

savings, savings in FY 2008/09 is estimated to have contained at 8.0percent which was11.2 percent in FY 2007/08.

Capital Formation

1.25 Gross Capital Formation in FY 2008/09 is estimated to be around Rs. 150.42 billion at constant prices. It is 25.7 percent in proportion to GDP. As compared to the previous fiscal year, Gross Capital Formation is estimated to grow at 0.4 percent this year. Growth of 21.8 percent Gross Capital formed in the previous year was 26.7 percent in proportion to GDP. In FY 2008/09, the share of fixed capital formation out of Gross Capital Formation has been 77.3 percent with 22.7 percent share of change in stock. Such shares in FY2007/08 were 73.3 percent and 26.7 percent respectively. Out of Gross Capital Formation, the share of the government in 2008/09 is estimated at 19.5 percent while that of the private sector remained at 80.5 percent. In FY 2007/08, share of the government was 14.8 percent with the rest (85.2 percent) been shared by the private sector. The change shows that in FY 2008/09 share of the government has gone up on fixed capital formation with relative decrease in the participation of the private sector.

Net Export of Goods and Services

1.26 According estimates, imports, and exports of goods and services totaled Rs. 201.23 billion and Rs. 105.32 billion respectively in FY 2008/09 with a trade deficit totaling Rs. 95.91 billion. This deficit equals to 16.4 percent in proportion to GDP in comparison to 16.3 percent in FY 2007/08. In this fiscal year, exports of goods and services will be able to sustain 52.3 percent of total imports of goods and services. Such capacity in FY 2007/08 was 45.5 percent only. This is due to 64.9 percent growth recorded on the income from service sector with a very nominal growth in expenditure in that sector. In comparison to 7.4 percent growth in income from export of services, expenditure on imports of services had increased by 23.6 percent in the preceding year, which has comparatively helped improve the situation this year.

2. Public Finance

Outline of Government Finance

- 2.1 Looking at the financial transaction statistics of the government of Nepal, the total expenditure in the fiscal year 2007/08 was Rs. 161.35 billion of which 56.7 percent was current expenditure, 33.2 percent was capital expenditure, and 10.1 percent was expenses against principal repayment. Expenditure trend of the last couple of years shows share of recurrent expenditure in the total expenditure close to 60 to 62 percent from FY2001/02 to FY2005/06 while such ratio has found to have declined in subsequent years. Such decline has been expected from expenditure aspect. The share of capital expenditure in the total expenditure was about 26 percent during the fiscal years 2001/02 to 2005/06 while it showed increasing trend in the subsequent years. Similarly, from FY2002/03 to 2005/06, about 63-70 of the total expenditure has been financed through revenue mobilization. During this period, total average revenue increased by 13.7 percent, while average growth rate of total expenditure has been 12.6 percent.

Table 2 (a): Ratio of Fiscal Heads to Total Government Expenditure

Descriptions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Expenditure	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Recurrent Expenditure	61.0	62.0	62.1	60.1	60.4	57.7	56.7
Capital Expenditure	30.9	26.6	25.8	26.7	26.7	29.7	33.2
Principal Repayment	8.0	11.4	12.1	13.2	12.9	12.6	10.2
Income	71.4	80.4	82.3	82.4	77.7	77.5	79.3
Revenue	63.0	66.9	69.7	68.4	65.2	65.7	66.7
Foreign Grants	8.4	13.5	12.6	14.0	12.5	11.8	12.6
Saving (+)/Deficit (-)	-28.6	-19.6	-17.7	-17.6	-22.3	-22.5	-20.7
Foreign Loan	9.6	5.4	8.5	9.0	7.4	7.5	5.6
Domestic Borrowings	10.0	10.6	6.3	8.7	10.7	13.4	12.7
Change in Reserves (-) Surplus	9.0	3.6	2.9	-0.2	4.3	1.6	2.4

