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MoF/DPBP-Budget Call/2024-25/887

January...13., 2025

### Budget Call Notification for the Financial Year 2025-26

Pursuant to clauses 23(d) and 45 of the Public Finance Act 2007 (PFA) and Section 3.2 of the Budget Manual, Financial Rules and Regulations (FRR) 2016, the Ministry of Finance is pleased to issue the Budget Call for FY 2025-26.

Within the overall framework of the 13<sup>th</sup> FYP and based on the macroeconomic and fiscal outlook, the Macroeconomic Framework Coordination Committee (MFCC) has projected the following resources and expenditure outlay, which has been endorsed by the 40<sup>th</sup> Session of the Fourth Lhengye Zhungtshog held on January 3, 2025.

The total resources of Nu.89,350.906 million estimated for FY 2025-26 consists of internal resource projection of Nu.67,284.677 million and external grants of Nu.22,066.229 million. With the total estimated expenditure of **Nu.109,349.420 million** (**Nu.53,786.420 million** for capital expenditure and **Nu.55,563 million** for recurrent expenditure) corresponding to 21 percent of the 13 FYP Outlay, the fiscal deficit is expected to remain at 5.85 % of the GDP, corresponding to Nu.19,998.514 million. The deficit financing will be undertaken through external and domestic borrowings.

In order to ensure that the fiscal deficit is maintained at a sustainable level through effective prioritization of proposals, capital budget ceiling under RGoB financing has been estimated for each agency based on the plan outlay and available external financing. As such, the respective Ministers and heads of the agencies are reminded and encouraged to lead and engage closely in the budget preparation process for effective and efficient prioritization of programs and activities, allocation of resources and greater accountability. This will ensure that on-going policy initiatives and other strategic priority programs are adequately captured and sufficiently funded within the ceiling. Any insertion of activities after the submission of the proposal to MoF shall be subject to the approval and directives of the Lhengye Zhungtshog.

Further, to address the growing fiscal deficit, all government agencies must submit budget proposals aimed at driving economic growth while reducing the deficit. Projects or activities lacking economic and social returns should be rationalized including the donor-funded projects.

As part of the on-going transformation initiative and in pursuit of an Enlightened Entrepreneurial Bureaucracy, budgetary agencies are required to review their existing operating models and propose opportunities for innovative business models that promote sustainability. Agencies that deliver increased revenue generation in FY 2025-26 resulting from innovation in the operating models shall be incentivized with an augmented recurrent budget allocation in the subsequent FY.

In addition, the budget proposals must be based on the Annual Work Plan (AWP) which is due for submission to MoF on January 27, 2025. The AWP of the respective agencies





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must be aligned with the deliverables (results and key performance indicators) agreed with the Cabinet Secretariat for FY 2025-26. Additionally, KPIs for mandatory and controllable recurrent budgets should be prepared and submitted with a clear focus on the agency's core objectives.

The budget proposal must be prepared in strict adherence to the budget preparation guidelines attached as Annexure I and submitted through the MYRB system ([www.myrbpems.bt](http://www.myrbpems.bt)) **no later than March 15, 2025.**

For assistance and clarification, the focal officers in the Department of Planning, Budget and Performance (DPBP) shall remain available to provide support and guidance.

(Lekey Dorji)

**Copy to:**

1. Hon'ble Ministers, All Ministries, Thimphu.
2. Chief Justice of Bhutan, Royal Court of Justice, Thimphu.
3. Heads of Constitutional Bodies, Thimphu.
4. Cabinet Secretary, Cabinet Secretariat, Thimphu.
5. Secretaries of All Ministries, Thimphu.
6. Heads of Autonomous Agencies,
7. All 20 Dzongdags, 4 Thrompons and 205 Gups.

**For Kind Information of:**

1. Dasho Gyalpoi Zimpon, HM Secretariat, Thimphu.
2. Personal Secretary to Hon'ble Prime Minister, Gyalong Tshogkhang, Thimphu.



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## Annexure I- Budget Preparation Guidelines for FY 2025-26

The Budgetary Bodies should adhere to the following principles when formulating budget proposals:

