment of on-going loans are coincidentally concentrated within these periods. Therefore, it will exert more pressure on the demand for and requirement of INR till 2029-2030.

With aforementioned required currency to repay the debt, the requirement of EURO is also expected to rise till liquidation in the FY 2025-26.

The USD and SDR denominated loans are spread over the years and are projected to mature in 2038-39 and 2050-51 respectively.

7.4. Total Debt Service Burden Scenario

The overall increase in debt position of the country over the years, sluggish growth in revenue and commencement of repayment of loans had exerted pressure on government. The actual debt service for last 5 years excluding the principal and interest paid on cash management of government are worked out below:

Table 3: Debt Service for the Period 2008-09 to 2012-13					
	<i>Amount in Nu. Million</i>				
Debt Service	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Principal	2,167.24	2,233.98	2,359.81	2,467.93	3,104.74
Interest	1,763.03	1,875.10	1,906.19	2,000.32	2,945.73
Total:	3,930.27	4,109.08	4,266.00	4,468.25	6,050.47
Nominal GDP	57,968.20	66,860.10	79,038.60	90,961.20	105,381.45
Internal Revenue	14,049.04	15,638.43	17,458.80	20,354.46	21,101.69
<i>Interest payment to GDP</i>	3.04	2.80	2.41	2.20	2.80
<i>Debt Service as % to GDP</i>	6.78	6.15	5.40	4.91	5.74
<i>Debt Service as % to Revenue</i>	27.98	26.28	24.43	21.95	28.67

The total debt service as a percentage of total revenue represented more than 20%. This however does not include the repayment made on short term borrowings and guaranteed borrowings.

Of the total debt service, the hydropower debt service burden dominated over non-hydropower debt service. The actual principal and interest repayments for last five years under the category of hydropower and non-hydropower debt service are highlighted below:

Table 4: Principal & Interest Repayments by Category of Hydro & Non-Hydro Debts for 2008-09 to 2012-13					
	<i>Amount in Nu. Million</i>				
By Category	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Hydropower Debt (Principal + Interest)	3,197.15	3,244.95	3,365.93	3,446.26	4,712.58
Non-Hydropower Debt (Principal + Interest)	733.12	854.01	900.07	1,021.99	1,337.89
Total	3,930.27	4,109.08	4,266.00	4,468.25	6,050.47
<i>% of hydropower debt service</i>	81.35	79.22	78.90	77.13	77.89
<i>% of Non-hydropower debt service</i>	18.65	20.78	21.10	22.87	22.11

In FY 2008-09, the percentage of hydropower debt service to total debt service was 81.35% and the remaining debt service of 18.65% was for non-hydropower debt. In FY 2012-13, the debt service for hydropower had decreased to 77.89% and there was an increase in debt service for non-hydropower, which recorded 22.11%.

The debt service burden by sources of repayment is indicated below:

Table 5: Debt Service Burden by Sources of Repayment					
<i>Amount in Nu. Million</i>					
By sources of repayment	2008-09	2009-10	2010-11	2011-12	2012-13
Budgetary debt	540.22	561.16	583.08	664.58	677.77
Non-Budgetary debt	3,390.05	3,547.92	3,682.92	3,803.67	5,372.70
Total debt service	3,930.27	4,109.08	4,266.00	4,468.25	6,050.47
<i>% of Budgetary</i>	<i>13.75</i>	<i>13.66</i>	<i>13.67</i>	<i>14.87</i>	<i>11.20</i>
<i>% of Non-budgetary</i>	<i>86.25</i>	<i>86.34</i>	<i>86.33</i>	<i>85.13</i>	<i>88.80</i>

From the above table, it may be inferred that about 11% to 14.87% of the total debt services were from the government budgetary sources and the remaining 85% of the debt services were from the project's earnings. The non-budgetary includes hydropower debt service, corporate debt (on-lending) and the Central Bank debt.

The debt service burden of government budgetary debt constitutes 13.75% in FY 2008-09, which had increased to 14.87% in FY 2011-12. In the subsequent year, it had decreased to 11.20%.