Source: FCGO, and Central Bureau of Statistics

- 2.2 The average fiscal deficit is found to have increased by 8.6 percent from FY2001/02 to FY2007/08. During the same period, share of fiscal deficit in the total expenditure has continued to decline from 28.6 percent in FY2001/02 to 17.6 percent in FY2004/05. Though there have been some increases in expenditure after this period, it is still less compared to the base year. Of the resources to finance total fiscal deficit in FY2001/02, the share of Domestic Borrowings was 34.9 percent while there have been fluctuations in the share of such borrowing in the subsequent years. The share of Domestic Borrowing stood at 61.4a percent during FY2007/08. Cash balance that remained after repayment of foreign loans is reflected as change in reserve deficit.
- 2.3 The ratio of total expenditure and revenue to GDP has increased in FY2007/08 compared to that of FY2006/07. The ratio of Government Expenditure increased to 19.7 percent in FY2007/08 from 18.3 percent in FY2006/07. The revenue ratio increased to 13.2 percent in FY2007/08 from 12.0 percent in FY2006/07. The gap between revenue mobilization and total expenditure has reached to 6.6 percent in FY2007/08 from 6.3 percent in FY2006/07.

Table 2 (b) : Ratio of Government Expenditure and Revenue to GDP
(GDP at current producer's price)

(Percentage)

Description	Fiscal Years						
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Recurrent Expenditure	10.6	10.6	10.3	10.5	10.2	10.6	11.2
Capital Expenditure	5.4	4.5	4.3	4.6	4.5	5.5	6.5
Principal repayment Expenditure	1.4	1.9	2.0	2.3	2.2	2.3	2.0
Net Expenditure	17.4	17.1	16.7	17.4	17.0	18.3	19.7
Revenue Mobilization	11.0	11.4	11.6	11.9	11.1	12.0	13.2
Difference between Expenditure and Revenue	6.4	5.6	5.1	5.5	5.9	6.3	6.6

Source: FCGO, and Central Bureau of Statistics

- 2.4 There has been significant improvement in the revenue surplus in FY2007/08 compared to that of the previous fiscal year, calculated as the difference between revenue mobilization and recurrent expenditure. Such

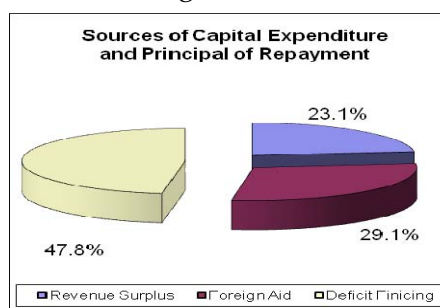
surplus is considered as a sustainable source to finance the capital expenditure and principal repayments. The ratio of revenue surplus to the capital expenditure and principal repayments in FY2006/07 was 18.7 percent while this ratio is calculated at 23.1 percent in FY2007/08. Of the sources to finance capital and principal repayments, the share of foreign grants in FY2007/08 has increased by 1.1 percentage point to 29.1 percent compared to that of the previous fiscal year. Similarly, such ratio of deficit financing in FY2007/08 decreased by 5.5 percentage point compared to that of the previous fiscal year.

Table 2 (c) : Capital Expenditure, Principle Repayment and Sources of Financing

(Percentage)							
Headings	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Capital & Principal Repayment Expenditure (Rs. Billion)	3120.83	3191.56	3389.05	4087.40	4387.14	5648.22	6990.30
a. Capital Expenditure	2477.34	2235.61	230.56	2734.07	2960.66	3972.99	5351.61
b. Principal Repayment	643.49	955.95	1079.49	1353.33	1426.48	1675.23	1638.69
Sources (in Percentage)							
a. Revenue Surplus	5.1	13.0	20.0	20.6	12.0	18.7	23.1
b. Foreign Grant	21.4	35.5	33.3	35.2	31.5	28.0	29.1
c. Deficit Financing	73.5	51.5	46.7	44.2	56.5	53.3	47.8
Foreign Loan	(24.7)	(14.3)	(22.5)	(22.7)	(18.8)	(17.8)	(12.9)
Domestic Borrowing	(25.6)	(27.8)	(16.5)	(21.9)	(26.9)	(31.7)	(29.3)
Change in Reserves	(23.2)	(9.4)	(7.7)	(-0.4)	(10.8)	(3.8)	(5.6)

