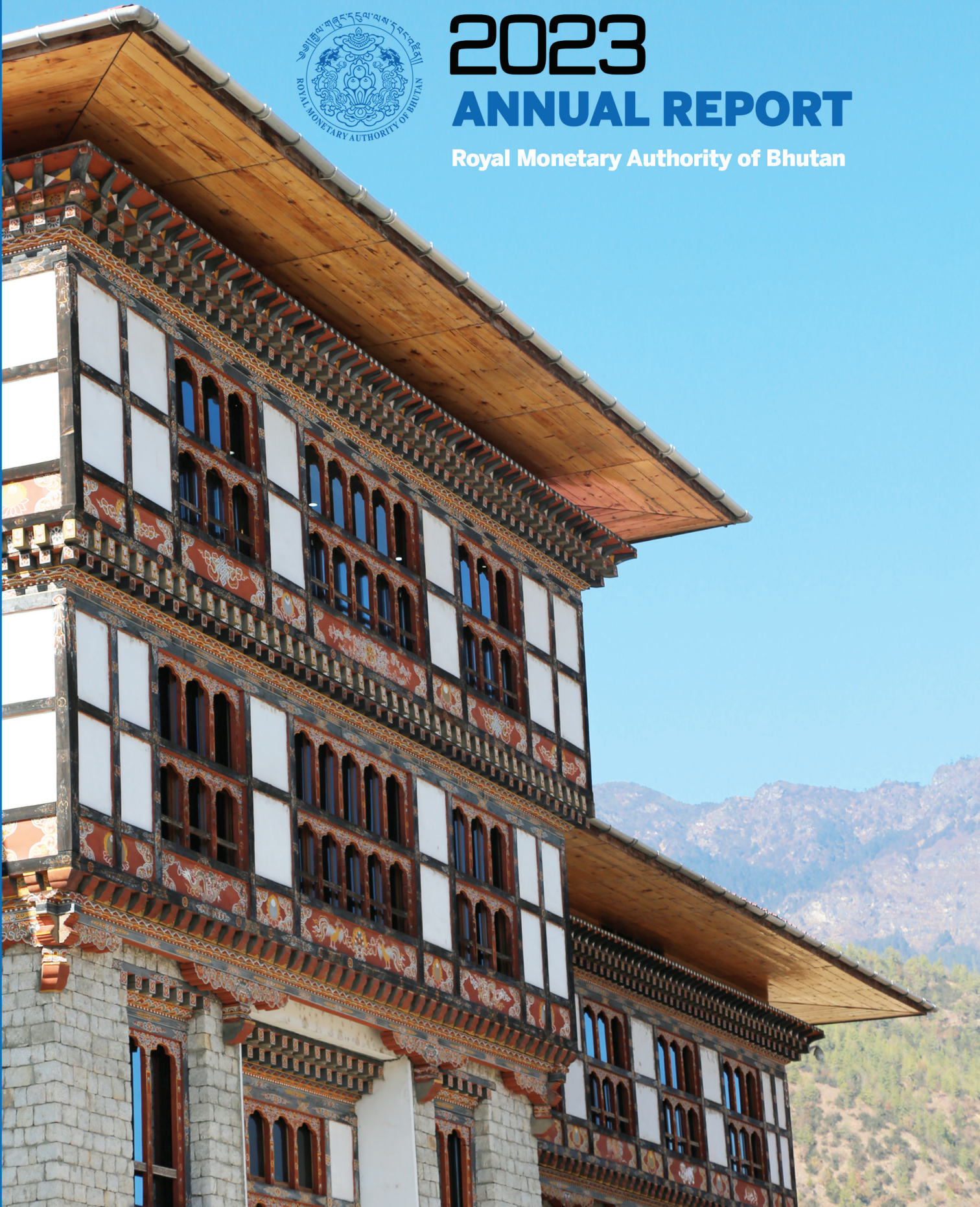




# 2023

## ANNUAL REPORT

Royal Monetary Authority of Bhutan





Royal Monetary  
Authority of Bhutan

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# Annual Report 2023



## From the desk of the Hon'ble Governor

The successful transition from the COVID-19 pandemic and the re-opening of international borders in September 2022, guided by the vision and wisdom of His Majesty The King, marks another significant milestone in the history of Bhutan. The year 2023, in particular, brings another moment of joy to the entire Bhutanese community with the birth of Her Royal Highness The Gyalsem Sonam Yangden Wangchuck on 9<sup>th</sup> September 2023, coinciding with the 25<sup>th</sup> day of the 7<sup>th</sup> month of the Female Water Rabbit Year. In a noteworthy development for Bhutan's rich cultural landmark and democratic landscape, the consecration of the Pemagatshel Druk Mijur Dechen Dzong took place on 22<sup>nd</sup> September 2023, followed by the successful conduct of the fourth National Assembly primary election on November 30, 2023, and successful completion of a five-year tenure of the third Government.

Navigating to the global economic landscape, the global economic recovery remains slow, and divergent hampered by the impact of the COVID-19 pandemic, geopolitical tensions, and the cost-of-living crisis. The ongoing supply chain disruptions and the unprecedented tightening of monetary conditions aimed at curbing global inflation have posed additional challenges to the current growth momentum. As a result, the International Monetary Fund in its latest projection estimates the global economic growth to persist below historical averages. Nevertheless, global headline inflation on year-over-year is expected to moderate in the next two years within the range of central bank targets.

In line with the global developments, the economic and financial landscapes in Bhutan is currently marked by uncertainties arising from the climate change and digital divide. As per the latest

update by the Macroeconomic Framework Coordination & Technical Committee, the domestic economic growth is expected to decrease from 5.2 percent in 2022 to 3.9 percent in 2023, largely anticipated from a downturn in the performance of construction activity. In 2022, the robust performances in Hotels & Restaurants, Constructions, and Trade amongst others fueled a growth rate of 5.2 percent up from 4.4 percent in 2021.

Despite being a significant source of livelihood for the majority of Bhutanese people, with substantial employment generation, the agriculture sector experienced a contraction of 1.2 percent in 2022 – a significant downturn. This decline was solely influenced by a sluggish growth in crop cultivation. The agricultural sector has witnessed a decrease in both its share of employment and Gross Value Addition. In 2022, the share of employment declined to 43.4 percent, down from 49.9 percent in 2020, while the Gross Value Addition also decreased to 14.7 percent from 15.7 percent during the same period.

The aggregate demand is expected to pick-up, particularly the private consumptions with hike in the public services salary and wages. The Royal Monetary Authority (RMA) need to closely monitor that it does not unnecessarily create inflationary pressures and impact the labor market adversely. The translation of economic growth into a gainful employment generation remains a serious challenge for the policy makers.

The labor market in the economy remains grim with an overall unemployment reaching all-time high to 5.9 percent and youth unemployment soaring to 28.6 percent in 2022. The profound impact of the pandemic has left enduring scars on the labor market, calling for sound policy

measures. Nevertheless, the initiation of skills development plans, foreign workers management strategy and reopening of the tourism industry, is expected to have a substantial impact on addressing the unemployment challenges. These policy interventions and strategies are expected to smoothen the unemployment rate to 5 percent in 2023.

In FY 2022/23, domestic headline inflation averaged approximately 4.6 percent, attributed to moderation in food inflation as supply chain normalized and increase in production of crude oil by non-OPEC+ countries. However, the escalation in housing and energy prices has been a significant contributor to the recent inflationary pressures within the domestic economy. It is projected to further exacerbate in the near term, reaching a range of 5 - 6 percent. This anticipated increase is primarily driven by exogenous factors, including the pass-through effects from the trade and exchange rate dynamics. These developments underscore the challenges associated with maintaining domestic price stability, especially when the economy is import-dependent and maintains pegged exchange rate with the Indian Rupee.

On the fiscal front, the government maintained a sustainable fiscal balance, aligning with the goals of promoting sustainable and inclusive growth in FY 2022/23. Out of the total outlay of Nu 69,156.6 million for the fiscal year, 51.2 percent was allocated to current expenditure, with the remaining dedicated to capital expenditure. The trajectory of fiscal policy is expected to be influenced by the challenges of debt overhang and contingent liabilities over the medium term.

The borrowings earmarked for hydropower construction and addressing external imbalances are anticipated to contribute to the rise in public debt. Consequently, the fiscal balance as a percentage of the GDP is projected to deteriorate to negative 5.6 percent in FY 2023/24, compared to negative 4.6 percent in FY 2022/23. The persistent borrowings from domestic markets to meet rising fiscal deficits would lead to higher fiscal vulnerabilities and crowding of credit for the private sector growth.

A persistent trade deficit continues to pose challenges to Bhutan's external sector. However, a positive outlook is projected for the medium term, with the trade deficit expected to improve from 24.3 percent of GDP to 20.2 percent of GDP in FY 2023/24. The improvement is associated to the commissioning of two new hydropower projects, coupled with anticipated growth in tourism and inward remittances.

Additionally, positive capital and financial net flows, comprising of official grants, hydro-related, and concessional loans, are expected to increase by 5.2 percent in FY 2023/24, which will be adequate to finance the current account deficit over the medium term. The rising twin deficits over the period has further increased the risks of external vulnerabilities, requiring concerted policy actions from the policy makers.

In response to the escalating imports and to manage the external reserves efficiently, typically attributed to the amplified flow of credit and liquidity in the economy, the RMA revised the Cash Reserve Ratio on 31<sup>st</sup> October 2022 from 7 percent to 8 percent. Additionally, in an effort to bolster remittance inflows and reinforce foreign currency reserves in response to

rising external imbalances, the incentive for inward remittances was increased from 2 percent to 10 percent in June 2023. To closely monitor and cross-verify the international trade transaction, the Phase II of the Bhutan Trade FinNet system was initiated in April 2023.

As private investment in Bhutan is predominantly influenced by domestic credit, the financial sector plays a crucial role in supporting the economy. Consequently, the health of the financial sector was strengthened through effective monitoring and supervision. In FY 2022/23, the supervisory focus involved an intensified surveillance of liquidity management and credit risk, particularly in response to heightened external vulnerabilities. As a result, the financial sector exhibited a strong capital base, sufficient liquidity buffers and improved asset quality. Continued dependence on traditional banking finance, coupled with the absence of robust money and securities markets, presents significant challenges for the development of banking sector.

In comparison to FY 2021/22, there has been a remarkable improvement in the Non-Performing Loans, with the ratio dropping from 8.6 percent to 3.7 percent as of FY 2022/23, against a domestic credit growth of 12.8 percent. Similarly, the total deposits with commercial banks witnessed a significant increase of 14.4 percent, and the Risk-Weighted Capital Adequacy Ratio during the review period stood at 15.1 percent. While credit growth was predominantly concentrated in the housing and education sectors, the increase in Fixed and Current Deposits contributed to the overall growth of Money Supply by 9.8 percent.

At the same time, we intensified our endeavors to ensure the resilience of the financial sector by issuing supervisory and prudential guidelines pertaining to penalties, data privacy and protection, business continuity plans, private money lending, auction of seized properties, and payment and settlement systems during the review period.

IT plays an important role in developing and modernizing the financial sector of the country. With the exponential growth and adoption of IT in the digitization of financial services, particularly in payments and remote access to banking, the need to invest in developing IT competency has become more prominent.

In the context of Bhutan, the RMA and banks have been at the forefront of leveraging new and innovative technologies for inclusive digital financial services. Examples include QR, mobile payments and wholesale payments, which have gained significant traction in the consumer space, marking a shift away from a cash-dominated economy to a cash-lite economy, thereby increasing the volume and efficiency of trade.

In response to both historical and emerging developments, the actions

undertaken by the RMA throughout the year were supported by its capacity to foster collective and collaborative efforts with various financial service providers and government agencies, all of whom have responded positively to our initiatives. In the face of the challenging global economic and political landscape, our commitment is to continue being an active, relevant, and trustworthy public institution, guided by the visionary leadership and wisdom of His Majesty The Druk Gyalpo.

I would like to extend my heartfelt gratitude to the Central Board of Directors of the RMA, financial institutions, and staff of the RMA for their unwavering commitment and hard work during these difficult times. I also wish to sincerely acknowledge the Government, the private sector, and our development partners for their continued support and cooperation.

Wish you all a happy and prosperous 2024.

Tashi Delek !



**Dasho Penjore**  
**(GOVERNOR)**

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## List of selected Acronyms

<b>AASBB</b>	Accounting and Auditing Standard Boards of Bhutan	<b>LFPR</b>	Labor Force Participation Rate
<b>ADB</b>	Asian Development Bank	<b>LFS</b>	Labor Force Survey
<b>AEs</b>	Advanced Economies	<b>LTU</b>	Long-Term Unemployment
<b>ATS</b>	Annual Travel Scheme	<b>MO</b>	Monetary Base
<b>BAS</b>	Bhutanese Accounting Standards	<b>M2</b>	Broad Money
<b>BDBL</b>	Bhutan Development Bank Limited	<b>MFIs</b>	Micro Finance Institutions
<b>BFRS</b>	Bhutan Financial Regulation Standard	<b>MHP</b>	Mangdechhu Hydropower
<b>BHP</b>	Basochhu Hydropower Plant	<b>MNL</b>	Multinomial Logit
<b>BIL</b>	Bhutan Insurance Limited	<b>MoF</b>	Ministry of Finance
<b>BIT</b>	Business Income Tax	<b>NBFI</b>	Non-Banking Financial Institutions
<b>BNBL</b>	Bhutan National Bank Limited	<b>NCSIDB</b>	National Cottage and Small Industries Development Bank Limited
<b>BoBL</b>	Bank of Bhutan Limited	<b>NDA</b>	Net Domestic Assets
<b>BoP</b>	Balance of Payments	<b>NEER</b>	Nominal Effective Exchange Rate
<b>BTFN</b>	Bhutan Trade FinNet	<b>NFA</b>	Net Foreign Assets
<b>BTN</b>	Bhutan Ngultrum	<b>NPISHs</b>	Non-Profit Institutions Serving Households
<b>CAD</b>	Current Account Deficit	<b>NPL</b>	Non-Performing Loans
<b>CAR</b>	Capital Adequacy Ratio	<b>NPPF</b>	National Pension and Provident Fund
<b>CC</b>	Convertible Currency	<b>NQR</b>	Quick Response Code
<b>CD</b>	Credit to Deposit	<b>NRF</b>	National Resilience Fund
<b>CDA</b>	Current Deposit Account	<b>Nu</b>	Ngultrum
<b>CiC</b>	Currency in Circulation	<b>OLMO</b>	Overnight Liquidity Management Operations
<b>CIT</b>	Corporate Income Tax	<b>OMO</b>	Open Market Operations
<b>COOs</b>	Certifications of Origin	<b>OPEC</b>	Petroleum Exporting Countries
<b>COTI</b>	Countries Other Than India	<b>PAT</b>	Profit-After-Tax
<b>CPI</b>	Consumer Price Index	<b>PCA</b>	Prompt Corrective Action framework
<b>CRR</b>	Cash Reserve Ratio	<b>PHCB</b>	Population and Housing Census of Bhutan
<b>DHCL</b>	Dagachhu Hydropower Corporation Limited	<b>PHPA</b>	Punatsangchhu Hydroelectric Project Authority
<b>DLMF</b>	Domestic Liquidity Management Framework	<b>PIT</b>	Personal Income Tax
<b>DMB</b>	Deposit Money Banks	<b>RBI</b>	Reserve Bank of India
<b>DRC</b>	Department of Revenue & Customs	<b>RD</b>	Recurring Deposit
<b>EMDEs</b>	Emerging Market and Developing Economies	<b>REER</b>	Real Effective Exchange Rate
<b>FD</b>	Fixed Deposit	<b>RGOB</b>	Royal Government of Bhutan
<b>FDI</b>	Foreign Direct Investment	<b>RHS</b>	Right Hand Side
<b>FIs</b>	Financial Institutions	<b>RICBL</b>	Royal Insurance Corporation of Bhutan Limited
<b>FPI</b>	Foreign Portfolio Investment	<b>RMA</b>	Royal Monetary Authority
<b>FSAB</b>	Financial Services Act of Bhutan	<b>RoW</b>	Rest of the World
<b>FSPs</b>	Financial Service Providers	<b>RWA</b>	Risk Weighted Assets
<b>FY</b>	Fiscal Year	<b>RWCAR</b>	Risk Weighted Capital Adequacy Ratio
<b>GDP</b>	Gross Domestic Product	<b>SB</b>	Savings Deposit
<b>GNPL</b>	Gross Non-Performing Loan	<b>SDR</b>	Special Drawing Rights
<b>GST</b>	Goods and Services Tax	<b>SLR</b>	Statutory Liquidity Ratio
<b>GVA</b>	Gross Value Addition	<b>SVB</b>	Silicon Valley Bank
<b>ICOR</b>	Incremental Capital Output Ratio	<b>THyE</b>	Tangsibji Hydro Energy Limited
<b>IIP</b>	International Investment Position	<b>USD</b>	United States Dollar
<b>ILO</b>	International Labour Organization	<b>UV</b>	Beveridge Curve
<b>IMF</b>	International Monetary Fund		
<b>INR</b>	Indian Rupee		
<b>IPS</b>	Interest Payment Support		





VISION, MISSION  
& VALUES

## Our Aspiration

A Progressive, Agile, and Resilient Central Bank  
Enabling Bhutan's Economic Transformation

The financial sector is the backbone of the economy and the RMA is committed to provide the stewardship to financial institutions in supporting Bhutan's 21<sup>st</sup> Century aspiration of becoming a dynamic, prosperous, inclusive, sustainable, and resilient economy.

Towards this end, the RMA's aspiration is to be a Central Bank of PAR Excellence, that is:

**Progressive**—fostering forward-thinking and growth-oriented mindset by building bright human capital, creating robust research and knowledge base, and adopting smart technology.

**Agile**—being able to adapt quickly to changes and uncertainties in the environment through advanced diagnostic capabilities and by resolving problems with creative solutions.

**Resilient**—being resilient during times of crisis by embracing robust early warning system and preparedness to buffer possible impacts and disruptions.



### Mission

**R**einforce an inclusive, sustainable, and dynamic economy

**M**aintain stability and resilience of the financial system

**A**dvance innovation and technology in financial services

## We will fulfill our mission by:

Being a steward of the financial sector in reinforcing the government's initiatives to create sustainable, inclusive, dynamic, and resilient economy.

Safeguarding the confidence in the financial sector and the economy by ensuring the stability and resilience of the financial system.

Embracing continuous advancement and adoption of innovation and technology to remain progressive, agile, and resilient in order to support the financial sector and the economy.

## Core Qualities

### Credibility

A reliable and trustworthy national institution and partner in promoting Bhutan's economic progress.

### Leadership

Leader of change and innovation in the financial sector, taking bold steps to leverage opportunities and address challenges.

### Knowledge

Source of informed discourse and policy on the financial sector and the economy.