7.5. Public Debt Projections for the Period 2013-14 to 2017-18

The public debt projections for the period 2013-14 to 2017-18 indicated increasing trend. By the end of the period, the public debt figure is projected to be Nu. 258,796.410 million and debt to GDP ratio will be over 120%.

The INR debt will constitute over 73% of the total public debt. The projections in public debt figures during the period along with GDP and other indicators are as summarised below:

Table 6: Debt Projection for the Period 2013-14 to 2017-18

Particulars	Amount in Nu. Million				
	2013-14	2014-15	2015-16	2016-17	2017-18
Total Debt	110,749.708	143,979.189	179,544.487	220,446.629	258,796.410
Domestic Debt	350.605	175.302	-	-	-
External Debt	110,399.103	143,803.887	179,544.487	220,446.629	258,796.410
Hydro Debt (external)	74,416.372	100,138.577	132,322.375	172,568.420	211,035.366
Non-Hydro Debt (external)	35,982.732	43,665.310	47,222.113	47,878.210	47,761.044
Rupee debt (millions INR)	71,252.488	93,335.793	123,268.675	157,840.273	190,212.789
Nominal GDP (Nu. millions)	113,892.900	127,416.600	143,081.490	171,627.130	213,017.320
Debt to GDP ratio (%)	97.240	112.999	125.484	128.4405	121.491
External Debt to GDP (%)	96.932	112.861	125.484	128.445	121.491
Hydro Debt to GDP (%)	65.339	78.591	92.480	100.548	99.070
INR Debt to GDP (%)	62.561	73.252	86.153	91.967	89.295

8. Current Scenario

By end of March 2015:

- Nominal GDP - Nu.124,534.74 million
- Total public debt - Nu.118,546.62 million (95.20% of GDP)
- External debt - Nu.114,071.32 million (91.60% of GDP)
- Domestic debt – Nu. 4,475.30 million
- Hydro power debt - Nu. 81,580.38 million (65.5% of GDP)
- Rupee Debt – Nu. 78,148.22 million (62.80% of GDP)

9. PAC's Comments

- As per the current status report on implementation of the recommendations of the RAA, the Ministry of Finance has agreed on all recommendations and is currently working on them to resolve the issues raised in the audit report.
- The MoF has drafted a Public Debt Policy in collaboration with MoEA, RMA, GNHC and NSB which seeks to address majority of the recommendations made by RAA including the Debt Ceiling.
- There are different Institutions managing different loans availed or guaranteed by the Government. In order to harmonize the existing laws, MoF is holding discussion with the different authorities.

- d. While hydro power debt may be considered as self liquidating as indicated in the IMF and World Bank report, the hydro power debt shows an increasing trend due to change in funding pattern.
- e. As Bhutan graduates from Low Income Country (LIC) to Middle Income Country (MIC), the flow of aid will be less forthcoming and loans would be more on stringent terms. Against this backdrop, the increasing trend in the Non hydro debt without a commensurate increase in domestic revenue is a concern.
- f. Most of the growth is based on loans and grants, rather than being financed through savings and revenue generation.

10. PAC's Recommendations

- a. PAC urges the MoF and relevant agencies to implement the recommendations made by RAA on a priority basis and submit an action taken report (ATR) to the PAC.
- b. It would be prudent to enact a Public Debt Management Act that will enhance the management of debt and confer legal authority to the Public Debt Policy.
- c. With increasing non-hydro debt over the years, there is a need to diversify the revenue base.
- d. As Bhutan graduates into a MIC, appropriate strategy to facilitate a smooth transition is necessary.
- e. Intensify efforts to increase national savings to finance growth and reduce the dependence on grants and loan.
- f. PAC supports the up gradation of the Debt Management Division to a Department with the requisite technical expertise in order to consolidate all the debt related functions which are presently fragmented.

11. Conclusion

The PAC would like to acknowledge the hard work put in by the RAA led by the Auditor General and other concerned agencies. The Committee is hopeful that our report will serve as a useful basis for the House to conduct deliberations and give necessary directives which will compliment the efforts of the RAA towards achieving economy, efficiency and effectiveness in the use of public resources. The PAC hereby awaits the directions from the House to tackle specific issues reflected in the report.

*** **Tashi Delek** ***