Source: FCGO, and Central Bureau of Statistics

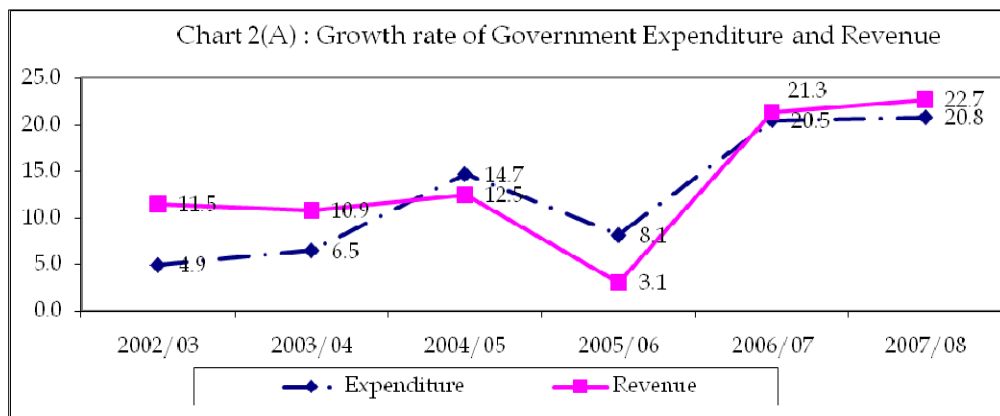
- 2.5. Of the sources of deficit financing, the share of foreign loan stood at 12.9 percent, share of domestic borrowings at 29.3 percent and the share of change in reserves was 5.6 percent in FY 2007/08. Similarly, the share of foreign loan was notable from FY2004/05 up to FY2006/07. In the fiscal year 2007/08, of the sources to finance capital and principal repayments, the share of revenue surplus stood at 23.1



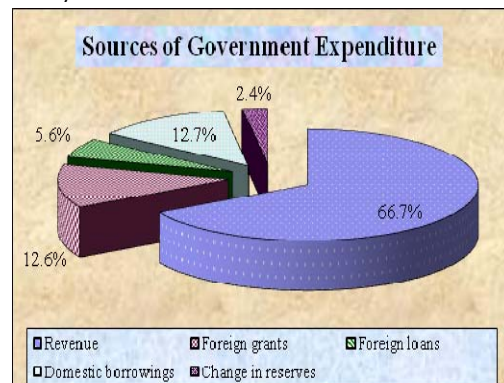
percent, share of foreign grants 29.1 percent, and the share of deficit financing 47.8 percent. The share of revenue surplus in FY 2007/08 remained at 4.4 percentage point more than that of FY 2006/07 while share of foreign grants slightly increased by 1.1 percentage point. Accordingly, the share of deficit financing has declined by 5.5 percentage point to 47.8 percent.

Government Finance

2.6 The total government expenditure in FY2006/07 had increased by 20.5 percent compared to the previous fiscal year while it increased by 20.8 percent in FY2007/08. Of this, recurrent expenditure in FY2006/07 was 15.1 percent while it increased by 18.6 percent in FY2007/08. The capital expenditure in FY2006/07 had increased by 34.2 percent while it increased by 34.7 percent in FY 2007/08. As compared to 17.4 percent growth on the repayment of principal in FY2006/07, it declined by 2.2 percent in FY2007/08.



2.7 The Government expenditure in FY2007/08 totaled Rs. 161.350 billion. Of the total expenditure of Rs. 133.605 billion in FY2006/07, revenue mobilization financed 65.7 percent, foreign grants 11.8 percent, foreign loan 7.5 percent, domestic borrowing 13.4 percent while the change in reserves shared 1.6 percent. Among the sources of financing the expenditure in FY2007/08, revenue mobilization contributed 66.7 percent, foreign grants 12.8 percent, foreign loan 5.6 percent, domestic borrowings 12.7 percent and change in reserves shared 2.4 percent.