While working towards achieving its aspiration and mission, the RMA will operate with the highest standards, embracing and promoting three core qualities of 'Credibility', 'Leadership', and 'Knowledge' that will serve as the distinguishing identity of who we are as an institution and what we mean to our employees. We will nurture these qualities as our core strength in realizing our mandates and in contributing towards the fulfilment of the nation's development goals.

## Values

### Upholding Tha-Damtshi (Integrity)

We will mindfully shoulder our responsibilities with full dedication, integrity, and sincerity.



### Being Nyamchung (Humility)

We will conduct ourselves with humility and treat everyone with respect and dignity. Our motivation to succeed will be driven by the need to improve conditions for others.

### Exhibiting Dremba (Sensibility)

We will be alert and practical when discharging our duty, acknowledging and addressing challenges in an astute manner, perceptive to immediate exigencies and long-term sustainability.



These core qualities will be underpinned by three intrinsic Bhutanese values of 'Upholding Tha-Damtshi (integrity)', 'Being Nyamchung (humility)', and 'Exhibiting Dremba (sensibility)' that will be associated and exemplified by all RMA employees. These values have been expounded time and again by His Majesty The Druk Gyalpo in various Royal Addresses and remain timeless and relevant for meaningfully and intelligently serving the Tsa-Wa-Sum.

The RMA's core qualities and values reflect our distinguishing identity and attributes that will be promoted and exemplified at both the individual employee and the institutional level.

## RMA Board, Management and Directors for the FY 2022/23

### A. Board of Directors

Board Director and as a Chairperson nominated under Chapter 4, Section 33 (a) & 34 (a) of the RMA Act 2010

#### **Hon'ble Governor**

Dasho Penjore

Board Director nominated under Chapter 4, Section 33 (b) of the RMA Act 2010

#### **Deputy Governors**

Phajo Dorjee

Yangchen Tshogyel

Board Director nominated under Chapter 4, Section 33 (c) of the RMA Act 2010

#### **Appointed Members**

Han Jee Jan

Leki Wangmo

Nelson Trevor Thackery

Sonam Tenzin

### B. Departmental Heads

#### **Department of Banking**

Tshering Dema

Executive Director

#### **Department of Currency Management**

Dophu Dorji

Executive Director

#### **Department of Internal Audit**

Dechen Yangzom

Director

#### **Department of Information and Technology**

Sherub Jamtsho

Director

#### **Department of Financial Regulation and Supervision**

Ugyen Choden

Director

#### **Department of Foreign Exchange and Reserve Management**

Gopi Nepal

Director

#### **Department of Administration and Finance**

Tshewang Nidup

Officiating Director

#### **Department of Payment and Settlement System**

Kezang Jigme

Officiating Director

#### **Department of Macroeconomic Research and Statistics**

Sonam Tobgye

Officiating Director

#### **Department of Financial Intelligence**

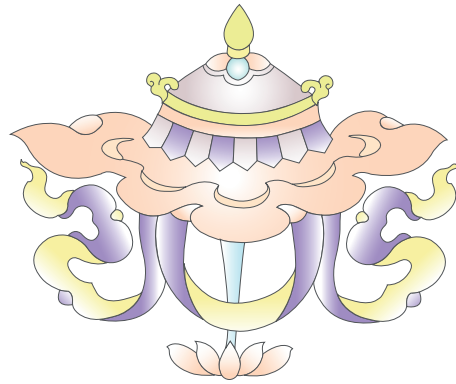
Tshering Penjor

Officiating Director

#### **Regional Office, Phuntsholing**

Sonam Tobgay

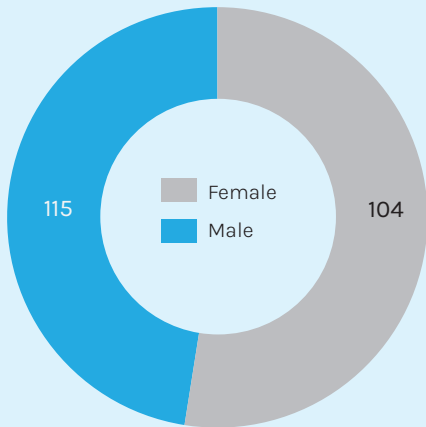
Regional Director



MACROECONOMIC HIGHLIGHTS,  
KEY INDICATORS & CALENDAR  
OF EVENTS

# RMA in Numbers FY 2022/23

## Human Resources (HR)

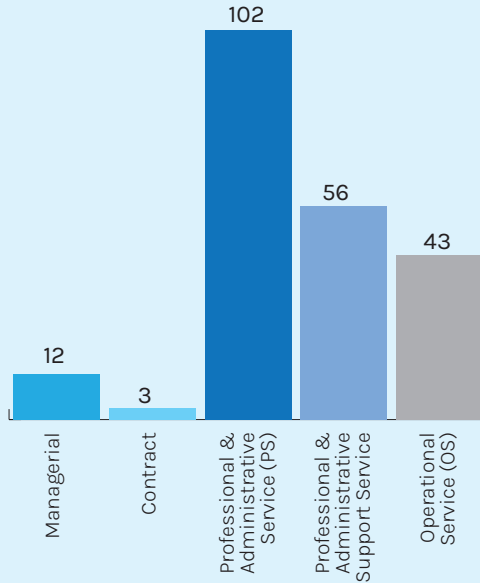


Recruited: 31

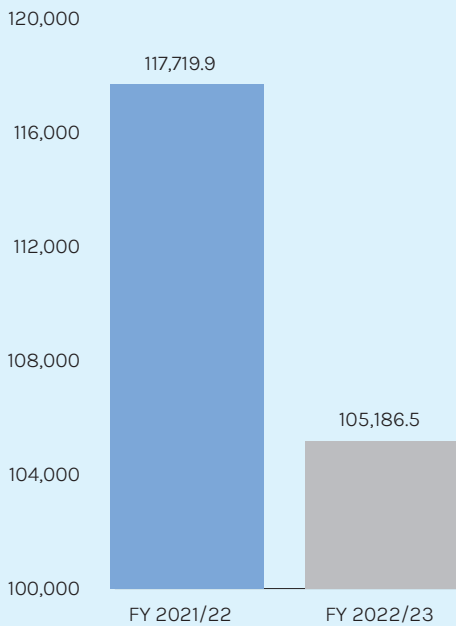


Resigned: 62

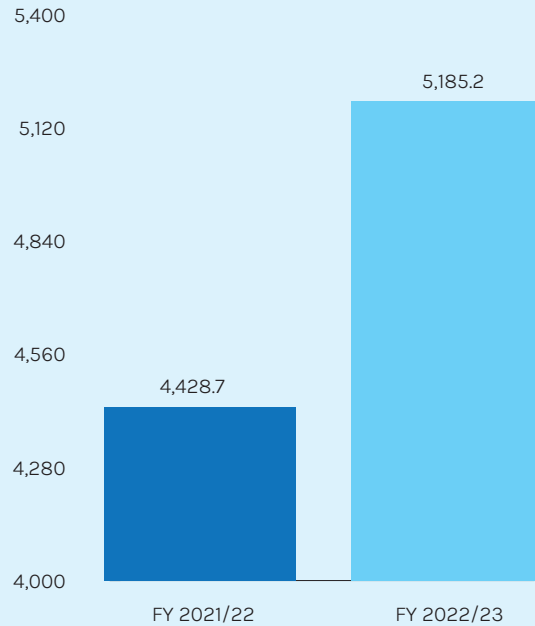
## HR Position Classification



## Business Size (Nu in million)



## Total Comprehensive Income (Nu in million)

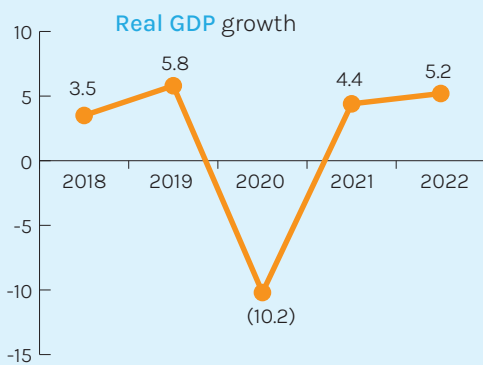


## Key Economic Highlights – FY 2022/23

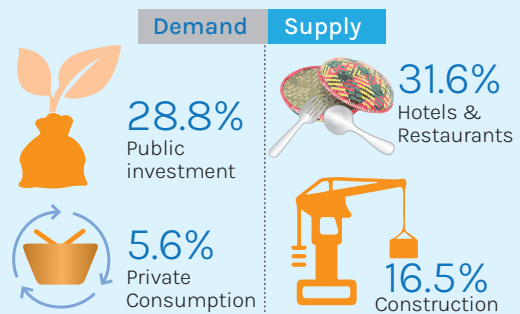
Amidst the global economic activity facing a slowdown, the Bhutanese economy achieved a growth of 5.2 percent in 2022, surpassing the 4.4 percent recorded in 2021. The growth was primarily driven by expansions in sectors such as hotels and restaurants, construction, wholesale and retail trade. However, there was a decline in the primary sector by 1.2 percent in 2022, largely stemming from a decreased crop cultivation for the first time. The Consumer Price Index (CPI) inflation was recorded at 3.8 percent in June 2023, a notable decrease from the 6.4 percent recorded in June 2022. A fall in both food prices and non-food prices led to the moderation in the overall price index.

The RMA's commitment to ensuring an uninterrupted flow of credit to the economy and prudent management of the financial sector was evident in the domestic credit growth, which stood at 12.8 percent as of June 2023. Notably, there has been a positive improvement in the Gross Non-Performing Loans (GNPLs), which improved to 3.7 percent, marking a significant decline from the 8.6 percent recorded in June 2022. The liquidity in the banking sector continued to remain adequate to support the credit growth. On the external front, Bhutan's economy faces a significant challenge with the continual depreciation of the Nu against the USD and a surge in imports. This is evident in the elevated Current Account Deficit (CAD), which reached 33.7 percent of the GDP as of June 2023.

The domestic economy maintained its growth momentum, essentially driven by recovery in service sector.

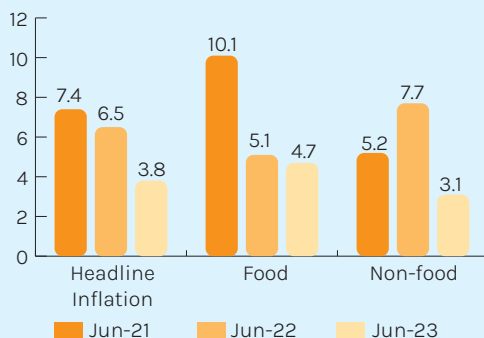


Key drivers of GDP in 2022 (growth)

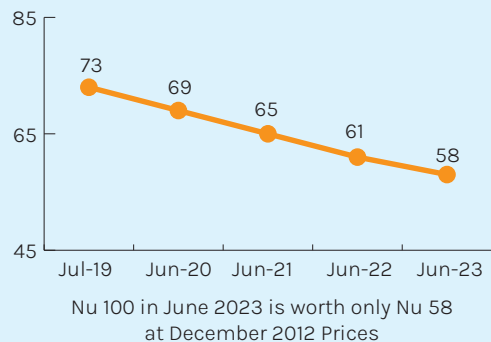


The slowdown in both food & non-food prices moderated the headline inflation

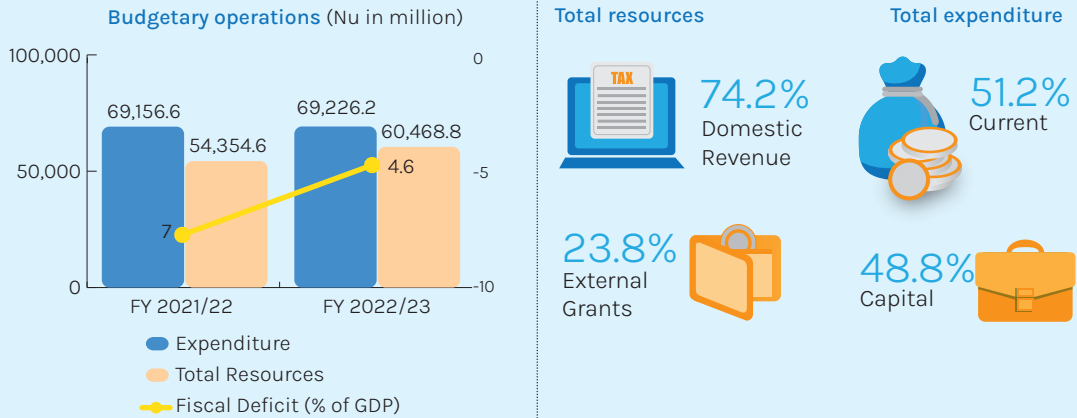
Inflation and components (growth in %)



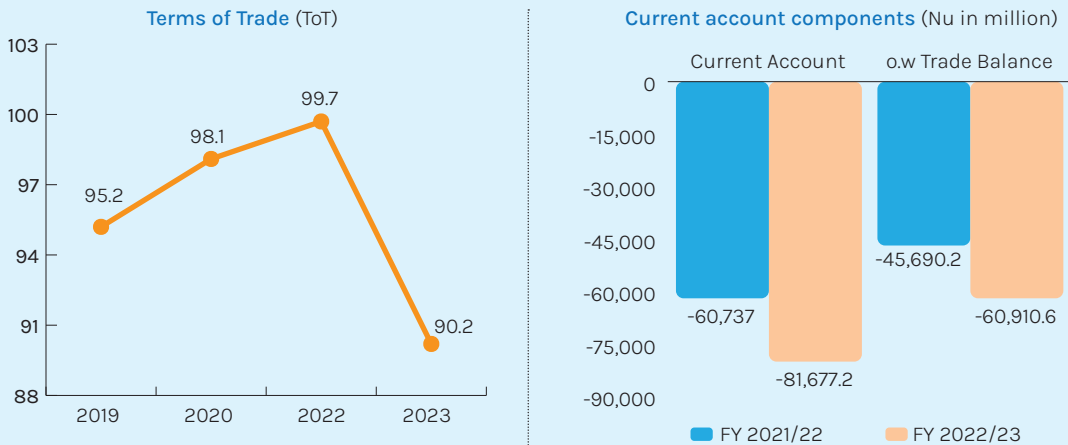
Purchasing Power of Ngultrum



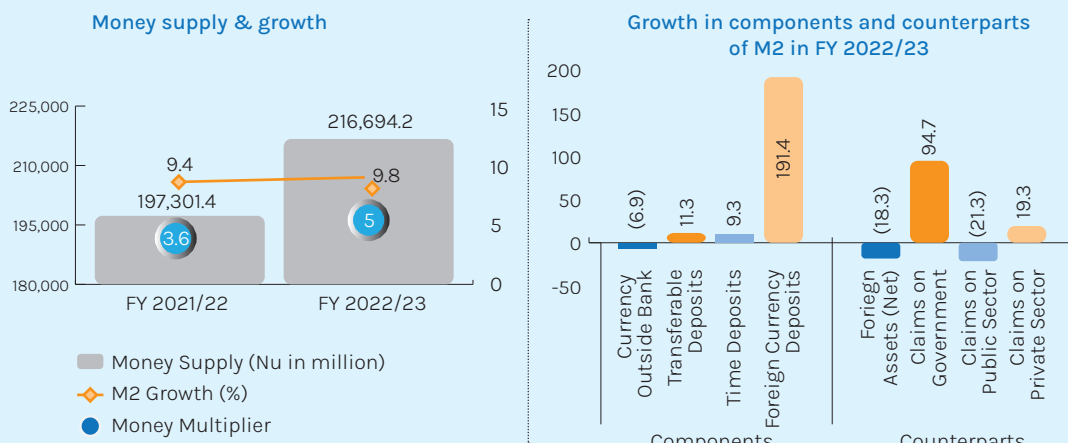
The fiscal deficit improves to 4.6% of GDP with an increase in domestic resources in FY 2022/23



The escalating imports continue to exacerbate the CAD and trade competitiveness.



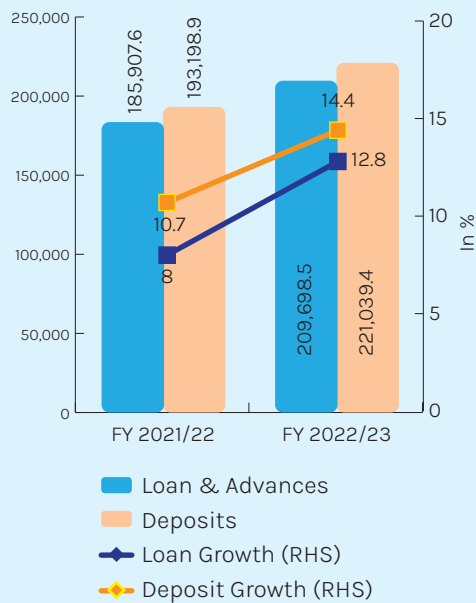
The expansion of deposits in Fixed & Current accounts contributed to a marginal growth of Money Supply.



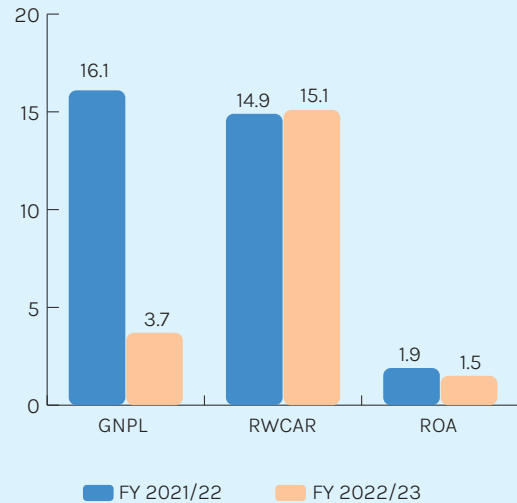


An augmentation in credit and deposits was accompanied by a notable improvement in asset quality, further cementing financial stability.

Assets & Liabilities overview (Nu in million)



Key financial indicators (%)

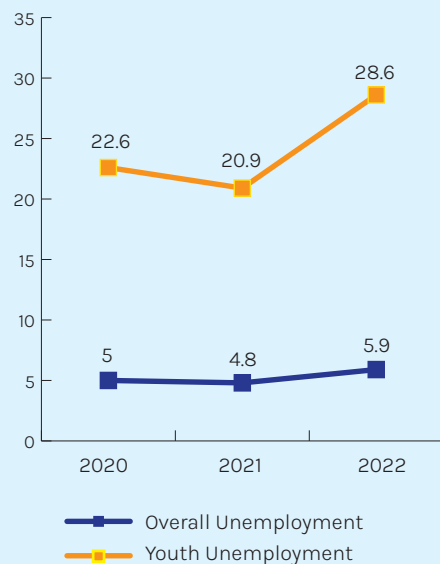


A substantial influx of job seekers entering the labor market has intensified the pressure on the already challenging labor market situation in the economy.