### 1. Recurrent Budget

- i. **Key Performance Indicators and Targets:** The recurrent budget will be allocated in the form of Annual Block Grant within the estimated domestic revenue under Mandatory and Controllable budget heads. The recurrent budget for mandatory, controllable and specific activity/program must be substantiated with Key Performance Indicators (KPIs) aligned with the organization's strategic goals and concrete deliverables for FY 2025-26 to guide the allocation of the recurrent budget.
- ii. **Mandatory Expenses:** The proposal for mandatory expenses shall include Pay & Allowances, PF contribution, stipend and retirement benefits (for employees due for superannuation during the FY), and interest payment based on repayment schedule (DMDF, MoF). These shall be submitted through the MYRB system and correspondingly, submitted with comprehensive workings in **Annexure-II (shared in soft copy)**.
- iii. **Budget Proposals financed through retained revenue maintained under Current Deposit (CD) Accounts:** Budgetary agencies with CD account operations must ensure that budget proposals are proposed under the respective FICs based on revenue projections for FY 2025-26. In addition, all such proposed activities must be based on Annual Work Plan, KPIs and targets aligned to the organizational strategic goals. This is expected to ensure optimization of available resources and prevent duplication of allocation from various sources. **Any supplementary incorporation resulting from under proposed estimates during the FY shall be restricted.**
- iv. **Non-budgetary Agencies:** Those agencies requiring RGoB financing for O&M must submit the proposals through the Department of Macro-Fiscal and Development Finance, MoF. These submissions should include detailed workings/estimates, a comprehensive financial plan, key performance indicators, actual revenues realized in previous FYs, and realistic revenue projections for FY 2025-26.

### 2. Capital Budget

- i. **Alignment of the Budget proposal to 13 FYP, Key Deliverables and Annual Work Plan (AWP):** Budgetary agencies shall ensure that the proposed activities are in line with the 13 FYP contributing on achieving the KPIs and Targets as identified in the Plan Document. Further, the concept of AWP has been introduced

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to ensure resource allocation is guided by Performance-Based Budgeting. It aims to provide a realistic foundation for formulating and recommending budget proposals, tracking and monitoring physical and financial progress, and enabling agencies to prioritize emerging developmental activities. Accordingly, all budgetary bodies are required to prepare and submit the budget proposal based on the key deliverables submitted to the Cabinet Secretariat and AWP as per the notification issued via letter no. DPBP/AWP/2024-25/637 dated November 20, 2024.

- ii. **Capital budget:** The capital budget ceiling for budgetary agencies including external financing is approximately **20%** of 13 FYP outlay. The budget ceiling for your agency by source of financing is as follows:
- RGoB: Nu..... million;
  - External (including project tied loans): Nu..... million

In order to ensure timely completion of projects financed by development partners within the plan period, the budgetary agencies are reminded to prioritize and expedite the implementation of approved donor funded projects. As such, the externally financed programs shall not be limited by the ceiling and must ensure to avoid supplementary incorporations for on-going projects upon the approval of the budget.

In addition, the agencies must adhere to the following **budget policy**:

- Priority must be accorded for the completion of the ongoing projects/programs/activities, irrespective of funding sources;
- To facilitate prompt implementation of the major capital programs/activities upon budget approval by the Parliament, submission of DPR and IPD along with the budget proposal is mandatory;
- Restoration and reconstruction of public infrastructure damaged by disaster must be prioritized and proposed within the prescribed ceiling, since financing during the FY shall be only for immediate relief and response efforts;
- Proposals for construction of new offices shall be restricted. However, projects with confirmed external grant financing shall be subject to submission of comprehensive needs assessment along with the identification of efficiency opportunities from existing recurrent budget heads to manage the operating costs after completion;
- The capital block allocation shall be continued to meet the requirement for computers, equipment, office furniture, and minor office maintenance. As such, budgetary agencies based on need shall propose to maximum of 3%

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of the pay and allowances (OBC 1.01) within the RGoB prescribed capital ceiling;

- f. Until the pool vehicle management strategy is approved by the Government, procurement of vehicles irrespective of funding shall continue to be rationalized to create fiscal space for other emerging and urgent priorities. However, any critical **replacement** of utility vehicles such as ambulance, school bus, RBP vehicles, garbage & fire trucks and compactors shall be proposed within the capital ceiling and commitment by the development partners;
- g. In order to streamline & recognize the true cost of the works/goods/services, budgetary agencies are now required to estimate and capture the tax component (Customs Duty, Sales Tax and Green Tax) in budget proposal for both externally financed and RGoB funded projects, where necessary and relevant. Starting FY 2025-26, there shall be no tax exemption for works/goods/services.
- iii. **HRD Programs:** Towards optimization of HRD investments across all budgetary agencies irrespective of the source of funding, any budget proposal for capacity development of the civil servants must be as per RCSC's SOP circulated vide letter no. RCSC/HRD-C3/2024/1342 dated October 8, 2024. In addition, those budgetary agencies outside the purview of RCSC shall be required to submit the HRD master plan upon the receipt of the endorsement by the respective Board/Council/Commission. However, it should be noted that budget proposals if any shall be subject to availability of resources and within the prescribed ceiling.
- iv. **ICT projects/activities:** Budgetary bodies should submit ICT-related activity/project proposals only with endorsement/approval from the GovTech Agency.
- v. **Budget proposal for heritage and religious sites:** Those agencies (including LGs) implementing/undertaking activities related to heritage and religious sites must continue to strictly comply with the notification issued by the Ministry of Home Affairs, vide notification no. CHAA/PPD(37)/2023/430 dated November 13, 2023.