Recurrent Expenditure

- 2.8 The recurrent expenditure in FY 2007/08 totaled Rs. 91.44 billion, which is 18.6 percent higher than that of the previous fiscal year. This expenditure for the previous fiscal year stood at Rs. 77.12 billion. Of the total recurrent expenditure, the share of constitutional bodies was 1.8 percent, general administration 15.2 percent, revenue and fiscal administration 1.0 percent, fiscal administration and planning 0.4 percent, judicial administration 0.7 percent and the share of foreign services was 1.1 percent. Likewise, share towards defense expenditure was 11.6 percent, social service 38.4 percent, economic services 10.1 percent, principal interest payments 7.0 percent and share of miscellaneous expenditure was 12.8 percent.
- 2.9 Of the total recurrent expenditure in FY2007/08, major portion of such expenditure (Rs. 35.73 billion) was on education, health, drinking water, local development, and other social services. Similarly, other major recurrent expenditures were on general administration constituting Rs. 13.94 billion, defense Rs. 10. 565 billion and economic services with Rs. 9.20 billion. In the same fiscal year, expenditure towards interest repayment of principal was Rs. 6.374 billion.
- 2.10 Analyses of some of the major recurrent expenditures show that expenditure on social services increased by 18.9 percent in FY2007/08 compared to the fiscal year 2006/07. During the same period, such expenditures on defense rose by 4.3 percent, general administration by 25.8 percent, judiciary administration by 16.0 percent, foreign services by 20.5 percent, economic services by 9.7 percent, constitutional body by 87.5 percent, and miscellaneous expenditures by 47.8 percent. However, such expenditure on revenue and fiscal administration has declined by 8.4 percent followed by a fall of 45.5 percent decline in expenditures on fiscal administration and planning. Expenditure on interest repayments, however, increased by 3.4 percent in FY2007/08 as compared to the previous fiscal year.

Capital Expenditure

- 2.11 Compared to the previous fiscal year, capital expenditure in FY2007/08 rose by 34.7 percent totaling Rs. 53.516billion. Such expenditure in FY 2006/07 was Rs. 39.730 billion. Among the major components of capital expenditure, economic services expenditure remained at Rs. 22.143billion, social services at Rs. 20.284billion and defense at Rs. 809.2 million. Likewise, capital expenditure on general administration stood at Rs. 1.774 billion, judicial administration Rs. 277.1 million, loan and investment Rs. 6.903 billion, constitutional organs Rs. 96.0 million, revenue and fiscal administration Rs. 191.1 million, fiscal administration and planning Rs.

79.8 million, foreign services Rs. 53.6 million, and miscellaneous expenditure Rs 906.2 million. On the total capital expenditure, economic services shared 41.4 percent, social services 37.9 percent, defense 1.5 percent, general administration 3.3 percent, judicial administration 0.5 percent, loan and investment 12.9 percent, constitutional bodies 0.2 percent, revenue and fiscal administration 0.4 percent, fiscal administration and planning 0.1 percent, foreign services 0.1 percent and miscellaneous expenditures 1.7 percent. When compared to the capital expenditure of FY2006/07, such expenditure rose by 30.6 percent on social services and that for economic services by 23.4 percent, while defense and general administration expenditures declined by 19.1 percent and 60.7 percent respectively. The expenditure on revenue and fiscal administration increased notably by 141.0 percent. Likewise, expenditure on administration rose by 15.2 percent while that of fiscal administration and planning put together rose sharply by 204.5 percent.

Principal Repayment

2.12 In FY 2007/08, the interest repayment on principal has remained at Rs. 16.387 billion. Such expenditure was Rs.16.752 billion in the previous fiscal year. Of the total principal repayment expenditures, the share of principal repayment against domestic borrowing was 52.0 percent and that of foreign loan was 48.0 percent in FY2007/08. When compared to the previous fiscal year. The principal repayment against domestic borrowings in FY2007/08 had decreased by 7.6 percent while that of foreign loan by 4.4 percent.

Expenditure Status of the First Eight Months of FY 2008/09

2.13 Based on total disbursement and operation of current accounts, total expenditure increased by 12.7 percent totaling Rs. 114.799 billion in the first eight months of the current fiscal year as compared to the same period of the last fiscal year. In the same period of FY2007/08, such expenditure was Rs. 101.823 billion. Of the total expenditure in the review period of FY 2008/09, recurrent expenditure accounted for Rs. 77.328 billion, capital expenditure Rs. 25.913 billion and principal repayment Rs. 11.559 billion. In the first eight months of FY2008/09, recurrent expenditure totaled to Rs. 64.606 billion, capital expenditure Rs. 26.693 billion, and principal repayment Rs. 10.521 billion. When compared to the first eight months of FY2007/08, recurrent expenditure has increased by 19.7 percent, while capital expenditure decreased by 2.9 percent in the same period of current fiscal year. Likewise, principal repayment expenditure also increased by 9.9 percent in the same period.