Labor market



Unemployment rates (%)



## Calendar of events in FY 2022/23

### July 2022

Issued amended rules and regulations on penalties to fortify the Financial Service Providers (FSPs) by promoting early detection, rigorous monitoring, and penalization of Section 9 violations, with accompanying guidance to assess and deter FSPs from violating regulations, guidelines and directives issued by the RMA.

Adopted guidelines on Data Privacy and Data Protection 2022 to furnish standardized directives to FSPs for the secure collection, sharing, dissemination, and disposal of data, ensuring its confidentiality and integrity for submission to the Authority.

New accounts for the Payments and Settlement system opened at RMA, where all the settlements of the respective banks shall be carried out.

Issued guidelines for the key responsible persons of the regulated entities in evaluating the competencies, experiences, and integrity of the key persons to ensure the prudent appointment of fit and proper individuals in crucial positions.

Initiated implementation of an upgraded system of Risk-Based Internal Audit (RBIA) Framework to enhance and strengthen the Internal Control and Risk Management system of the RMA.

Kick started the Data warehouse & analytic project implementation with financial assistance from Asian Development Bank (ADB). It is aimed to revamp and revolutionize the current practices of data management into more automated systems leveraging modern Information Technology platforms in terms of data collection, processing to support policy and decision-making through reliable, timely and accurate data with end-to-end solution whilst improving the research and analytical capabilities in the field of economics, banking and statistics.

### August 2022

Approved TashiCell InfoCom. Ltd in incorporating National Quick Response Code (NQR) in eTeeru wallet to counter the decline of merchant adoption of the eTeeru platform by introducing an innovative payment method that enables direct payments into merchants' bank accounts.

### September 2022

Launched Remit Bhutan, providing Non-Resident Bhutanese the opportunity to securely open reliable foreign currency and/or Ngultrum accounts with the banks in Bhutan.

### October 2022

RMA Increased Cash Reserve Ratio (CRR) from 7 to 8 percent in response to escalating concerns regarding the external imbalances.

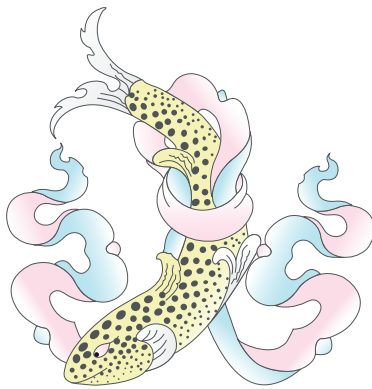
### November 2022

Developed guidelines on Business Continuity Plan 2022 to assist financial service providers in mitigating the impact of operational disruptions on the efficient financial services delivery.

- December 2022** Developed in-house e-recruitment system to enhance the efficiency of the recruitment process.
- Phase I of the Bhutan Trade FinNet (BTFN) system, a web-based platform designed for integrated cross-border trade and financial transactions to monitor and cross-verify international trade transactions launched. In this phase, registration for clearing and Forwarding Agents and Wholesalers importing from COTI were mandated.
- January 2023** RMA in collaboration with member banks introduced payment overlay services to enhance retail payment systems, enabling real-time beneficiary account validation and allowing customers to view account names during mobile and QR code payments.
- March 2023** Issued rules and regulation for registered private money lenders 2023 to supervise and regulate such enterprises. It aims to reduce threats to the financial system, improve monetary policy effectiveness, and mitigate adverse socio-economic consequences associated with private money lending businesses.
- Kick started the Data warehouse & analytic project implementation as part of digital flagship program under 21<sup>st</sup> Century Financial Sector Roadmap, which will also help to implement RegTech, SupTech and ML/AI in the financial sector. It is aimed to revamp and revolutionize the current practices of data management into more automated systems leveraging modern IT platforms in terms of data collection, processing to support policy and decision-making through reliable, timely and accurate data with end-to-end solution whilst improving the research and analytical capabilities in the field of economics, banking and statistics.
- Adopted and issued guidelines on auction of seized properties 2023 to streamline the auction process including ensuring due diligence for the mutual benefit of borrowers/ property owners and FSPs.
- Amended Payment and Settlement System Rules and Regulations 2018 to regulate payment service providers more effectively, ensuring safety, efficiency, financial stability, systemic risk prevention, and promoting financial inclusion and consumer protection.
- April 2023** Phase II of the BTFN system initiated, where the online issuance of import licenses, import registrations, Certifications of Origin (COOs), and Export Registrations were piloted.
- June 2023** Enhanced remittance incentive from 2 percent to 10 percent in boosting the remittance inflows and foreign currency reserves, and promoting savings and investments.

## 2.3 Key Economic Indicators

Indicator	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
GDP at Constant (2017) Price (a), (b)	3.5	5.8	-10.2	4.4	5.2
Inflation - June end (b)	2.7	4.5	7.4	6.5	3.8
<b>Government Budget</b> (Nu in million) (c)					
Total Revenue and Grants	42,033.3	54,603.9	59,696.1	54,354.6	60,468.8
of which: Foreign Grants	10,516.5	16,425.8	14,882.3	13,583.5	14,363.3
Total Expenditure*	46,724.9	57,989.2	70,835.9	69,156.6	69,226.2
of which: Current Expenditure	29,105.5	33,023.3	43,515.8	34,444.7	35,428.0
Overall Balance	-2,743.4	-3,385.4	-11,395.7	-15,032.0	-11,222.1
(in percent of GDP)	-1.5	-1.8	-5.9	-7.0	-4.6
<b>Money and Credit</b> (percent change, end of period)					
Broad Money, M2	5.6	19.3	24.4	9.4	9.8
Credit to Private Sector	20.5	13.3	6.5	10.8	19.3
<b>Interest Rates</b> (end of period)					
One Year Deposits**	3.0-6.0	3.0-6.0	3.0-6.0	3.0-6.0	3.0-6.0
Lending Rate	7.94-14.0	7.94-14.0	7.94-14.0	7.94-14.0	7.94-14.0
91-day RMA Bills/ Treasury Bills	4.3	2.8	4.0	0.3	0.04
<b>Balance of Payments</b> (Nu in million)					
Trade Balance (Goods)	-28,338.6	-22,726.4	-12,400.0	-45,690.2	-60,910.6
With India	-26,322.6	-15,895.5	-9,112.6	-28,176.2	-45,177.0
Current Account Balance	-35,431.7	-27,712.5	-21,374.1	-60,737	-81,677.2
(In percent of GDP)	-19.2	-14.8	-11.1	-28.1	-33.7
With India	-38,659.9	-25,996.5	-22,179.7	-40,752.3	-66,562.1
(In percent of GDP)	-20.9	-13.9	-11.5	-18.8	-27.5
RGoB Loans	20,146.1	28,509.0	18,621.3	23,641.9	27,778.1
Of which: India (including accrued interest on Hydro)	16,040.4	17,689.8	11,651.8	13,068.4	17,743.4
Errors and Omissions	21,591.6	2,385.7	-6,101.9	9,580.4	34,066.7
Overall Balance	2,310.2	20,092.2	-4,059.5	-32,400.9	-28,791.6
(In percent of GDP)	1.3	10.7	-2.1	-15.0	-11.9
<b>External Indicators</b> (end of period)					
Gross Official Reserves in millions of USD	1,063.2	1,343.5	1,332.4	832.9	573.6
External Debt outstanding (USD millions)	2,728.4	2,872.7	3,203.2	3,162.8	3,213.0
External Debt (percent of GDP)	101.8	115.8	123.1	114.2	108.5
CC debt outstanding (USD millions)	720.1	830.8	922.7	978.1	1,051.5
CC debt (percent of GDP)	26.9	33.5	35.5	35.3	35.6
Rupee debt outstanding (INR millions)	138,409.4	154,218.0	169,546.9	170,576.4	176,421.2
Rupee debt (percent of GDP)	75.0	82.3	87.7	78.9	72.9
Debt-Service Ratio (d)	44.0	33.5	38.1	39.2	37.9
<b>Memorandum Items</b> (Nu in million unless otherwise indicated)					
Nominal GDP (a), (b)	176,673.0	192,647.8	182,107.4	204,664.4	227,813.7
Ngultrum per USD (fiscal year average)	70.6	72.5	73.7	75.4	81.6
Money Supply, M2 (end of period)	121,416.7	144,890.5	180,314.2	197,301.4	216,694.2
Money Supply, M1 (end of period)	69,203.4	85,575.6	101,825.9	110,574.9	121,235.1
<b>Counterparts</b> (Nu in million)					
Foreign Assets (Net)	63,920.6	84,090.6	98,552.0	97,558.1	79,757.4
Domestic Credit	113,488.2	122,112.9	142,821.3	165,296.9	205,804.4
Claims on Private Sector	104,850.5	118,812.5	126,561.4	140,254.9	167,383.7
<b>Components</b> (Nu in million)					
Currency Outside Banks	9,744.1	11,782.9	11,874.9	10,241.7	9,535.3
Transferable Deposits	59,459.3	73,792.8	89,951.2	100,333.1	111,699.8
Other Deposits	52,213.4	59,314.8	78,488.3	86,726.6	95,459.1
Reserve Money, M0 (end of period)	31,973.9	45,049.7	61,429.4	55,069.4	43,717.7
of which: Banks' Deposits	19,427.9	30,414.0	46,954.7	41,549.4	31,139.8
Money Multiplier (M2/M0)	3.8	3.2	2.9	3.6	5.0
Income Velocity (GDP/M2)	1.4	1.3	1.0	1.0	1.1
<b>Unemployment Rate</b> (a)	3.4	2.7	5.0	4.8	5.9
<p>a) GDP and Unemployment figures are on a calendar year basis (eg: entry under FY 2022/23 is for 2022).</p> <p>b) Source: National Statistics Bureau</p> <p>c) Data for FY 2022/23 are revised estimates.</p> <p>d) Debt service payments in percent of exports of goods and services.</p> <p>* Total expenditure in FY 2022/23 includes net lending and other payments.</p> <p>** Refers to time deposits rate for 3 months to 1 year</p>					



**MACROECONOMIC  
REVIEW**

### 3.1 Real Sector

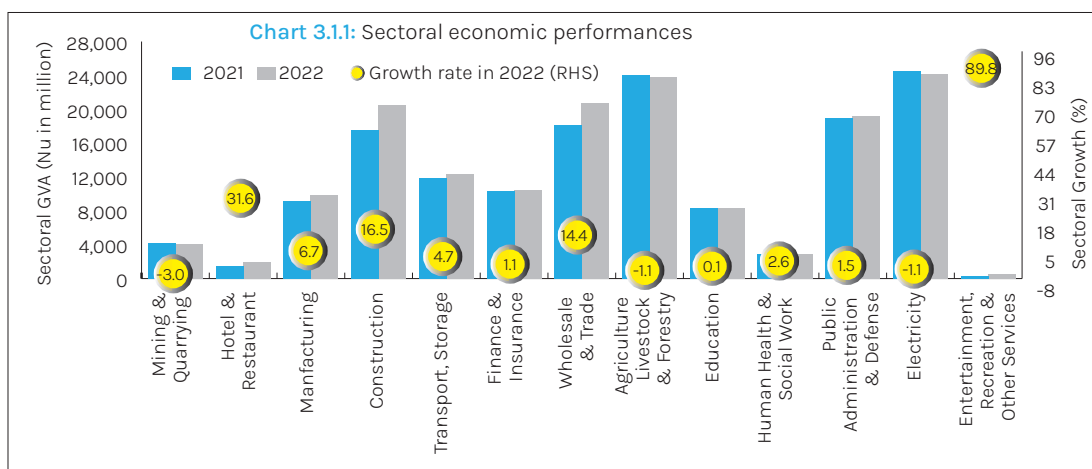
The domestic economy maintained its growth momentum, recording a growth of 5.2% in 2022 compared to 4.4% in 2021. This development was underpinned by improvement in economic performances of entertainment, recreation & other services; hotels & restaurants; construction, and wholesale & retail trade during the review period.

The Bhutanese economy sustained its growth momentum, with the GDP expanding to 5.2 percent in 2023, up from 4.2 percent of the previous year. Driving this growth were key economic sectors, including entertainment, recreation, and other services, which experienced substantial growth at 89.9 percent. Additionally, the hotels and restaurants saw an increase of 31.6 percent, followed by construction at 16.5 percent, and wholesale & retail trade at 14.4 percent.

The mining & quarrying; and agriculture, livestock & forestry sectors on the other dipped by negative 3 percent and negative 1.2 percent in 2022 from 55 percent and 1.4 percent in the previous year respectively. The most significant contributor to the GDP in Bhutan is electricity, which has also dropped by 1.1 percent from the previous year.

#### Sectoral Economic Performances

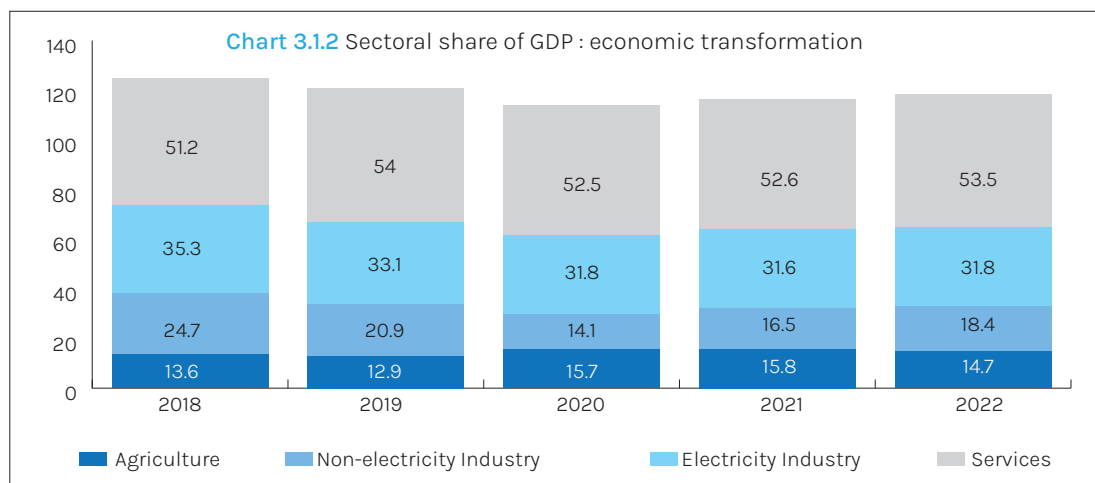
The mining and quarrying sector experienced negative growth due to a decline in the production of minerals, including limestone, gypsum, marble, and iron ore. In terms of Gross Value Addition (GVA), the sector’s GVA during the review period was estimated at Nu 4,080.8 million, compared to Nu 3,878.1 million in 2021.



Although the agriculture sector demonstrated resilience during the pandemic, there was a decline in growth in 2022, primarily attributed to reduced crop production. In contrast, the manufacturing and construction sectors saw notable improvements with growth rates of 6.7 percent and 16.4 percent, respectively. Consequently, the overall industry output demonstrated a noteworthy increase, reaching 5.6 percent growth in 2022 compared to the previous year’s 3.9 percent.

## Sectoral Economic Transformation

As a key strategy for achieving energy security, the pursuit of integrated energy solutions has been identified in order to diversify energy sources. This approach aims to enhance energy access across the entire country. The domestic demand for energy consumption has surged by 51.1 percent during the FY 2022/23. Consequently, the growth in hydropower exports during the review period saw a decline of 13.2 percent, compared to the negative 9.4 percent recorded in the previous year.



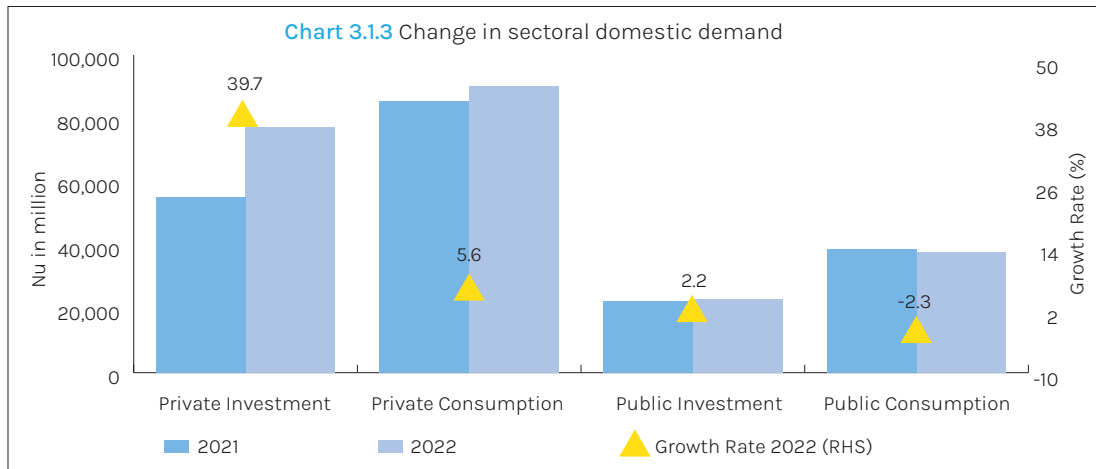
The service sector which constitutes 54.8 percent of the GDP continued to drive the growth, recording a positive growth of 6.6 percent in 2022. This development was mainly underpinned by a progressive growth in entertainment, recreation and services (89.9%); hotels and restaurants (31.6%); communications (14.5%); and wholesale and retail services (14.4%).

In nominal terms, the service sector claimed the largest share of GDP at 53.5 percent, followed by the industry sector at 31.8 percent, and the agriculture sector at 14.7 percent in 2022. Throughout the review period, the driving forces behind the economy, in terms of their contribution to GDP, were primarily electricity, followed by wholesale and retail trade, and public administration and defense.