### 3. General Guidelines:

- i. **External funded programs and activities (Grant and Loan):** In view of the section 7.5 of the Budget Manual 2016, all the budgetary bodies must propose the required funds during the FY for all ongoing external funded programs and activities to avoid implementation delays. Further, any commitment of the RGoB financing in the form of counterpart funding and provision for any duties and taxes for ongoing in-kind assistance must be adequately proposed in the budget within the prescribed ceiling.

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- ii. **Finance Committee:** All the Budgetary Agencies are required to ensure that the proposals of Budget Estimates forwarded to the Ministry of Finance for consideration, are reviewed, scrutinized and prioritized by the respective Finance Committee.
- iii. **Mainstreaming Cross Cutting Issues:** The budgetary bodies must ensure that their budget is responsive to cross cutting issues such as gender, environment, climate, disaster and poverty (GECDP).
- iv. **Fiscal Transfer:** The budget proposals from those State Owned Enterprises (SOE) supported by the Government shall be routed through the Department of Macro-fiscal and Development Finance (DMDF), MoF. The proposal must be prepared in alignment with the KPIs endorsed by the Board and submit along with the revenue projections, past year's actual expenditure and bank statement of all the deposit accounts (CD & Fixed accounts) as of January 31, 2025.
- v. **Formulation of Medium-Term Budget Framework (MTBF):** To improve fiscal discipline and to ensure the increased efficiency in resource allocation, the budgetary bodies including the LGs are required to prepare and submit estimates for two outer years (FY 2026-27 & FY 2027-28) at the output level. The estimates for forward years shall be prepared under two broad economic classification (Current & Capital) in the format detailed below:

Estimates by Outputs

Specify Name of Outputs	FY 2026-27			FY 2027-28		
	Current	Capital	Total	Current	Capital	Total
Output 1.....						
Output 2.....						
Total at AU level)						

Key Performance Indicators/Targets

Name of Outputs	Key Performance Indicators	Baseline/ Target Achieved FY 2024-25	Medium Term Targets	
			FY 2026-27	FY 2027-28
Output 1				
Output 2				

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#### 4. Specific guidelines for Local Governments (LGs) on Capital Budget

In FY 2025-26, 15 percent of the 13 FYP Resource Allocation Formula (RAF) Outlay has been endorsed by the Government for allocation to the LGs.

To ensure optimal prioritization and facilitate prompt implementation following the budget approval, LGs shall submit a tentative Annual Work Plan (including the donor

funded projects) aligned with the Local Government Key Result Areas (LGKRAs). Further, the Annual Grants Guidelines 2024 must be referred to while formulating the Annual Work Plan and Budget for FY 2025-26.

The LGs shall also note the following:

##### 4.1. RGoB Financing:

- i. The budget required for completion of the ongoing and spill over activities must be accorded priority within the RAF ceiling;
- ii. Based on the anticipated requirement, LGs (Dzongkhags and Thromdes) to maintain certain provision not exceeding 3 percent of the budget allocation for pay and allowances (OBC 1.01) for furniture, equipment, computers, chadri items and maintenance works within RAF allocation;
- iii. In line with Section 9 of the Budget Appropriation Act for FY 2024-25 and Section 10 of the Annual Grant Guidelines for LGs 2024, the 15 percent of the respective RAF outlay endorsed by the Government for the FY 2025-26 shall be allocated to the Gewogs as follows:
  - a. 70 percent of the annual capital grant allocation for immediate implementation; and
  - b. Balance 30 percent upon assessment of performance of the FY 2024-25 capital budget.

Therefore, AWP of the Gewogs must be prepared accordingly, capturing critical and priority activities within the 70 percent of the grant.

- iv. To address thinly spreading of limited resources resulting in sub-standard quality of goods/works/services from inadequate provisioning of budget, all the LGs are advised to ensure adequate budget to complete the activity and avoid unnecessary budget fragmentation within the RAF ceiling for FY 2025-26;
- v. All the LGs shall submit the endorsed list of activities with detailed DPR.

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**4.2. External Financing:**

- i. The LGs must ensure to propose on-going donor funded projects/activities within the committed fund, contract amount and implementation capacity;
- ii. All the donor funded projects implemented by the LGs but managed by the central agencies must be proposed in close consultation with the PMU and approved Annual Work Plan and Budget of the project;

**4.3. Recurrent Budget for Thromdes:** In order to determine the level of budget support, Thromdes are reminded to submit:

- a. Details of revenue realized for the past 2 years;
- b. Revenue & expenditure estimates for the FY 2025-26;
- c. Details or statement of CD/FD accounts, if any;

LGs shall ensure that budget proposals are deliberated and endorsed by the Dzongkhag/Gewog/Thromde Finance Committee before submitting to DT/GT/TT for final review and endorsement before submission to DPBP, MoF.

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