Revenue

- 2.14 Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserves are used as fiscal instruments for financing government expenditures. When compared to FY2006/07, revenue mobilization in FY2007/08 increased by 22.7 percent to Rs107.625 billion. In FY2006/07, revenue collection had increased by 21.3 percent compared to its preceding fiscal year. The Government revenue had financed 65.7 percent of the total government expenditure in FY2006/07 while this source contributed to 66.7 percent of the total expenditure in FY 2007/08.
- 2.15 Of the total revenue, shares of tax revenue and non-tax revenue in FY2007/08 stood at 79.1 percent and 20.9 percent respectively. Such shares in FY2006/07 year were 81.1 percent and 18.9 percent respectively.
- 2.16 Tax revenue increased by 19.7 percent in FY 2007/08 compared to that of the previous fiscal year. Such revenue had increased by 23.8 percent in FY 2006/07 compared to its preceding fiscal year. Of the total tax revenue in FY 2007/08, the share of customs duty was 24.7 percent while the share of tax on production and consumption of goods and services was 48.2 percent. Likewise, the share of land revenue and registration was 3.4 percent and that of income, profit, and property tax was 23.7 percent.
- 2.17 Customs revenue increased by 26.1 percent on the tax revenue front in FY2007/08 as compared to FY 2006/07 while tax levied on production and consumption of goods and services increased by 15.7 percent. Income, profit, and property tax increased by 20.4 percent and land revenue and registration fees by 30.5 percent. Of the customs revenue, revenue from imports increased by 25.7 percent while that from exports decreased by 37.1 percent, and Indian excise refund increased by 58.0 percent in FY 2007/08. Excise duty levied on the production and consumption of goods and services has increased by 19.8 percent and value added tax by 14.3 percent.
- 2.18 Non-tax revenue increased by 35.5 percent to Rs. 224.67 billion in FY 2007/08 compared to that of FY 2006/07. Of the total non-tax revenue, the share of fees, fines, forfeitures was 11.4 percent; the share of income from government service and sales of goods was 21.8 percent, dividend was 22.4 percent, sales of royalty and government's properties was 25.7 percent, principal and interest was 15.3 percent and miscellaneous non-tax revenue was 3.4 percent. On the non-tax revenue front, the growth of firm registration fees was 41.6 percent and administrative fees, penalties, fines and forfeitures was 7.2 percent in FY 2007/08 compared to previous fiscal year. Dividend of service-oriented organizations is found to have increased by 2.0 percent and income of other government sectors by 2.9 percent. On

non-tax revenue side, principal repayments from companies and enterprises rose notably by 164.3 percent while payments of interest fell by 28.9 percent in FY2007/08 as compared to the previous fiscal year.

Revenue Status as of Mid-March of FY 2008/09

- 2.19 A total Revenue of Rs. 84.203 billion has been collected till mid-March of FY2008/09. Total revenue of Rs. 60.892 billion was collected in the same period of the previous fiscal year. Thus, the rate of revenue growth has been 38.3 percent till mid-March of FY2008/09 as compared to the same period of the previous fiscal year. Of the total revenue collection, Rs. 68.080 billion came from the tax revenue, and Rs. 16.123 billion from non-tax revenues. The tax revenue growth rate was 33.8 percent till mid-March of FY2008/09 as compared to the same period of the previous fiscal, year while the growth of non-tax revenue was 61.3 percent.
- 2.20 Customs revenue until mid-March of FY2008/09 compared to the same period of the previous year increased by 9.8 percent to Rs. 15.404 billion. During this period, tax on production and consumption of goods and services has increased by 36.3 percent to Rs. 32.962 billion compared to the same period of the previous fiscal year. Tax on imports has increased by 13.4 percent in the review period and the share of import revenue on the total customs revenue of this year stood at 82.9 percent whereas this share was 80.3 percent during the same period of the previous fiscal year. Export tax revenue has increased by 97.8 percent and the Indian Excise refund has decreased by 22.6 percent. Likewise, Registration fees increased by 102.0 percent, income tax (private sector) by 38.9 percent and vehicles tax by 43.2 percent.