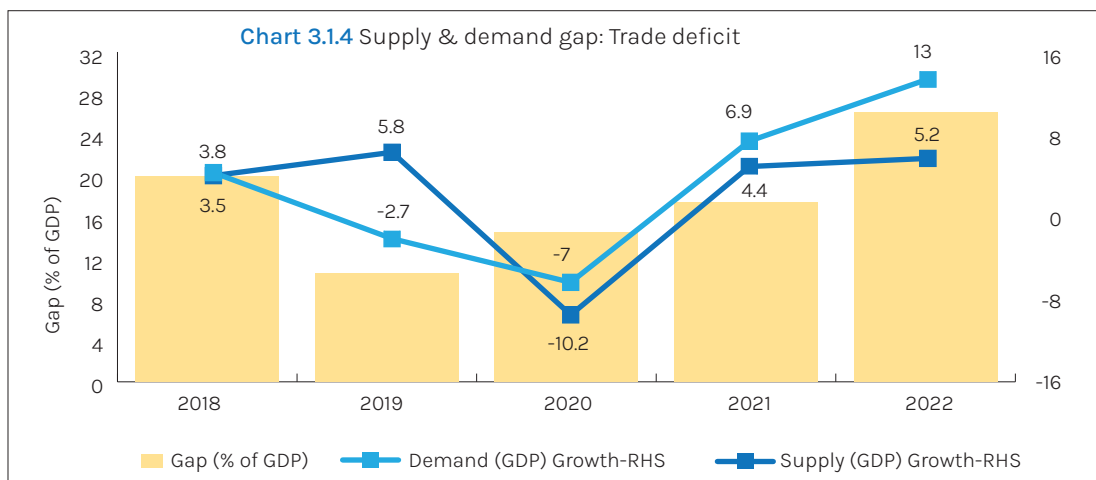
## Sectoral Domestic Demand

On the expenditure front, aggregate demand saw a notable increase to 13 percent, marking a rise of 6.1 percentage points from the previous year. This growth can be owed to the normalization of the economy, bolstered by robust economic policy measures. The upswing in aggregate demand in 2022 was primarily driven by an increase in private consumption and private investment, followed by public investment.

In 2022, total private expenditure saw a substantial growth of 18.9 percent, a notable increase from the 2.4 percent recorded in 2021. In contrast, total public expenditure experienced a negative growth of 0.7 percent, compared to the 18.7 percent growth in 2021. The surge in total private expenditure was primarily propelled by a 39.7 percent growth in private investment and a 5.6 percent increase in consumption.



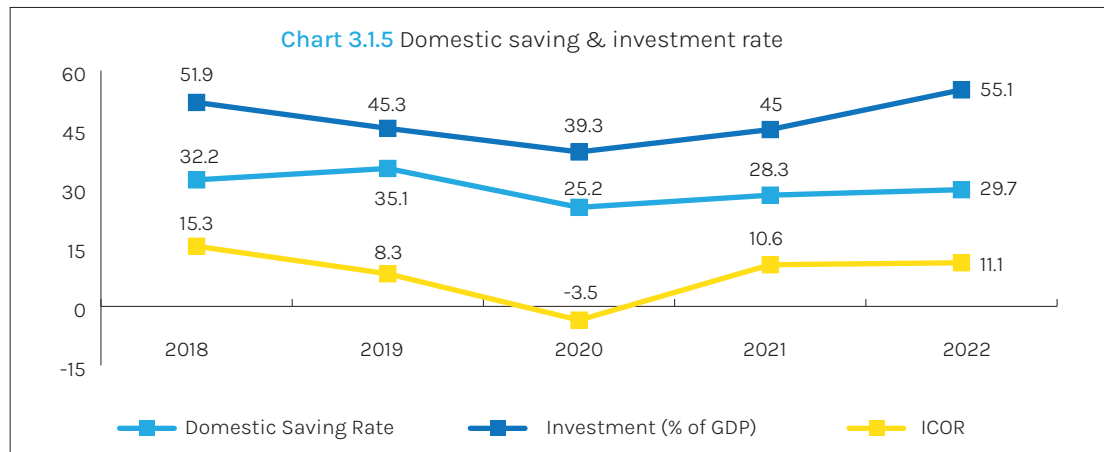
However, in terms of share to GDP, the economy is largely driven by private consumption demand owing to higher access to credit. The private investment was registered at 42.3 percent and private consumption at 49.5 percent. The public investment on the other was recorded at 12.7 percent of GDP and public consumption at 20.8 percent. The consolidation of government expenditure in a view to achieve fiscal sustainability has led to decrease in the public consumption.



The country's trade balance, consistently unfavorable, further deteriorated in 2022, experiencing a decline of 58.5 percent compared to 25 percent in 2021. This deterioration was because of a 6.4 percent decrease in hydropower exports, coupled with a significant surge in merchandise imports, which increased by 17.1 percent. Consequently, the trade deficit reached 26.1 percent of GDP in 2022, marking an increase of 8.8 percentage points from the previous year.



The rate of gross domestic investment in the country, measured by the ratio of gross capital formation to the GDP in current prices surged to 55.8 percent in 2022 from 44.4 percent in 2021. The uptick in the ratio was driven mainly by the private investment due to pick-up in pending construction activities. This is consistent with the view that a revival of investment is a precondition for a sustainable expansion.



According to trend analysis on domestic investment rates, a higher rate was recorded during pre-pandemic, while in the post-pandemic period, the rates were lower but showed progress. Additionally, the domestic saving rate saw a slight increase, rising from 28.3 percent in 2021 to 29.7 percent. However, the productivity of capital has decreased, reflected in the Incremental Capital Output Ratio<sup>1</sup> (ICOR) increasing to 11.1 percent.

<sup>1</sup>The ICOR explains the correlation between the level of investment in the economy and the subsequent increase in GDP. Higher the ICOR, lesser the productivity of capital

# BOX I

## Decrypting the Impact of Financial Development on Bhutan’s Economic Growth – Evidence from Vector Error Correction Model

Traditionally, factors of production such as land, labor, and capital have been identified as the primary determinants of growth in conventional economic models. However, evolving development paradigms have increasingly acknowledged the pivotal role of the financial system in fostering economic growth. Consequently, numerous developing nations have embraced financial reforms as a strategic approach to stimulate economic growth.

The roots of exploring the relationship between financial development and economic growth can be traced back to the work of (Schumpeter, 1911). He is credited for advancing the argument that financial intermediation creates favorable conditions for economic growth. Schumpeter (1911) contended that for entrepreneurs to be incentivized, financial intermediaries must provide essential services, including mobilizing resources from surplus to deficits, managing risk, monitoring entrepreneurs, and facilitating transactions. These elements, according to Schumpeter (1911), are integral to fostering technical innovation and driving overall economic growth.

Recognizing the pivotal role of financial development in catalyzing economic growth, the following models have been formulated for Bhutan to examine the relationship between economic growth and financial development:

$$Y=f(FD).....(1)$$

In this context, Y represents economic growth measured by Real Gross Domestic Product (rGDP), and it is considered as a function of Financial Development (FD). The measures employed for FD include Money Supply (M2) and Credit to the Private Sector (PVT). The M2 serves as an indicator of the monetization ratio, representing the financial system’s capacity to provide liquidity. Meanwhile, PVT explains the role of financial intermediaries in channeling funds to various sectors of the economy.

**Data:** Yearly data was obtained from the World Development Indicators of the World Bank, supplemented by confirmation from the annually published National Accounts Statistics by the National Statistics Bureau of Bhutan. Following the data collection, a transformation into natural logarithms was performed, and an Augmented Dickey-Fuller test was conducted to verify that the variables share the same order of integration. In the exploration of economic growth proxies, Real GDP, nominal GDP, and real Per Capita Income (PCI) were considered, with rGDP selected based on model suitability & stability.

**Model Development :** Error correction models are extensively employed to estimate dynamic cointegrated systems and determine the non-structural speed of adjustment towards the long-run equilibrium level. This is especially applicable when certain random variables in the system exhibit unit root nonstationary and are cointegrated. The fundamental structure of the Error Correction Model is depicted by:

$$\Delta Y_t = a + \beta \Delta X_{t-1} - \beta ECT_{t-1} + \varepsilon_t..... (2)$$

$$\text{Or } \Delta Y_t = \Delta X_{t-1} + \dots + \delta (Y_{t-1} - \alpha X_t)..... (3)$$



In this equation,  $\delta$  represents the speed of adjustment toward the long-run equilibrium. The Error Correction Term (ECT) denoted as  $ECT_{t-1}$  is the sole potentially I (1) variables, assuming the absence of any I (2) variables. This term signifies the rate at which deviation from the long-run is rectified following a change in each variable.

Thus, this article follows [Johansen & Juselius \(1990\)](#) to determine the number of cointegration vectors through two statistics test. The first test statistics is the Trace Test which is denoted by:

$$\lambda_{Trace} = -T \sum_{i=r+1}^n \text{Log} (1-\lambda_i^{\hat{}}) \dots\dots\dots(4)$$

Where  $(\lambda_{r+1}, \dots, \lambda_n^{\hat{}})$  are (n-r) smallest estimated Eigenvalues, and the null hypothesis in this test is to perceive there are at most r unique cointegrating vectors. The second test is the Maximal eigenvalue test given by:

$$\lambda_{Max} = -T \text{Log} (1-\lambda_{r+1}^{\hat{}}) \dots\dots\dots(5)$$

The null hypothesis in this case is to test there are r cointegrating vectors in  $X_t$ . In both trace & maximum eigenvalue test, the alternative hypothesis is the presence of  $k > r$  cointegrating vectors in  $X_t$ .

**Result:** For the model, optimal lag of 1 was chosen from the Akaike Information Criterion (AIC) and upon the identification of 1 cointegrating equation, a Vector Correction Estimate was performed, yielding an error term of -0.18. ECT are deemed favorable when their values range from 0 to 1 and are negative. Consequently, the estimated cointegrated vector in the Johansen estimation, with the rGDP coefficient normalized to 1, is presented below:

rGDP	Constant	M2	PVT
1.00	-18.375	0.123 (0.07) [1.64]	-0.381 (0.05) [-6.53]

Standard errors in ( ) and t-statistics in [ ]

Based on the normalized cointegrating coefficients, it can be inferred that credit to the private sector has a significant long-run impact on economic growth, *ceteris paribus*. This inference underscores the crucial role of domestic credit as a pivotal channel for private investment in the Bhutanese economy.

Similarly, a Wald test was conducted to examine the short-run relationship between the datasets, but no significant relationship was observed.

### References

Johansen, S., & Juselius, K. (1990). Maximum likelihood estimation and inference on cointegration –with applications to the demand for money. *Oxford Bulletin of Economics and statistics*, 52(2), 169-210.  
Schumpeter, J. (1911). The theory of economic development. *Harvard Economic Studies*, XLVI.

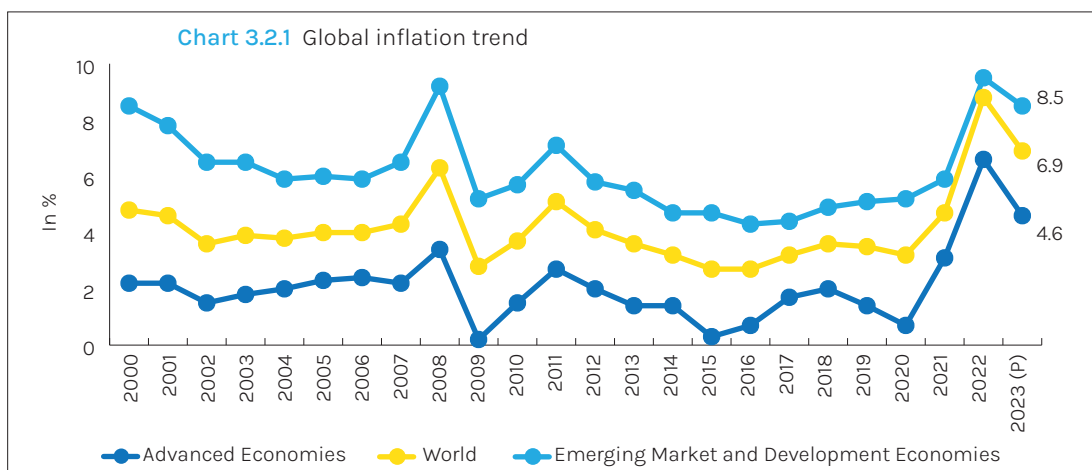


### 3.2 Inflation

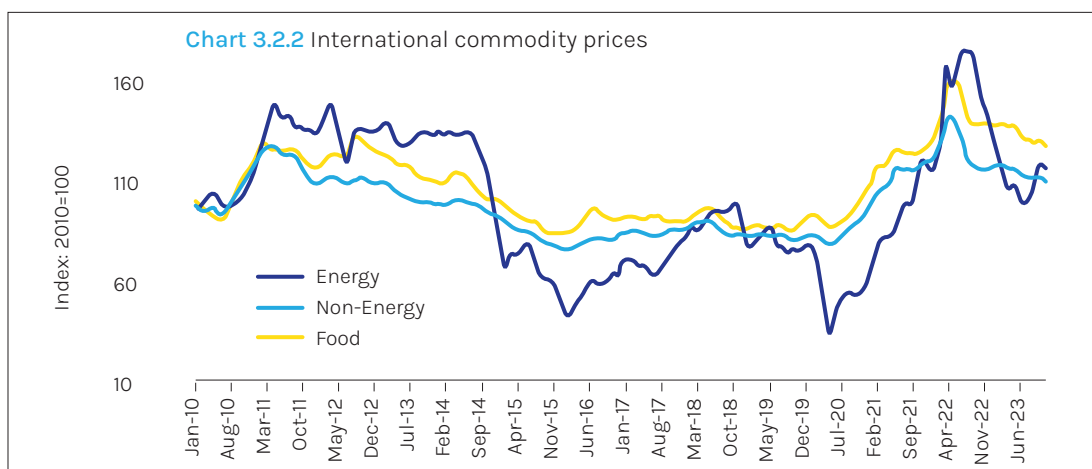
Although the headline inflation averaged at 4.7% over the last 5 years, the outlook remains highly uncertain due to the increasing geopolitical fragmentation and lingering effects of monetary policy tightening in advanced economies. The recent build-up of inflationary pressure in the past months was largely attributed to rise in housing and food prices in Bhutan.

#### Global and Regional Inflation

The global inflation reached multidecade high in 2022, well above most of the central bank’s target, in the wake of pandemic shock and geo-political tension. As the monetary policy tightening gradually rebalanced the aggregate demand towards potential output and supply chain disruptions started normalizing, the global headline inflation has moderated in 2023. However, the underlying price pressures continued to remain elevated with fresh conflicts surfacing in the Middle East.



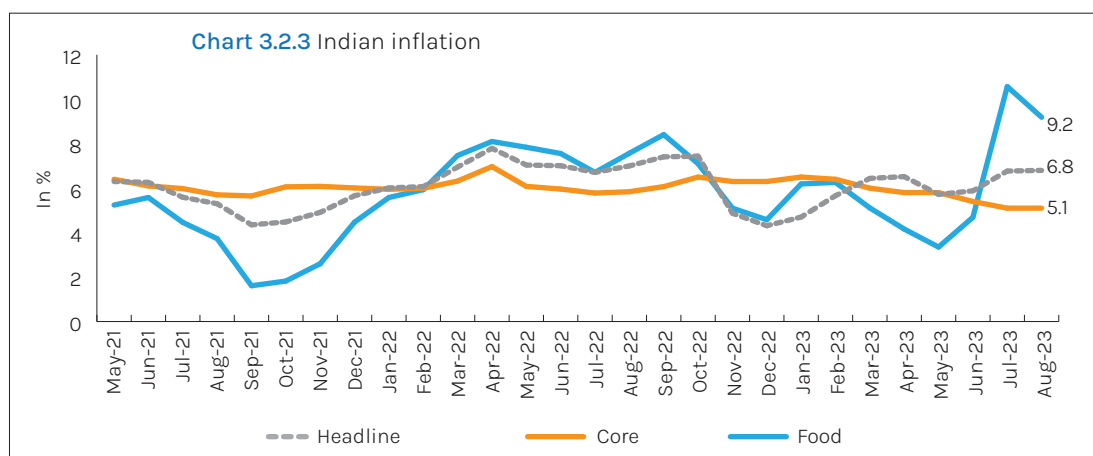
According to the IMF World Economic Outlook, October 2023, the global headline inflation eased from 8.5 percent in the first quarter of 2022 to 4.9 percent in the second quarter 2023, due to tightening monetary policy and fall in global energy price, particularly the crude oil prices as a result of increase in oil supply by the Non-Organization of Petroleum Exporting



Countries (OPEC). The decrease in global fuel price supported the softening of global food prices, particularly pass-through effect to transportation cost. As a result, global inflation is expected to steadily decline from its peak of 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024.

In Advanced Economies (AEs), headline inflation was recorded at 6.6 percent in 2022, and estimated to slowdown at 4.6 percent in 2023, with stronger monetary policy communications and lower exposure to shocks of commodity prices and exchange rate, particularly in United States and Euro areas. The headline inflation in Emerging Markets and Developing Economies (EMDEs) remained at 9.5 percent in 2022 as the food prices continued to remain elevated due to the withdrawal of Russia's Black Sea Grain Initiative and emergence of the fresh conflicts in the Arab countries affecting the supply of the crude oil.

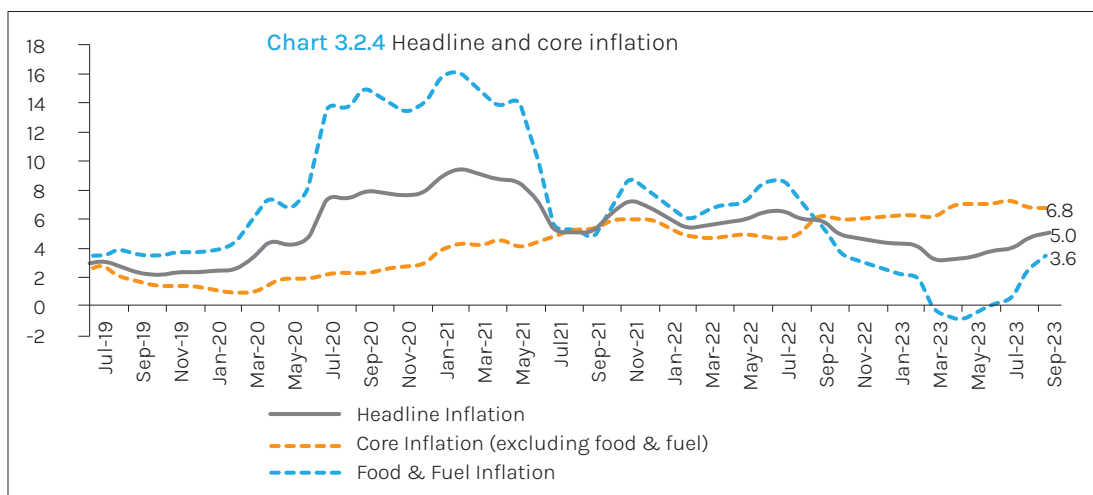
Global crude oil prices, which is the main driver of overall headline inflation, have depicted high volatility over the past six months. According to the OPEC, global crude oil prices declined by 11.7 percent in August 2023 to USD 85 per barrel from USD 96 per barrel in August 2022. The decrease in price was mainly due to higher oil production by non-OPEC countries that partly offset the output curbs by OPEC, weaker rebound in China's oil consumption demand and increased Russian exports of crude oil to non-Western aligned countries. With the slowdown in the crude oil prices, global food prices also decreased during the year with an average growth of 7.7 percent in September 2023.



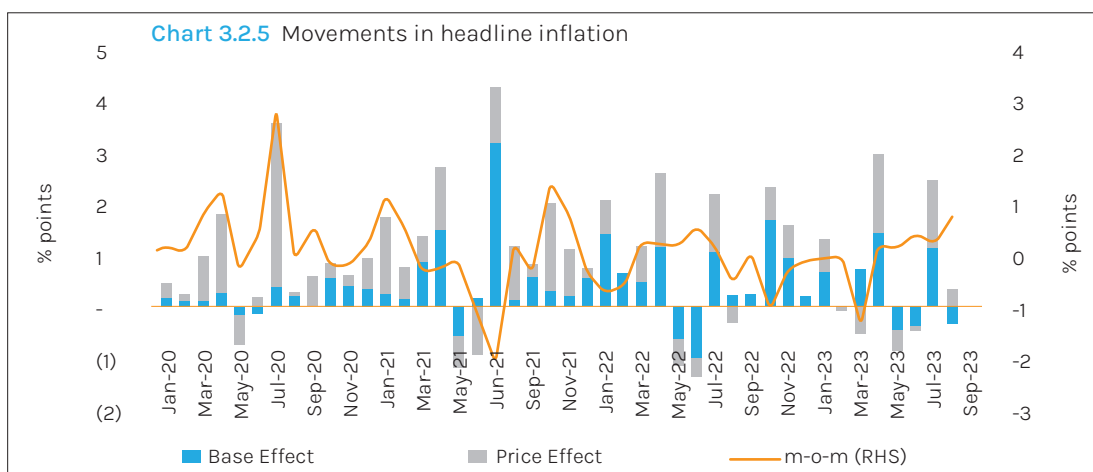
On the regional front, Indian headline inflation moderated from 7 percent in June 2022 to 5.9 percent in June 2023, which was in response to monetary policy action and supply side measures initiated by the government through subsidies to edible oil import duty. However, inflation jumped to 7.4 percent in July 2023 and 6.8 percent in August 2023, due to rising food prices, vegetable prices and waning base effect. On the other hand, core inflation (excluding food and fuel) has been gradually ebbing down to 5.1 percent with moderation of transportation fares and communication services.

### Domestic Inflation

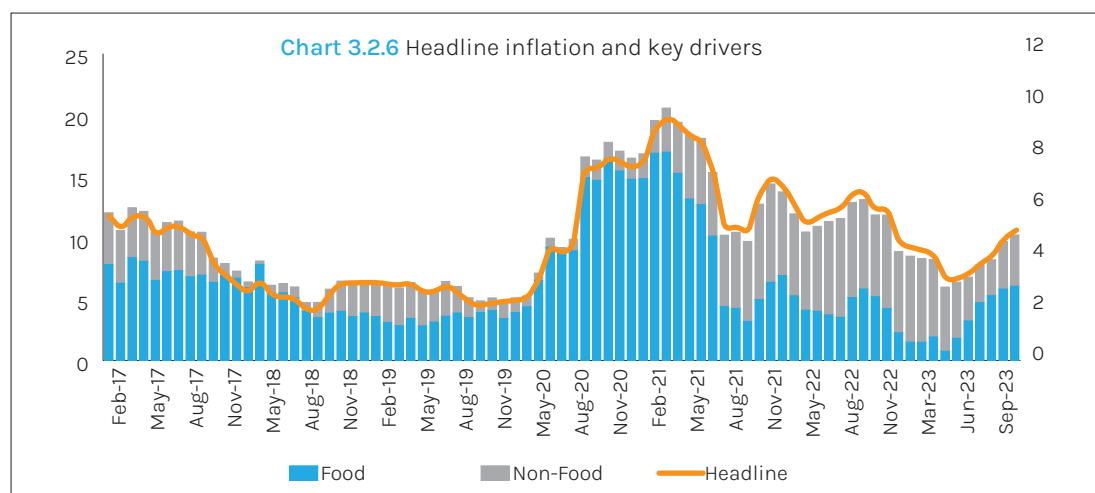
The RMA has been entrusted with a role to maintain the price stability to support economic growth through formulation of monetary policy. Since Bhutanese Ngultrum (Nu) is one-to-one pegged with the Indian Rupee (INR), and also higher import dependence on India, the monetary policy independence has been limited, posing challenges to achieve price stability objectives. Given the economy closely integrated with Indian economy, Bhutan's prices broadly follow movements in tandem with Indian inflation. In this case, the inflation targeting monetary policy (4 +/- 2 percent range) of the Reserve Bank of India (RBI), to some degree, safeguard price stability in Bhutan and cushion the inflation volatility from the exogenous shocks.



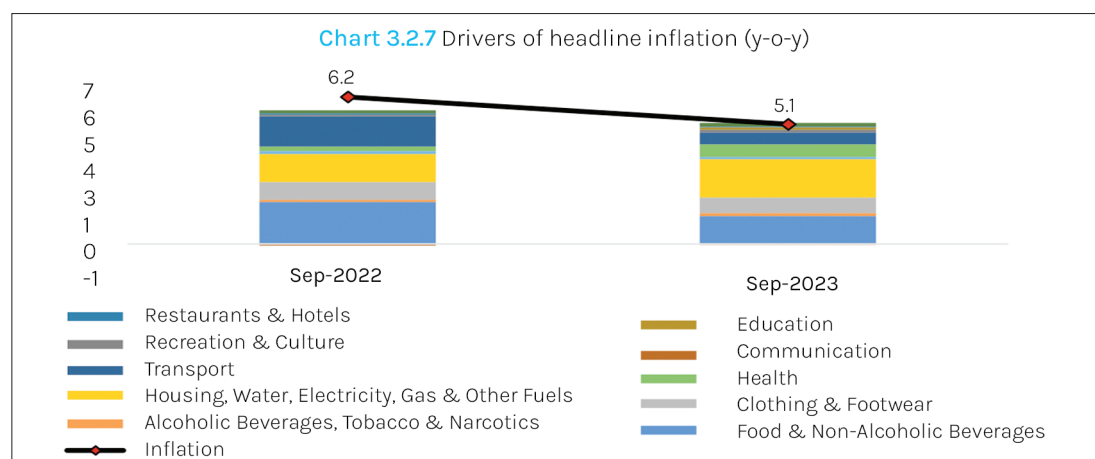
The domestic CPI headline inflation moderated in 2023, fluctuating in a range of 4.3 percent to 5 percent during January- September 2023. From the period of January to March 2023, CPI inflation moderated from 4.3 percent to 3.2 percent, a decrease of 110 basis points, recording the lowest inflation after the post-pandemic. CPI inflation thereafter started to marginally rise again from 3.3 percent in April 2023 to 5 percent in September 2023. The



pick-up in the inflation during the period was broad-based resulting from higher pass-through effect of increase in food prices in domestic economy and increasing prices in India. Moreover, due to waning base effects<sup>2</sup> from April 2023, it also led to rise in headline inflation in September 2023.



The variation in CPI headline inflation over the period was significantly influenced by the movement in the non-food prices, in which the non-food price has been fluctuating from 6.8 percent in January 2023 to 4.2 percent in September 2023. While the non-food prices remained a key contributor to CPI inflation during the pandemic, the food inflation has been rising higher than the non-food, influencing the development of inflation path in the recent period. The food inflation significantly surged to 4.7 percent in June 2023 from 1.2 percent in January 2023, before picking-up to 6.1 percent in September 2023. The pick-up was largely driven by the pass-through effects of increase in price of vegetables, housing & energy and higher domestic private consumption demand on account of hike in the salary of public servants.



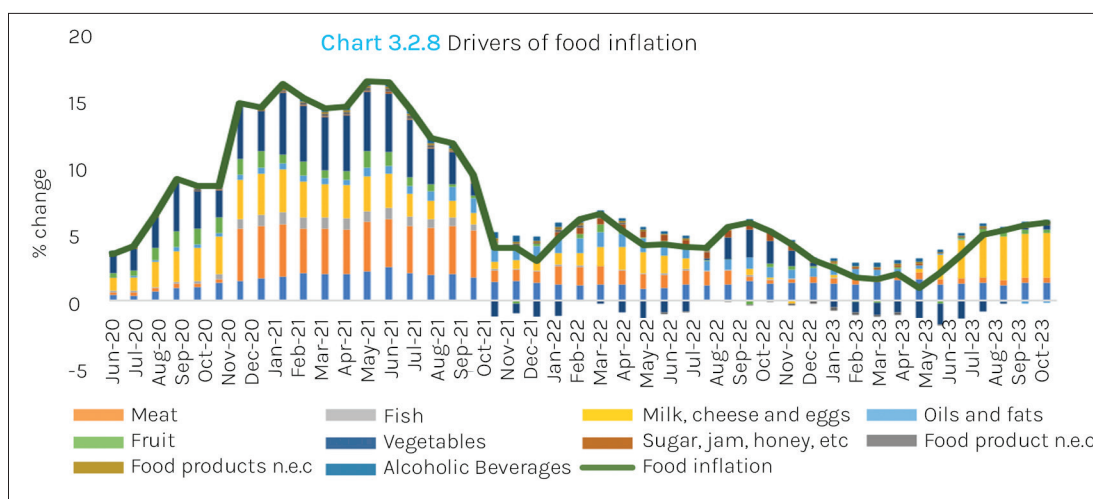
<sup>2</sup> Base effect refers to change in CPI year-on-year (y-o-y) inflation between the current month-on-month (m-o-m) change in the price index (momentum) and the m-o-m change in the price index 12 months earlier (base effect).

The non-food inflation initially eased from 6.8 percent in January 2023 to 3.1 percent in June 2023, before reversing to a growth of 4.2 percent in September 2023. The marginal pick-up in non-food inflation was mainly due to broad-based pass-through effects of increase in prices of education & health and volatility of global crude oil prices.

Looking at the annual inflation trend, CPI headline inflation grew by 5.1 percent in September 2023 compared to 6 percent in September 2022. During the review period, overall CPI inflation was primarily driven by housing & utilities, food & non-alcoholic beverages, clothing & footwear, health and transport. The housing & energy grew by 10.1 percent in September 2023, contributing 31.7 percent to overall CPI inflation, followed by food & non-alcoholic beverages at 23.2 percent, clothing & footwear at 13.5 percent and health at 10.7 percent. Transport, on the other, scaled down to negative 1.3 percent in September 2023 after peaking at 14.9 percent due to the fall in the prices of petrol and diesel. Therefore, during the review period, an average percentage contribution of transport to CPI headline inflation decreased to 9.4 percent from 21 percent in September 2022.

### Food Inflation

The food inflation (with weight of 45.9 percent of overall CPI basket) has seen considerable volatility, hovering within a range of 4.2 percent to 6.1 percent between September 2022 to September 2023. The food inflation was recorded at 0.8 percent in March 2023, taking to the lowest in the post-pandemic from 1.5 percent in January 2023, and thereafter surged significantly to 5.9 percent in September 2023. The increase in food prices during the period was attributed to rise in global fertilizer prices. On the supply side factors, increase in the price of domestic dairy products (milk, cheese and eggs), vegetables and animal proteins were the key drivers of hardening food inflation in the second half of 2023.



Among the major drivers of food inflation, milk, cheese & eggs (16.7 percent weight in CPI food) recorded a sharp increase from negative 1.6 percent to 20.1 percent in September 2023, and vegetable prices (19.7 percent weight in CPI food) grew by 1.6 percent in September 2023 due to higher import vegetable prices. The surge in tomato and onion prices in India during the period, exerted up-ward pressure on the domestic food inflation. On the contrary, oil and fats (5.2 percent weight in CPI food inflation) witnessed a negative growth of 2.7 percent in

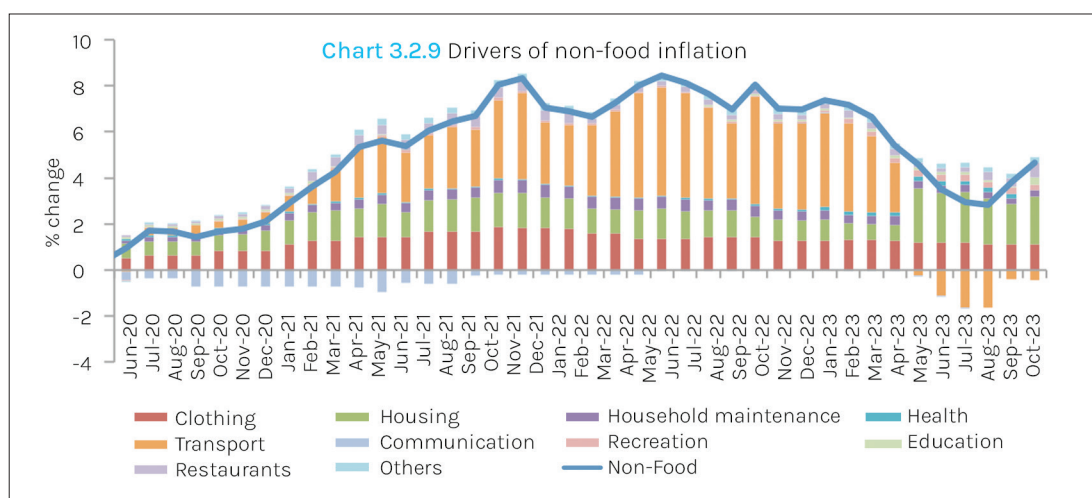


September 2023 compared to 12.3 percent in April 2021 due to fall in international prices and higher oilseed productions in India. The downward spiral in oils and fats prices was also due to price stabilization measures initiated by the Government of India through reduction of the basic import duty on refined soyabean oil, refined sunflower oil and exempted imports of crude soybean oil and sunflower from basic customs duty<sup>3</sup>.

The price of bread & cereals and meat which combinedly constitutes 32.3 percent weight in food CPI basket had a sustained average growth at 6.3 percent and 3.3 percent respectively during the period.

### Non-food Inflation

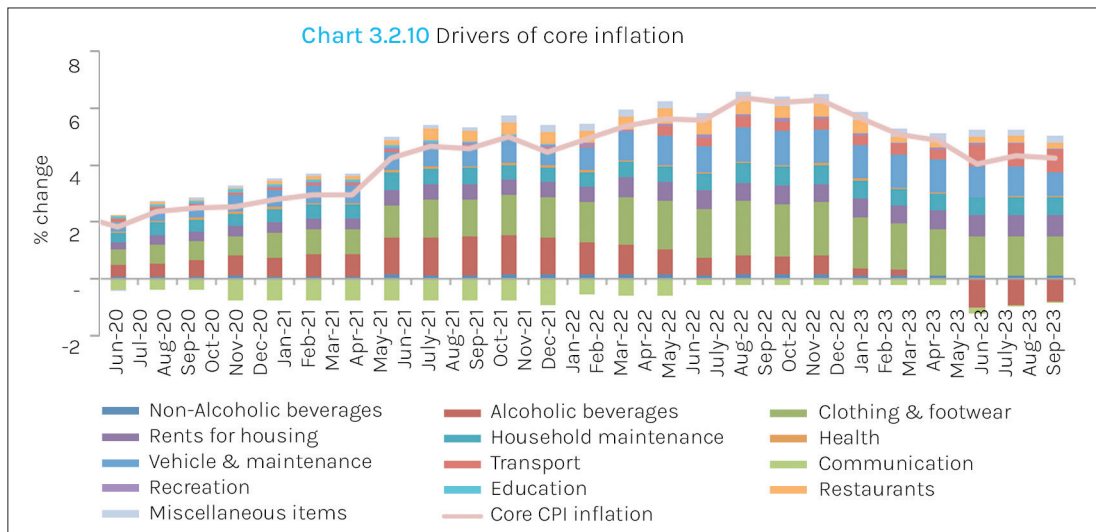
The non-food inflation which comprises of 54.1 percent of weight in CPI inflation recorded a gradual moderation in prices of major non-food components beginning from September 2022. The year-on-year non-food inflation grew slower at 4.2 percent in September 2023 as compared to 8.1 percent in September 2022, largely driven by price of education, health, housing and recreation & entertainment. Among the drivers of non-food inflation, price of education increased sharply at 14.4 percent, followed by health at 12.6 percent and housing at 10 percent.



While the price of transport (16.7 percent of weight in non-food CPI basket), which was a key driver of the non-food inflation during the pandemic eased substantially at negative 1.3 percent in September 2023 compared to 14.7 percent in the previous year. The decline in price of transport was primarily the pass-through effects of moderation in global fuel prices and also an impact of favorable base effect. The spill-over-effect of decrease in the transportation cost led to the reduction in price of other sectors particularly, construction, manufacturing and mining sectors.

The core inflation (excludes food and fuel which are highly volatile in nature) witnessed a marginal change from 6.3 percent in September 2022 to 6.8 percent in September 2023, an increase of 50 basis points. The movement of petrol and diesel prices during the period, along with a softening in transportation fares and communication services, led to the moderation in transportation prices.

<sup>3</sup> For details, refer Monetary Policy Report, October 2023 updates, Reserve Bank of India



Following the trend since 2022, the price for communication further declined to an average of negative 0.2 percent in June 2022 to negative 5 percent in September 2023, which contributed to lower growth in core inflation. As a result of change in price of food and non-food items over the period, the purchasing power of Ngultrum dropped by 26 percent, valuing at Nu 74 as of September 2023 against Nu 100 in September 2019 (Base Year).

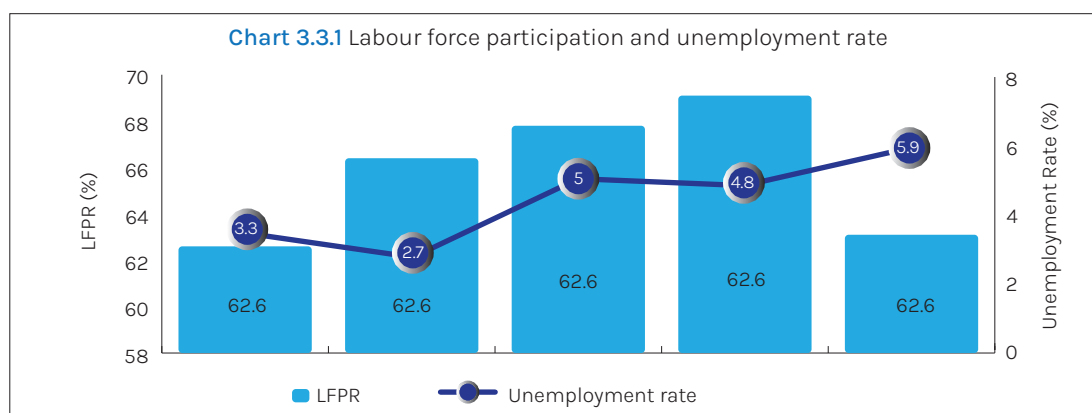
### 3.3 Employment and Labour Market

**Due to the lingering effect of the COVID-19 pandemic, the labor market in the country is yet to recover from its impact. In 2022, the labor market deteriorated significantly, with the unemployment rate peaking at 5.9%, compared to 4.8% in the previous year. Despite the agriculture sector absorbing a large portion of the employed persons, its contribution to the economic output and productivity remains relatively low.**

As per the Population and Housing Census of Bhutan (PHCB) 2017, the estimated population for 2022 is 763,249, about 1 percent growth from 2021 comprising of 397,731 males (52.1%) and 365,518 females (47.9%). Correspondingly, in Labor Force Survey (LFS) 2022 the working age population (15 years and above) is estimated at 484,965, which constitute 63.5 percent of the total population<sup>4</sup>. On an average, there are six potential workers for every ten persons, reflecting higher level of economic support ratio for Bhutan.