Foreign Aid

- 2.21 Foreign aid commitment in FY2007/08 had increased by 32.9 percent in comparison to 76.9 percent growth registered in FY2006/07 than its preceding fiscal year. In monetary term, committed foreign aid amounted to Rs.37.23billion in FY2006/07 while such aid in FY2007/08 totaled to Rs. 49.186 billion. Of the total foreign aid commitment, bilateral assistance constituted Rs.13.106billion, whereas the multilateral assistance totaled to Rs.36.080billion. While classifying the foreign aid into grant and loan components for FY2007/08, grants amounted to Rs.41.064 billion and loans Rs.8.122 billion. As compared to the previous year, foreign grants had increased by 33.1 percent and loans by 31.8 percent in FY2008/09.
- 2.22 The sector-wise classification of foreign aid commitment for FY2007/08 shows the share of agriculture, irrigation and forestry as 8.8 percent, electricity 5.5 percent, local development 13.7 percent, education 8.7

percent, transport and communication sector 6.8 percent and others 56.5 percent.

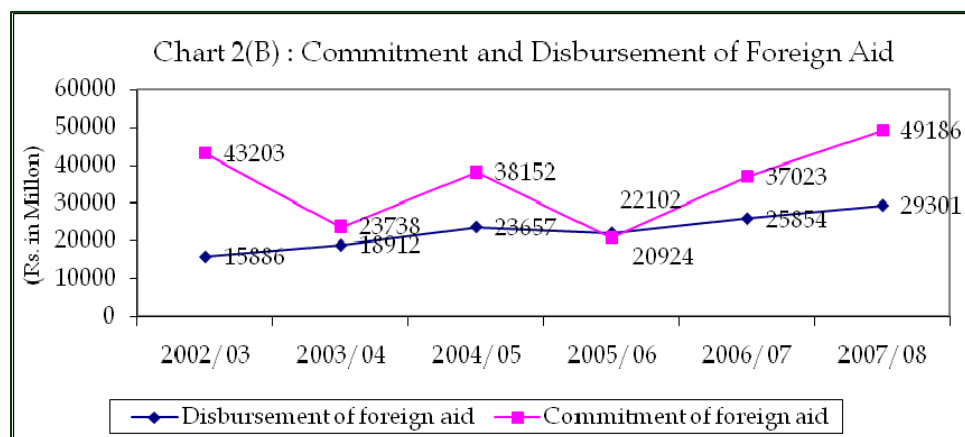
Grants and Loans

2.23 In the first eight month of FY2008/09, foreign aid commitment decreased by 11.4 percent to Rs.43.134 billion compared to the same period of the previous fiscal year. Of the total foreign aid commitment, committed grants amounted to Rs.38.255 billion (88.7 percent of the total) and the loans Rs.4.880 billion (11.3 percent of the total). In the first eight months of FY2007/08, the committed foreign aid amounted to Rs.48.670billion, of which grant was Rs.40.548 billion and foreign loans Rs.8.122 billion. Of the total commitment, the shares of grants and loans were 83.3 percent and 16.7 percent respectively.

Commitment and Disbursement

2.24 In the first eight months of FY2008/09, the share of bilateral assistance among the total commitment was 51.8 percent while that of multilateral assistance was 48.2 percent. In the same period last year, the shares of bilateral and multilateral assistance were 26.9 percent and 73.1 percent respectively. While analyzing sector-wise, foreign aid commitment in the first eight months of FY2008/09, the share of electricity sector was Rs.3.541 billion (8.2percent), education 1.308 billion (3.0percent), rural development Rs.12.512 billion (29.0 percent), drinking water and sewerage Rs. 1.883 billion, agriculture, irrigation and forestry 1.727 billion (4.0percent), transport and communication Rs.2.517 billion (5.8 percent), health Rs. 3.488 billion (8.1 percent) and other sectors Rs.16.16 billion (37.5 percent).

2.25 Disbursements of foreign aid in FY2007/08, as compared to FY 2006/07, increased by 13.3 percent to Rs.29.306billion. Of the total foreign aid disbursement in FY2007/08, Rs.20.321billion (69.4 percent) was grants and Rs.8.98 billion (30.6percent) as loans. In the previous year, foreign aid disbursement amounted to Rs.25.85 billion, of which Rs.15.80 billion (61.1 percent) was foreign grants and Rs.10.53 billion (38.9 percent) foreign loan. Of the total foreign aid disbursement in FY2007/08, Rs.19.093 billion (65.2 percent) was through multilateral assistance and Rs.10.208 billion (34.8 percent) as bilateral assistance. In the previous year, the multilateral aid disbursement had amounted to Rs.9.45 billion (36.5 percent) and bilateral assistance Rs.16.46 billion (63.5 percent).