#### Labour Force Participation and Unemployment

In 2022, 178,983 of the working age population remained economically inactive<sup>5</sup>, which accounts for 36.9 percent of the working age population. From the economically inactive population, 35.5 percent of it is engaged as students or trainees, 33.4 percent attending the family duties and 16.7 percent belonged to the old age<sup>6</sup>. In terms of inactive population by age group, 39.9 percent are youth between 15-24 age bracket, followed by 20 percent of old age population (65 years and above). During this period, the Labor Force Participation Rate (LFPR)<sup>7</sup> decreased to 63.1 percent compared to 69.1 percent last year. This is largely contributed by exit of labor force as indicated by the increase in inactive population of



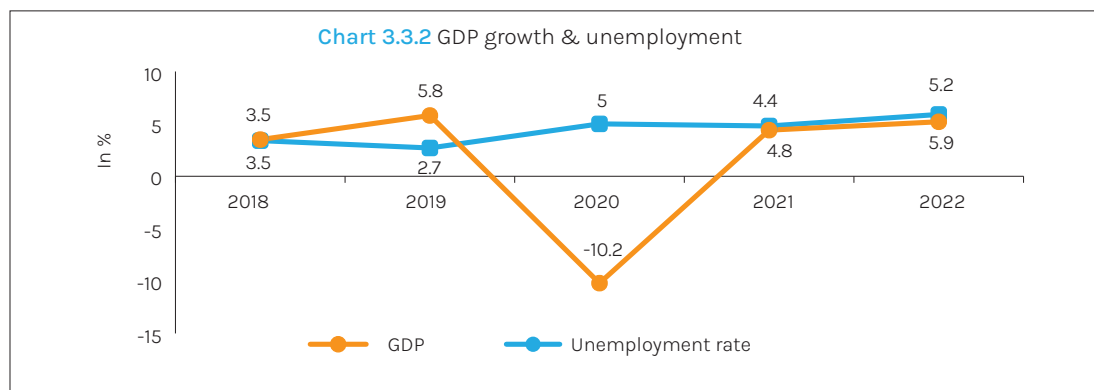
<sup>4</sup> According to Population Projections Bhutan 2017-2047, ratio of working-age population to total population is 76.5 % in 2022. In absence of total population figure in LFS 2022, overall population data is sourced from Population Projections of Bhutan 2017-2047.

<sup>5</sup> All persons who neither worked nor were seeking/available for work during the reference period is referred to as economically inactive population.

<sup>6</sup> The remaining inactive population includes waiting for recall from previous job, waiting for result (academic and job interview), illness, disability, retired/pensioner, those with lack of skills, those planning to go for further studies, planning to go abroad for work and discourage workers (not interested work and believe no work).

<sup>7</sup> The LFPR is defined as the proportion of the economically active population to the working-age population.

persons attending family duty<sup>8</sup> (33.4%) in 2022 from 16.6 percent in 2021. There has been decrease in female labor force by 29,646 persons, resulting to 53.5 percent of female LFPR in 2022 compared to 65.3 percent in 2021. On the other, there was a marginal increase in the male LFPR by 0.3 percentage points, taking the male LFPR to 73.4 percent.



In terms of LFPR by area, labor force participation was still higher in rural areas (65.2%) compared to urban areas (59.7%). Higher rural LFPR was driven by higher rural female labor participation (57.6%) against 46.8 percent in urban areas, indicating higher gender disparity in LFPR. This occurs as female work force in urban areas engage in family duty whereas rural female work force are actively engaged in agricultural activities.

Since the onset of the COVID-19 pandemic, the economic downturn has significantly affected the labor market situation. For instance, the GDP grew by 5.2 percent in 2022, marking a 0.8 percentage points increase compared to 2021<sup>9</sup>. However, the overall unemployment rate also rose from 4.8 percent in 2021 to 5.9 percent in 2022, reflecting a 1.1 percentage point increase. Despite huge LFPR in rural areas largely in agriculture, there has been a negative growth in the primary sector mainly driven by lower crop productions and deceleration of growth in livestock.

In numbers, the total unemployed populations were recorded at 18,198 persons in 2022 (5.9%), compared to 16,254 persons in 2021 (4.8%). The number of unemployed persons in the past three years has shown a noticeable increase compared to the previous years. Similarly, the youth unemployment<sup>10</sup> (unemployed persons aged 15-24 years) rate also increased to 28.6 percent (8,496) in 2022 from 20.9 percent in 2021. The increasing numbers of new entrants in labor market after completion of schools, colleges and training centers resulted in the increase of unemployment rate, particularly for the youth in 2022 compared to previous years. In 2022, there were 5,670 students entering the job market compared to 2,976 in 2021. In addition, the reduced business activity and investment in the economy further deteriorated the labor market situation in the country.

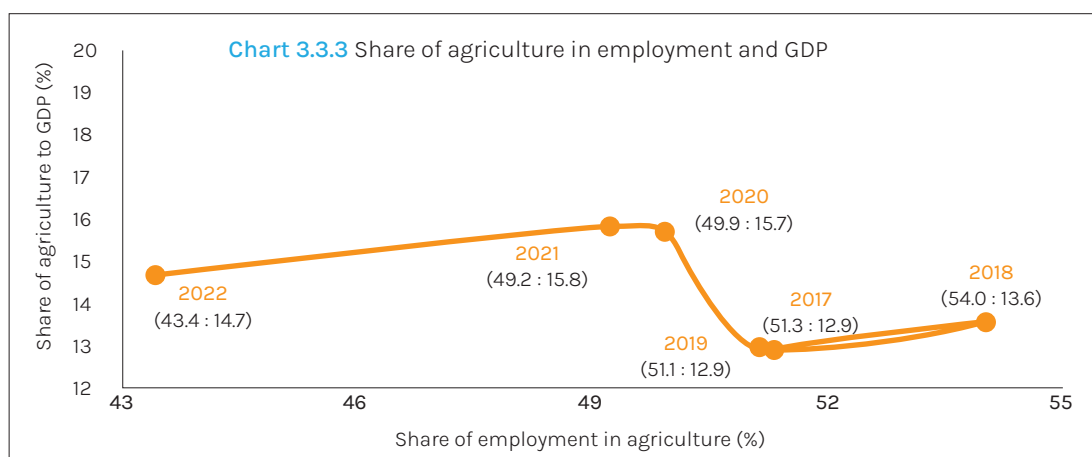
<sup>8</sup> Attending family duties involve household's chores, taking care of old age, differently abled person and children etc.

<sup>9</sup> Following the revision of GDP estimates, which transitioned from a base year of 2000 to 2017, all figures presented hereafter, will be based on the updated 2017 base year. This change aligns with the Economic Census of Bhutan (ECoB) and the 2017 Bhutan Living Standard Survey (BLSS).

<sup>10</sup> Youth unemployment constitutes 47.7% of total unemployment.

## Agriculture and Unemployment

Despite the relatively lower contribution of the agriculture sector to the GDP in the economy, this sector continues to play a significant role in the labor market. In 2022, it generated 43.4 percent of the total employed persons while its contribution to GDP was 14.7 percent. This development occurs in line with a global trend, as the Bhutanese economy also undergoes a transition from the agriculture sector to the industry and service sectors.

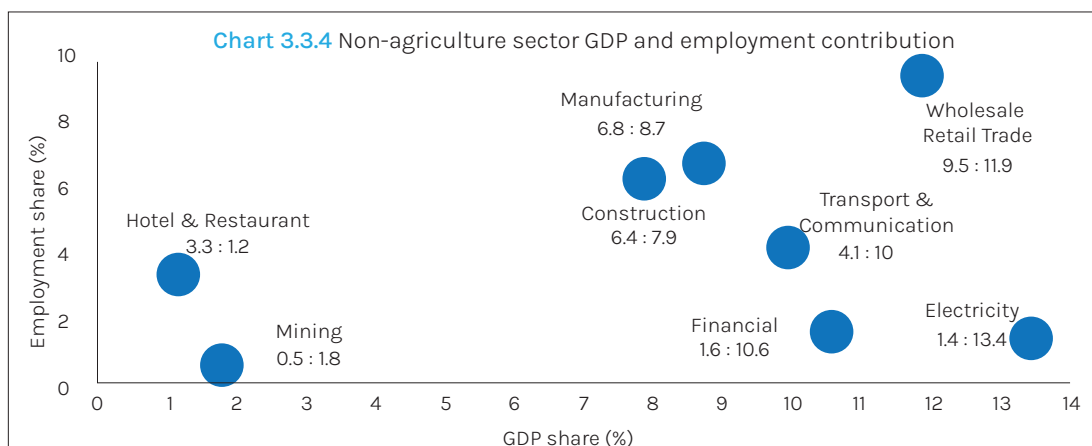


The Bhutanese economy has been witnessing an increase in the GVA from agriculture sector in the last six years; however, the share of employment in this sector has been declining at a steady rate. From a GVA of 12.9 percent and 51.3 percent employment share in 2017, the former has increased to 14.7 percent and the latter declined to 43.4 percent respectively in 2022. The agriculture sector also exhibits other concerning elements, such as disproportionate distribution in terms of region and gender. First, majority of the working population in rural areas are employed in the agriculture sector, constituting approximately 64 percent as of 2022. Second, the service sector employed the largest share at 76.6 percent, followed by the industry sector at 19.4 percent in urban areas in the same review period. Finally, the proportion of female workers (53.3%) working in the agriculture sector was comparatively higher than the male workers at 36.1 percent in 2022. Furthermore, more than 70 percent of female employment in rural areas was engaged in the agriculture sector compared to 5.5 percent in urban areas.

In terms of the labor productivity, agriculture sector also exhibited comparatively lower productivity than industry and service sectors. Driven by electricity sector and capital intensive in nature, the labor productivity in the industry sector is higher than the agriculture sector. The overall labor productivity in 2022 was 98.1 percent against 97.8 in 2021. Amongst these, the agriculture productivity during the same period was recorded at 95.5 percent and 99.3 percent in both industry (excluding electricity & water) and service sectors.

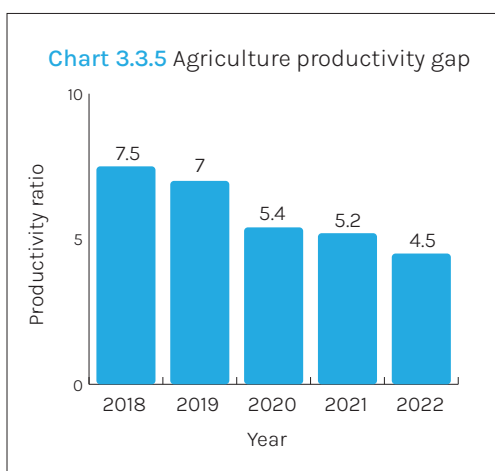
## Non-agriculture & Employment

The traditional farming methods and the topography in Bhutan pose significant challenges in increasing productivity and impediment to commercial farming as well. Overall, the mean working hours of the employed persons are 53 hours per week at the national level



whereas workers in agriculture sector works for 56 hours per week while industry and service sectors work for 54 hours each. This, in general is higher than the Labour and Employment Act of Bhutan 2007 and International Labour Organization’s (ILO) standard of maximum of 48 working hours in a week.

### Productivity Gap, Gross Value Addition and Earnings

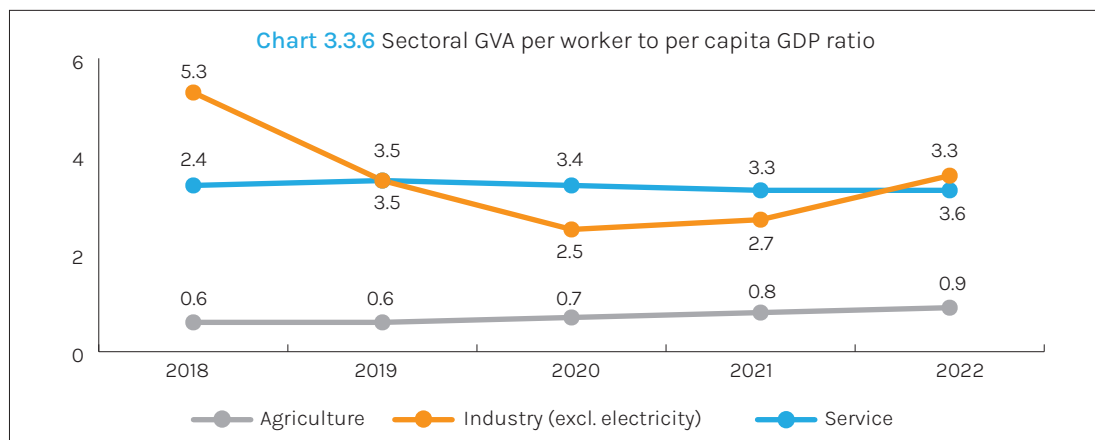


Despite higher labor productivity and lower mean working hours, the growth intensifying sectors like electricity and financial sectors have a small share to employment creations. At the same time, other economic sectors like transport & communication, construction, wholesale & retail trade, and manufacturing, have a lower contribution to employment generation relative to its GDP. Therefore, agriculture sector, hotels and restaurants continue to remain as the key sectors that has the potential to generate employment in the economy.

In 2022, the gap in agriculture productivity decreased to 4.5 percent, from 7.5 percent high in 2018. This transformation is accompanied by a shift in the economy from the primary sector to the secondary and tertiary sectors, reflecting broader changes in the economic efficiency. Alternatively, this indicates that more labor has been shifting from the agricultural to more productive sectors, which has the potential to enhance economic output. Notwithstanding the transformation in the agriculture sector, it is still a major concern, as large numbers of the labor are still concentrated in the agriculture while the output remains same with meagre improvement. The agriculture productivity gap indicates a skewedness of labor allocation in the economy.

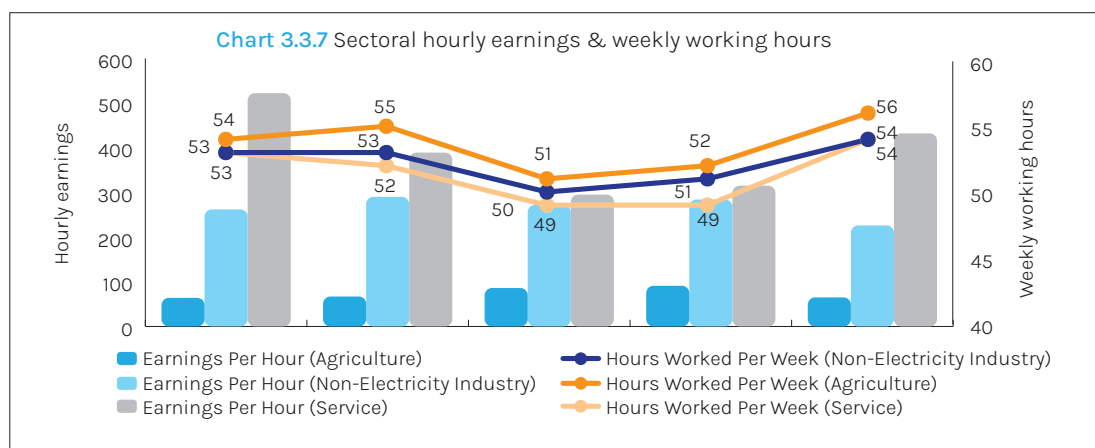
In addition, while measuring sectoral per capita income earnings relative to the GDP per capita, despite increase in agriculture output in 2022, GVA per capita in agriculture sector (Nu 267,588) is about 10.4 percent below GDP per capita (Nu 298,479). Like 2021, even in

2022 GVA per capita of non-electricity industry (Nu 1,063,256) and service sectors (Nu 976,117) are more than 3 times higher than the GDP per capita.



The underemployment rate<sup>11</sup> in 2022 stood at 4.9 percent which is an upward of 0.2 percentage points from 4.7 percent in 2021. Underemployment is largely prevalent in rural areas with 84.3 percent of the underemployed persons dwelling in the rural area. Underemployment is primarily driven by financial constraints, as there are large number of people who want additional work for additional income. Of the total 14,209 underemployed persons, about 95 percent are willing to work for additional income. Thus, to address the underemployment issues, it calls for an efficient utilization of the human resources and improvement in the labor remunerations.

With respect to the labor productivity, the improvement in hourly earnings for all three sectors in 2022 have resulted in an overall increase in the labor productivity. The earning per hour for non-electricity industry sector increased from Nu 305 in 2021 to Nu 409 in 2022. In the same review period, the hourly earnings increased from Nu 82 per hour to Nu 100 per hour and from Nu 353 to Nu 361 for agriculture and service sectors respectively.

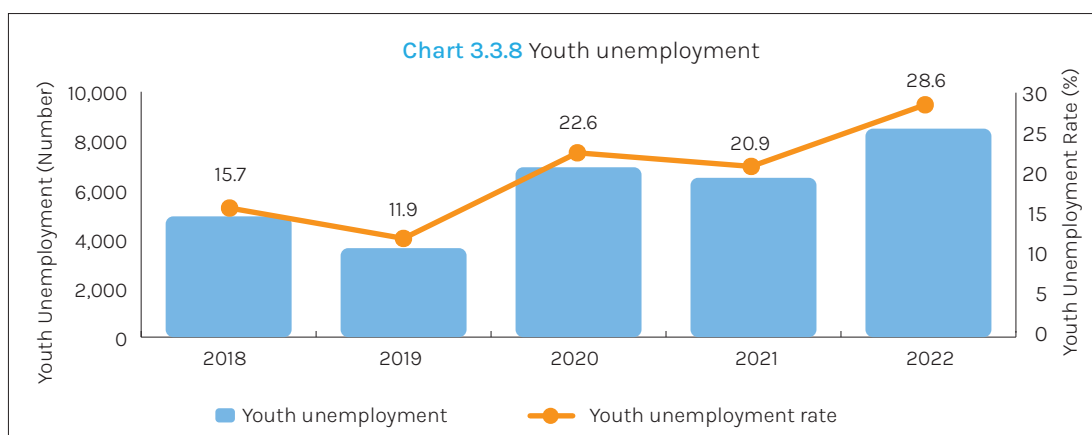


<sup>11</sup> Underemployment refers all persons in employment who wants to work more and is available for additional hours of work if given an opportunity to work more. It is mainly to meet economic needs or mismatch in job and skills or at less than full-time on regular jobs.

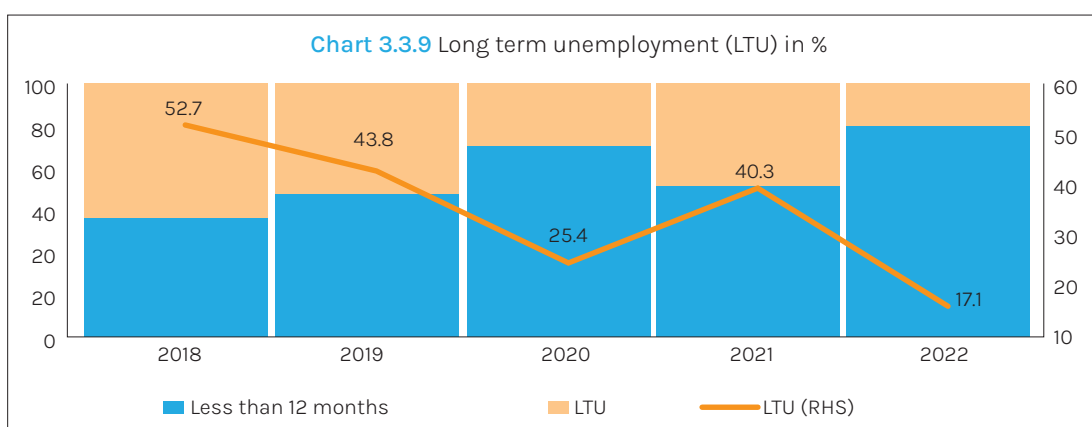
In general, the Bhutanese workforce tend to work more than the international standard of 48 hours per week. About 62.7 percent of the employees work beyond 48 hours per week and 66.9 percent of the employees work more than 50 hours in a week. The longer workings have both demand and supply side factors. According to the labour force survey 2022, 27.7 percent of the employees worked for more than 48 hours to earn additional income and 34.0 percent worked more than 48 hours as demanded by the job. This once again highlights that labor productivity remains insufficient to earn adequate income for employees and at the same time falling short of delivering acceptable output for the employers without compromising decent employment for workers.

### Youth and Long-Term Unemployment

Youth unemployment is one of the global economic issues and stands out as a pertinent challenge for EMDEs including Bhutan. It therefore calls for an urgent need to address the ‘problem’ of young people who are disengaged from mainstream learning and employment-related activity. The past few years have seen an increasing number of youth unemployed in the country, accentuated with the onset of COVID-19 pandemic. The youth unemployment rate over the years has worsened from an 11.9 percent in 2019 to a peak of 28.6 percent in 2022.



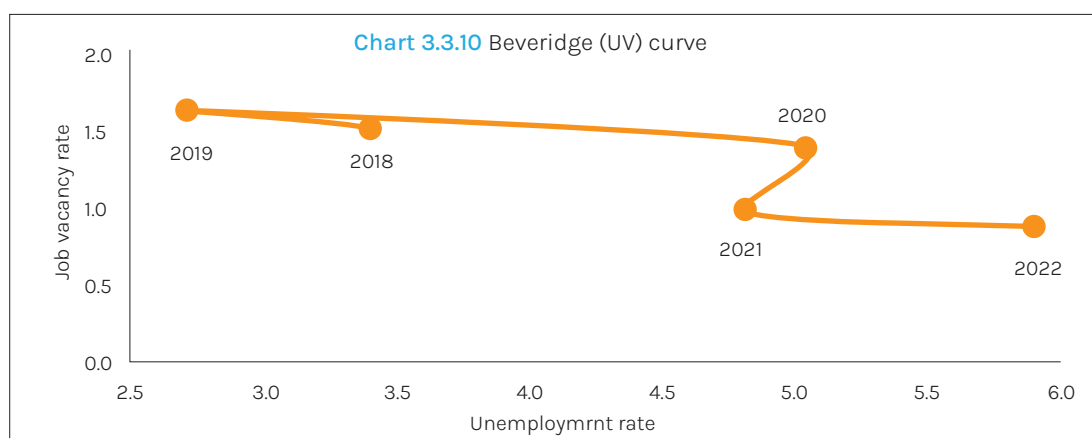
In 2022, the youth unemployment rate worsened by 7.7 percentage point as compared to 20.9 percent in 2021. The annual increase in the number of graduates from training centers and university student has significantly contributed to the rising youth unemployment





compared to the previous years. In contrast, the Long-Term Unemployment (LTU) decreased to 3,108 in 2022, equivalent to 17.1 percent of the total unemployment those who have been unemployed for more than one year, recording a decrease of 23.2 percentage points from 2021.

The improved economic conditions in 2022 was expected to create job opportunities and help alleviate unemployment challenges. This trend is typically assessed using the Beveridge Curve (UV)<sup>12</sup>, which shifts toward the top left corner. However, in 2022 the overall unemployment rate shifted towards right side by manifold as the number of vacancies continued to decrease and the unemployment rate increased. This indicates that the impact of the pandemic is still worsening the labor market tightness with decreasing job vacancy and increasing unemployment.



The labor market situation is anticipated to improve as business and investment activities gain momentum in the economy in the near-term. The growth in the service sector, driven by the reopening of the tourism industry, is expected to have a significant impact on addressing the unemployment challenges.

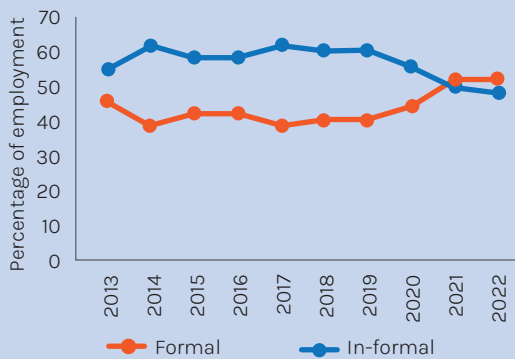
<sup>12</sup> The Beveridge (UV) curve shows an inverse relation between vacancy and unemployment rates.

## BOX II

### Determinants of formal and informal sector employment in urban Bhutan: Evidence from Multinomial Logit Model

The labor market in Bhutan is characterized by a division into two distinct sectors: the formal and informal. The formal sector offers job security and various benefits, contributing to economic stability and government revenue through income and corporate taxes. Conversely, the informal sector, while less stable, provides employment opportunities for those who may have been unable to secure formal employment. This sector also plays a vital role in supporting low-income families and acts as a safety net during economic crises.

**Figure 1** Share of employment in formal and informal sectors over the years



The data in figure 1 illustrates that the proportion of employment in the informal sector exceeds that of the formal sector. Nevertheless, in both 2021 and 2022, the share of employment in the informal sector was lower than the formal sector. The percentage of employment in the informal sector decreased from 54.6% in 2013 to 48.2% in 2022. Consequently, this study seeks to explore the factors influencing employment in urban Bhutan.

To facilitate this investigation, the formal sector is further divided into two categories: the public sector and the private sector. The public sector comprises individuals employed in civil service and armed forces, as well as those working in state-owned enterprises, public companies, and civil society organizations. The private sector encompasses individuals employed in private limited companies, and those engaged in casual labor, own-account and contributing family workers are grouped under the informal sector.

#### Model

This study employs the Multinomial Logit Model to analyze data from the 2022 Labor Force Survey, focusing on the urban population aged 15-64 years who were employed during the reference period. The model categorizes employed individuals into three sectors: public, private, and informal, using a set of independent variables, including age, gender, marital status, and education. The model allows the dependent variable to take three mutually exclusive and exhaustive values,  $j=1, 2$  or  $3$  is defined as follows:

$$(Y_i = j) = \frac{e^{\beta_j X_i}}{\sum_{m=1}^3 e^{\beta_m X_i}}$$

**Where:**

$Y_i = 1$  if an individual is employed in public sector

$Y_i = 2$  if an individual is employed in private sector

$Y_i = 3$  if an individual is employed in informal sector

$X_i$  represents independent variables like age, gender, marital status and education

**Result**

Table 1 provides the Multinomial Logit (MNL) estimates of sectoral employment choices for the entire urban population, considering three distinct sectors: public, private, and informal.

**Table 1 Multinomial Logit result for total sample**

Variable	Public		Private	
	Coef.	Odds Ratio	Coef.	Odds Ratio
Male	0.51**	1.66**	1.05**	2.85**
Married	0.55***	1.73***	0.04	1.05
Single Parents	0.12	1.13	-1.13***	0.32***
25-54	0.52*	1.68**	-0.12	0.89
55-64	0.05	1.05	-0.58*	.56*
Primary Education	0.43***	1.54***	0.19	1.20
Higher Secondary	0.78***	2.19***	1.04***	2.83***
University Degree	1.51***	4.52***	1.23**	3.43**
_cons	-1.99	0.14	-3.36	0.03

Note: \*\*\* 1% level of significance, \*\*5% level of significance and \*10% level of significance

A noticeable gender disparity is observed in sector selection. The positively significant slope indicates that males are more inclined to secure employment in the public sector and less inclined to opt for the informal sector when compared to their female counterparts. Specifically, the likelihood of males being employed in the public sector rather than the informal sector is 1.66 times higher than that of females. Marital status, particularly for married couples, also demonstrates significance, as they are more predisposed to work in the public sector as opposed to the informal sector in contrast to single individuals. The odds of being employed in the public sector, compared to the informal sector, are 1.73 times higher for married couples compared to singles. Additionally, the prime age group (25-54) is more inclined to find employment in the public sector in contrast to the younger age cohort (15-24). The positive coefficients for individuals with primary, higher, and university qualifications are statistically significant, indicating that a higher level of education is associated with a greater likelihood of working in the public sector relative to the informal sector, compared to those with no formal education.

Similarly, a positive and statistically significant coefficient indicates that male workers are more likely to be employed in the private sector rather than the informal sector. Single parents (divorced, separated, widowed) exhibit a reduced likelihood of working in the private sector in comparison to single individuals, with the odds of single parents being employed in the informal sector being 68% compared to single persons. Furthermore, the older age cohort



(55-64) is less inclined to secure employment in the private sector as opposed to the informal sector when compared to the youth age group (15-24). The odds ratio of the older age group (55-64) working in the private sector is 56% compared to the youth age group. The positive and statistically significant slopes for private sector employment suggest that individuals with higher secondary and university qualifications are more likely to find employment in the private sector relative to the informal sector compared to those with no formal education.

In conclusion, the study reveals that individuals with higher educational qualifications have an advantage in securing employment in both the public and private sectors. Gender also plays a significant role, with male workers more inclined to be engaged in these sectors compared to their female counterparts. Marital status, particularly for single parents, and age, particularly the 55-64 age group, are associated with a higher likelihood of employment in the informal sector.

This study provides valuable insights into the factors influencing sectorial choices in the urban Bhutanese labor market, which can inform policies aimed at promoting equitable and sustainable employment opportunities.



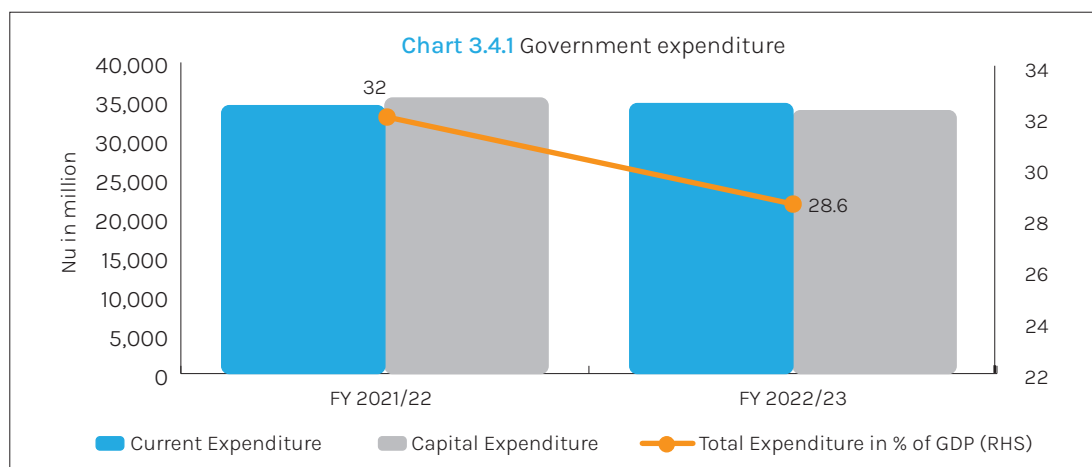
### 3.4 Government Finance

**The budget for the FY 2022/23 has been formulated with the focus on “Accelerating Economic Recovery through strategic investments in the areas of food self-sufficiency, human capital development, sustainable infrastructure development and improved social security.”**

As a part of the prudent fiscal management, the government maintained sustainable fiscal balance in keeping view of the sustainable and inclusive growth. The total government expenditure in FY 2022/23 marginally increased to Nu 69,226.2 million from Nu 69,156.6 million in FY 2021/22, constituting 28.6 percent of GDP. From the total government expenditure, 51.2 percent was incurred in current expenditure and the remaining 48.8 percent was incurred in the capital expenditure.

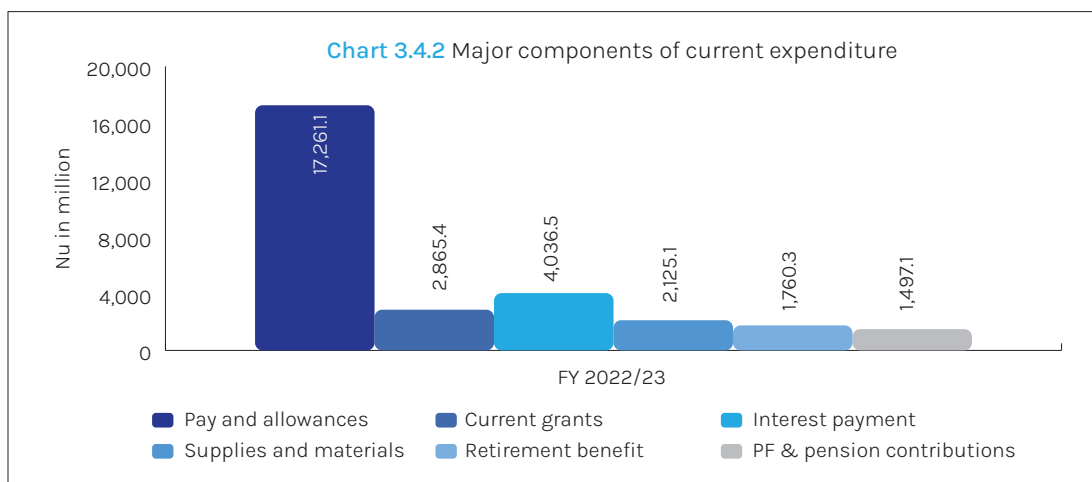
#### Government Expenditure and Major Components

The total current expenditure stood at Nu 35,428 million an increase of 2.9 percent from the previous FY which was due to the increase in expenditures for medical benefits, retirement benefits, interest payments and maintenance of properties. Among the major components of current expenditure, pay and allowances continue to remain the largest share at 48.7 percent followed by interest payments at 11.4 percent.

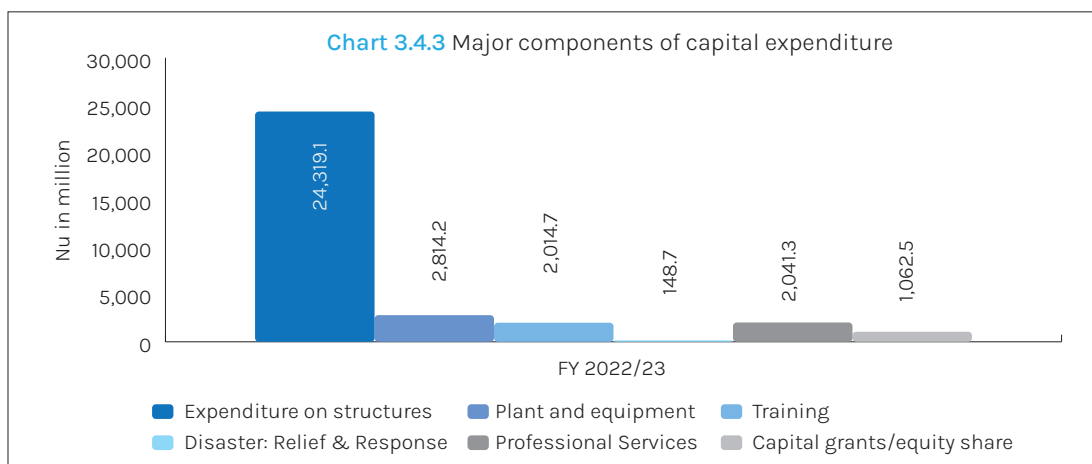


The interest payment amounting to Nu 4,036.5 million was primarily on account of the rise in internal borrowing cost on the issuance of government bonds, Treasury Bills (T-bills), Ways and Means Advance (WMA) from the RMA. The overdraft facilities were also availed from Bank of Bhutan Limited (BoBL) for the financing of current expenditures.

The other key components of current expenditures include grants (8.1%), supplies and materials (6%), retirement benefits (4.9%), and Provident Fund and Pension (4.2%) which together made-up 23.2 percent of total current expenditure in FY 2022/23. The high attrition rate of the public servants during the review period has led to the increase in the retirement and Provident Fund & Pension amounting to Nu 1,136.6 million and Nu 1,527.6 million respectively.



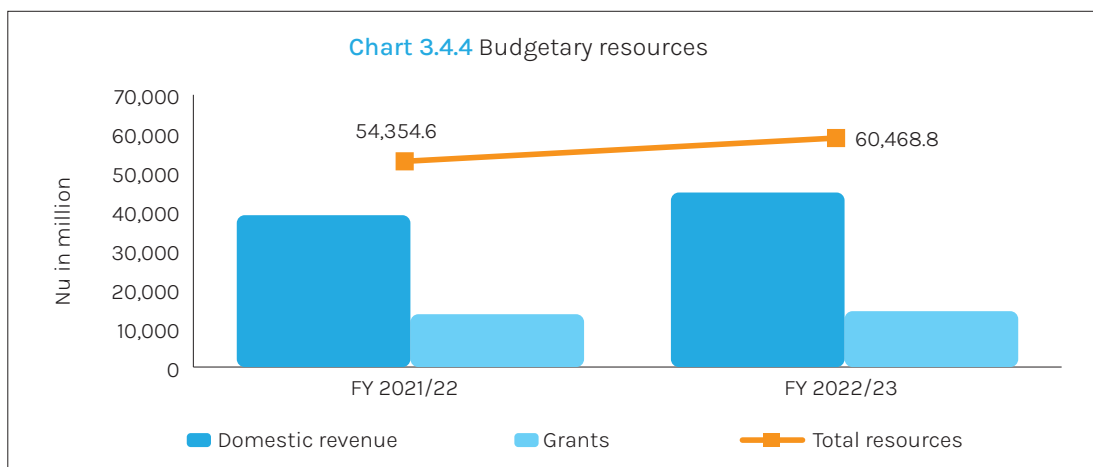
The total capital expenditure, on the other hand, decreased by 2.6 percent (Nu 913.7 million) in FY 2022/23. Consequently, the capital expenditure stood at Nu 33,798.2 million. Expenditures related to disasters, acquisition of immovable properties, training expenses,



purchase of plants and equipment, and capital equity shares all experienced a decrease. Notably, the disaster related expenditures saw a significant decrease by Nu 2,365.2 million.