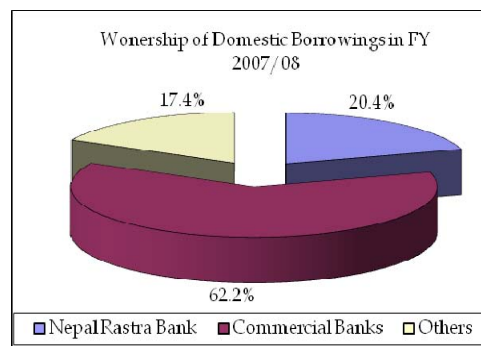
- 2.26 Foreign aid disbursement in FY 2007/08 on sectoral basis shows that, the social sector received Rs.18.193billion (62.1 percent of the total), transport, electricity and communication Rs.6. 710 billion (22.9 percent), agriculture, irrigation and forestry Rs.3.859billion (13.2 billion), industry and commerce Rs.78.7 million (0.2 percent) and others Rs.460 million (1.6 percent). Comparison of foreign utilization on sectoral basis between FY2007/08 and FY2006/07 reveals that utilization of aid in the social sector increased by 19.8 percent, transport, electricity and communication sector by 0.7 percent, agriculture, irrigation and forestry by 3.7 percent. Likewise, utilization of aid in industry and commerce sectors decreased by 32.6 percent, whereas this disbursement in other sectors put together increased by 165.7 percent.

Net Foreign Loans

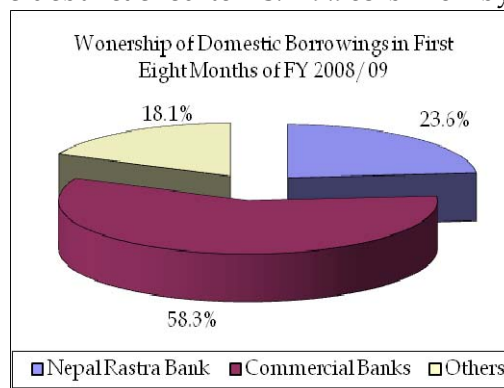
- 2.27 Foreign loan has been playing vital role in the Nepalese economy. The net outstanding foreign loan was Rs.216.629 billion in FY 2006/07 which further increased by 15.4 percent reaching Rs.249.965 billion in FY2007/08.
- 2.28 Net outstanding foreign loan by the end of first eight months of FY2007/08 (adjusting gross borrowing and principal repayment in the first eight months) was Rs. 216.207 billion, which increased by 26.6 percent totaling Rs.273.607 billion by the same period of FY2008/09.
- 2.29 As per the available data for the first eight months of the current fiscal year, the ratio of net outstanding debt to GDP is 28.5 percent. These ratios were 35.8 percent in FY 2005/06, 29.7 percent in FY 2006/07 and 30.5 percent in FY 2007/08.

Net Domestic Borrowings

2.30 Outstanding domestic debt increased by 11.8 percent to Rs.116.4 billion in mid-July 2008 from Rs.103.776billion in mid-July of 2007. Of the total outstanding debt by mid-July 2008, the share of Nepal Rastra Bank was Rs.23.686 billion (20.4 percent), with Rs.72.141 billion (62.2 percent) that of commercial banks, and other non-bank institutions and private sector shared Rs. 20.213 billion (17.4 percent). On analyzing domestic borrowing by instruments, 73.3 percent was Treasury Bills, 18.7 percent development bonds, 1.0 percent National Savings Certificate, 2.6 percent Citizens Savings Certificates and 4.4 percent special bonds.



2.31 In the first eight months of FY2008/09, outstanding domestic debt increased by 11.4 percent as compared to the same period of the previous fiscal year. The outstanding domestic debt reached to Rs.119.983 billion by Mid-March of 2009 of FY2008/09 from Rs. 107.668 billion in the same period of the previous fiscal year. Of the total outstanding debt at the end of the first eight months of FY 2008/09, Nepal Rastra Bank held 23.6 percent; commercial banks held 58.3 percent and other non-bank institutions and private sector held 18.1 percent. When analyzing domestic borrowing by instruments until the end of first eight months of FY 2008/09, Treasury Bills amounted Rs.86.609 billion (72.2 percent), development bonds Rs.23.729 billion (19.8 percent), National Savings Certificates Rs.1.117billion (0.9 percent), Citizen Savings Certificates Rs.3.467 billion (2.9 percent), and special bonds Rs.5.062 billion (4.2 percent). The outstanding domestic debt in the form of development bond rose by 31.3 percent, while National Savings Certificate fell by 26.4 percent and special bonds by 12.3 percent in the first eight months of FY 2008/09 compared to the level of the same period of FY 2007/08. In the first eight months of FY 2008/09 compared to the same period of FY 2007/08, domestic debt in the form of treasury bills increased by 7.7 percent and the Citizen Savings Certificates by 85.4



percent. The outstanding domestic debt to GDP ratio remained at 14.3 percent in FY 2006/07, 14.2 in FY2007/08 and 12.5 percent at the end of first eight months in FY 2008/09.

Fiscal Deficit

2.32 The persistence of fiscal deficit is due to less receipt of revenue and foreign grants as compared to the level of expenditure. As such, fiscal deficit increased by 11.0 percent to Rs.33.407 billion in FY2007/08 from Rs.30.092 billion in FY 2006/07. The fiscal deficit that was in a decreasing trend since fiscal year 2001/02 started showing increasing trend again from FY2004/05. The ratio of fiscal deficit to GDP, which was at 4.1percent in FY 2006/07 remained unchanged during FY 2007/08 as well.

Sources of Fiscal Deficit Financing

2.33 Fiscal deficit, the result of imbalance between expenditure and non-debt resources, is being financed through foreign loan, domestic borrowing and cash balance. Of the fiscal deficit of Rs.33.407billion in FY2006/07, Rs.8.980 billion (26.9 percent) was financed through foreign loan, Rs.20.496billion (61.4 percent) through domestic borrowing and remaining Rs.3.934 billion (11.7 percent) through the change in cash reserves. Sources of financing the fiscal deficit of Rs.30.092 billion in FY 2006/07 were foreign loan (Rs. 10.053 billion), domestic borrowing (Rs. 17.892 billion) and change in cash reserves (Rs.2.146 billion).

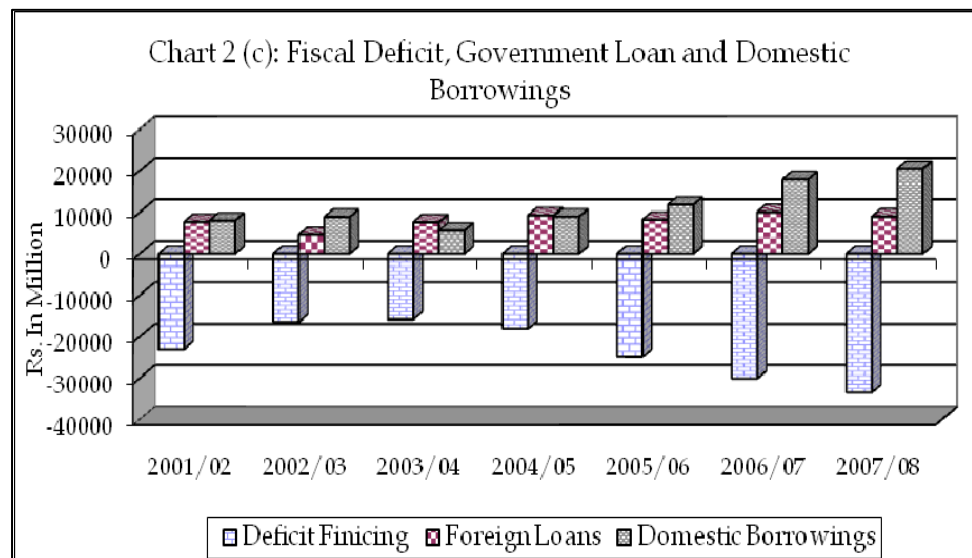


Table 2 (d): Fiscal Deficit

(Rs.in Million)

Fiscal Year	Fiscal Deficit	Fiscal Deficit/GDP Ratio (in Percent)
2000/01	24,188.1	5.5
2001/02	22,940.6	5.0
2002/03	16,437.2	3.3
2003/04	15,828.2	2.9
2004/05	18,046.5	3.1
2005/06	24,779.6	3.8
2006/07	30,091.7	4.1
2007/08	33,406.7	4.1

Source: FCGO, and Central Bureau of Statistics