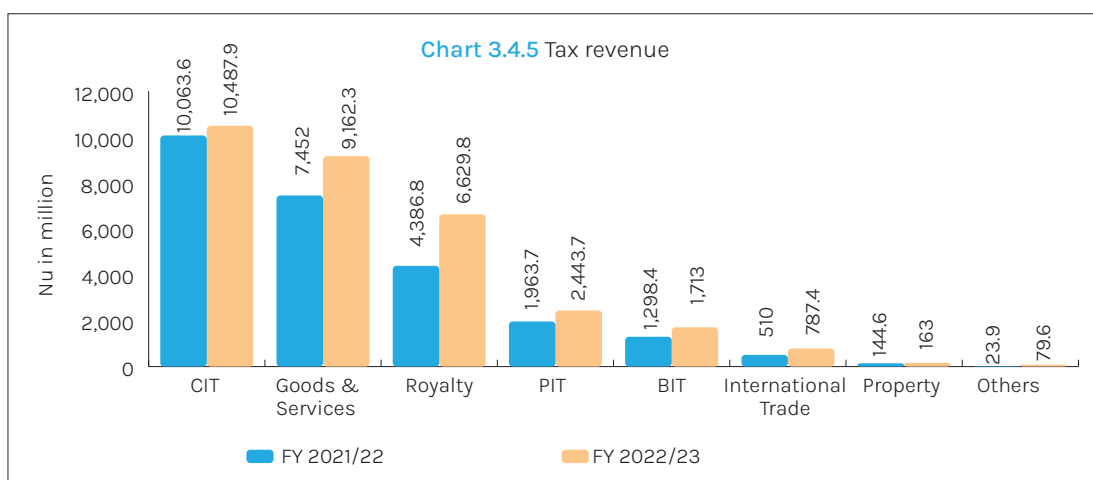
### Budgetary Resources

The largest spending in capital expenditure was incurred in structures (roads and buildings) amounting to Nu 24,319.1 million (71.9%) in FY 2022/23. Other capital expenditure comprised of plant and equipment (8.3%), professional services (6%), trainings (5.9%), capital grants/equity shares (3.1%) and disaster related expenditure (0.4%). These top six components collectively accounted for 95.9 percent of the total capital expenditure during the FY 2022/23.



On the resource front, the total budgetary resources for the FY 2022/23 increased to Nu 60,468.8 million from Nu 54,354.6 million in FY 2021/22, an increase of 11.2 percent due to higher mobilization in domestic revenue and external grants. The domestic revenue in FY 2022/23 stood at Nu 44,874.9 million, which is an increase of 14.9 percent from the FY 2021/22.

Over the period, domestic revenue has been financing the current expenditure as per the constitutional mandate. Of the total domestic revenue, 70.1 percent (Nu 31,457.3 million) accounts for tax revenue while 29.8 percent (Nu 13,417.6 million) was sourced from non-tax revenue. The improvement in domestic revenue during the review period owes to a broad-based improvement in tax collection and current revenue from government agencies.

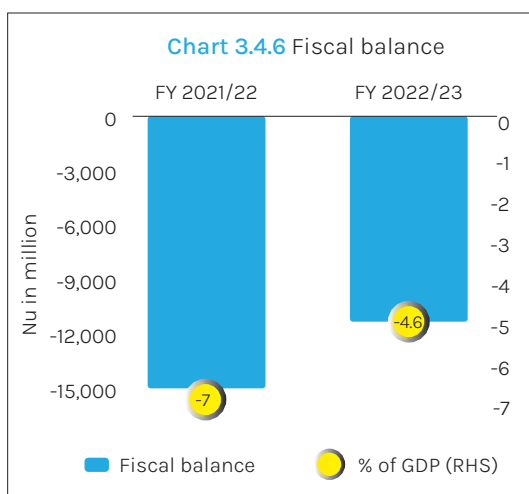


The total tax revenue collected for the FY 2022/23 was Nu 31,466.7 million an increase of 21.8 percent from the previous FY attributed to higher mobilization of direct tax, indirect tax, and other taxes by Nu 1,337.2 million, Nu 1,987.7 million and Nu 2,298.7 million respectively. The rise in direct tax was primarily due to increase in collection of taxes on income (CIT, BIT & PIT), profit, and capital gains, while an uptick in indirect taxes was attributed to an increase in taxes on international trade and transactions.

In addition, there was a notable growth of 22.2 percent (Nu 1,507.2 million) in the current revenues from the government agencies. This boost in the revenue can be attributed to a 27.5 percent increase in the collection of administrative fees and charges, as well as 11 percent increase in the sale of goods and commodities compared to the previous FY.

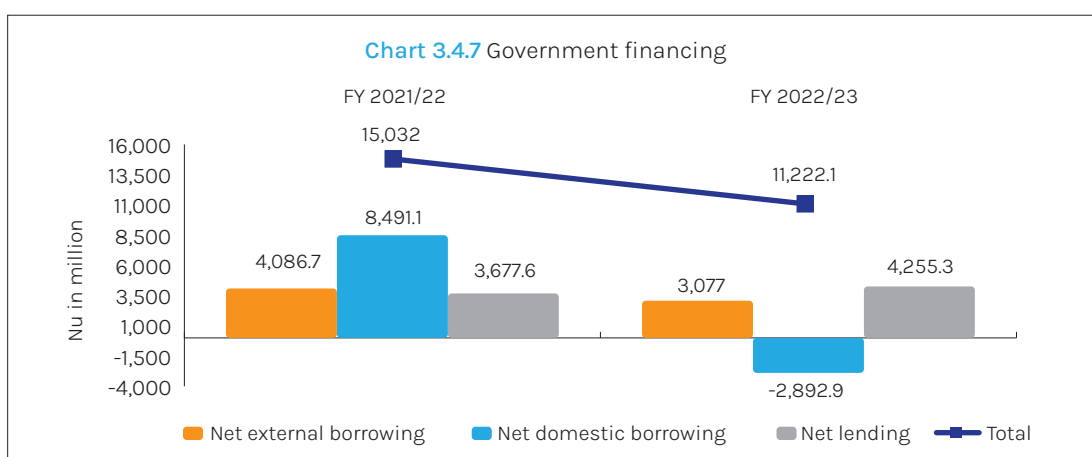
On the contributions, the Corporate Income Tax (CIT), Goods and Services Tax (GST) followed by Royalty were the highest contributors to the total tax revenue comprising 33.3 percent, 29.1 percent, and 21.1 percent respectively during the review period.

### Fiscal Balance and Public Debt



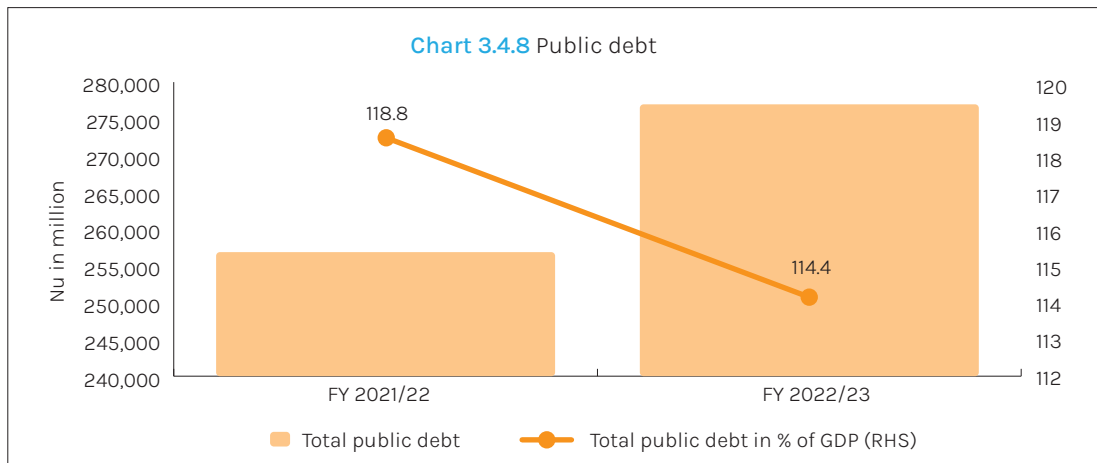
With higher expenditure over the total resources' mobilization, the fiscal deficit for the FY 2022/23 stood at Nu 11,222.1 million, accounting for 4.6 percent of the GDP. To finance the fiscal deficit, the government resorted to net external borrowing of Nu 3,077 million and net domestic borrowings of negative Nu 2,892.9 million. The external borrowings were availed from bilateral and multilateral development partners while internal borrowing was raised through issuance of short-term T-bills and long-term government bonds in the domestic market.

As a result, the total public debt for the FY 2022/23 has increased to Nu 276,977 million (114.4 % of GDP) from Nu 256,873.7 million (118.8% of GDP) in the previous year. Of the total public debt stock, external debt comprises of Nu 244,186.3 million and the domestic debt of Nu 32,790.6 million.

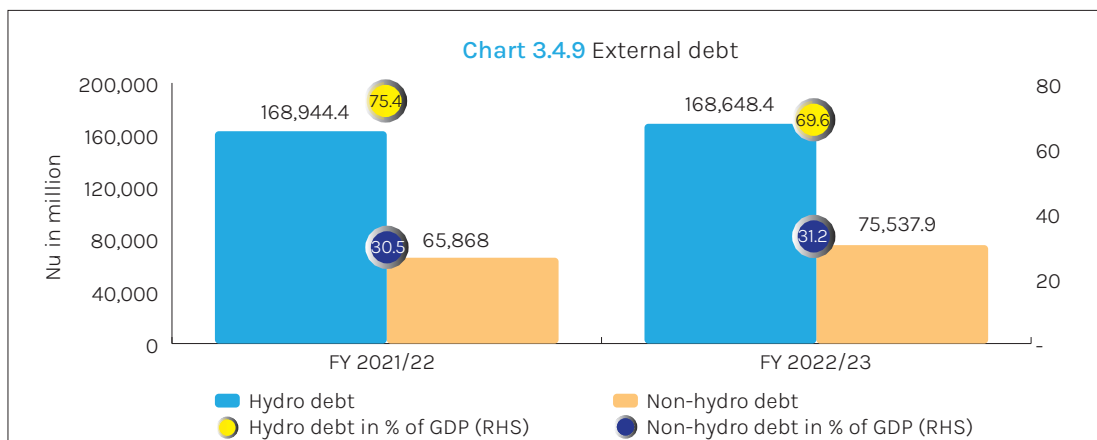


The external debt largely corresponds to the hydro related debt (69.1%) which stood at Nu 168,648.4 million and the remaining non-hydropower debt (30.9%) at Nu 75,537.9 million. The hydro debt comprises the debt stock of six hydropower projects of Mangdechhu Hydropower Plant (MHP), Punatsangchhu Hydroelectric Project Authority (PHPA I & II), Tangsibji Hydro Energy Limited (THyE), Dagachhu Hydropower Corporation Limited (DHCL)





and Basochhu Hydropower Plant (BHP). Of the total external debt, the Indian Rupee (INR) denominated debt stood at Nu 160,154.1 million (65.6%) and Convertible Currency (CC) debt stood at Nu 84,032.2 million, accounting for 34.4 percent of total external debt.



The total domestic debt stock for the FY 2022/23 stood at Nu 32,790.6 million, which translated to 13.5 percent of GDP and 11.8 percent of total public debt stock. The domestic debt stock largely comprises of the T-bills and government bonds issued for cash management, financing resource gap and to facilitate timely release of funds to implement the externally funded projects.

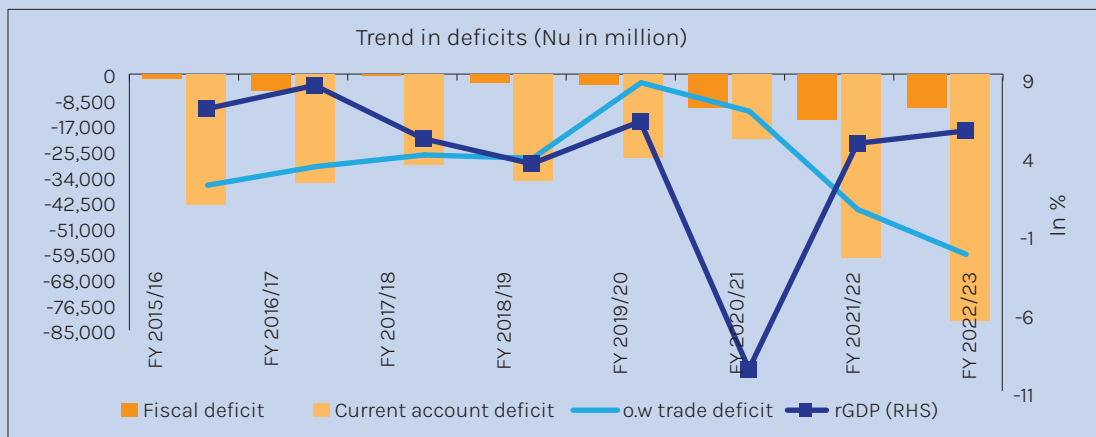
## BOX III

### Overview of “Twin Deficits” in Bhutan

The concept of “Twin Deficits” emerged in the mid-1980s when the U.S trade balance shifted into deficit concurrently with rising government budget deficit. This implied that fiscal expansions were influencing the trends, showing general positive co-movements between the external and budget deficits (Corsetti & Müller, 2008). The standard version of the twin-deficit theory posits a linear and direct link between the fiscal deficit and current account balance, with causality passing from the former to the latter (Hussain, Hayat, Alam, & Khan, 2023).

Since the U.S episode, numerous empirical studies have focused on studying the dynamics of twin deficits using various economic models. This is because a persistent fiscal and current account deficits, if unattended, could have potential repercussions for the macroeconomic stability and probably lead to economic crisis.

The Bhutanese economy has experienced a notable transformation over the past two decades, characterized by substantial growth in the hydropower sector and other investments. However, these periods of expansion were accompanied by boom-and-bust cycles, necessitating fiscal and monetary policy interventions to stabilize the economy. Presently, the economy faces mounting challenges on both the fiscal and external fronts, as a result of unfavorable fiscal balance and chronic current account deficit.



The fiscal and current account deficits in Bhutan have exhibited a parallel trend, persisting over an extended period. However, these deficits escalated notably in the aftermath of the COVID-19 pandemic. The government’s borrowing from both internal and external sources has been a key contributor to the widening fiscal deficit. Simultaneously, elevated imports, coupled with the depreciation of the Nu, along with global geopolitical tensions and supply chain disruptions, have imposed significant challenges in trade and external imbalances of the domestic economy.

#### References

Corsetti, G., & Müller, G. J. (2008). Twin deficits, openness, and the business cycle. *Journal of the European Economic Association*, 404-413.

Hussain, I., Hayat, U., Alam, M. S., & Khan, U. (2023). A Dynamic Analysis of the Twin Deficit Hypothesis: the Case of a Developing Country. *Asia-Pacific Financial Markets*, 1-28. doi:<https://doi.org/10.1007/s10690-023-09405-y>



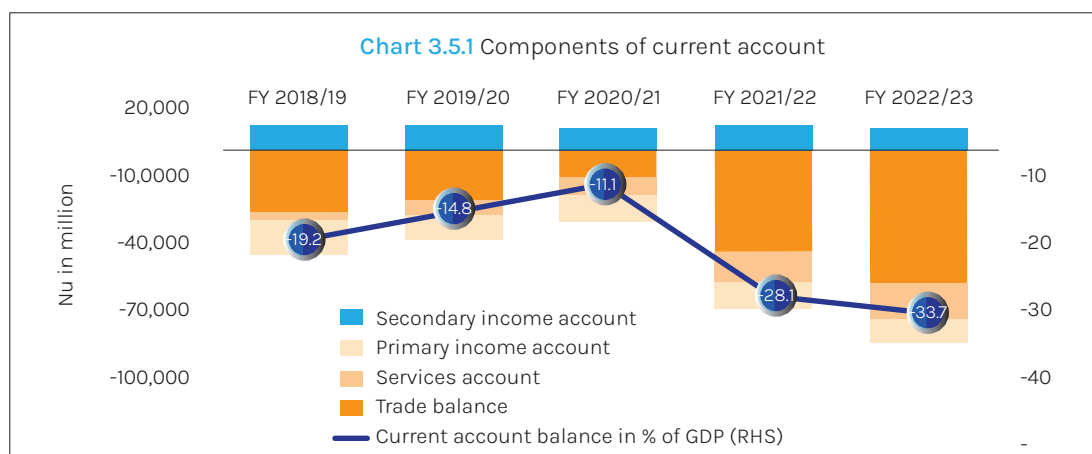
### 3.5 External Sector

In the FY 2021/22, the negative trade balance expanded by 268.5%, significantly contracting to 33.3% in the FY 2022/23, resulting in a deficit of Nu 60,910.6 million. This moderation in the growth rate occurred despite a decline in exports and an increase in import bills. However, the deterioration of the CAD to Nu 81,677.2 million has elevated the deficit to 33.7% of the GDP.

A persistent trade deficit and higher service import payments continues to pose challenges to Bhutan's external sector. Despite the increase in tourism earnings from service exports and the remittance receipts after two prolonged years of the pandemic, the current account deficit continues to remain elevated. While the budgetary grants for non-hydropower investment dropped during the review period, the grants for hydro-power and the financial inflows constituted by capital financing and FDI increased. With this, the capital and financial inflows remain inadequate to finance the current account deficit. However, the current foreign exchange reserves is adequate to meet essential import payments.

#### Current Account Balance

The current FY has seen a significant rise in the trade deficit in absolute terms, recording Nu 60,910.6 million (25.2% of GDP) against Nu 45,690.2 million (21.1% of GDP) in FY 2021/22. The heightened merchandise imports of Nu 116,762.4 million towards import of base metals (particularly iron and steel), machineries, vehicle and transport equipment, and mineral products for government further pushed the deficit. The collective imports of the above merchandise goods made up 56.7 percent of the total imports for the review year.



On the export front, merchandise exports registered a marginal growth of 3.2 percent amounting to Nu 35,260.9 million whereas hydropower export further dropped by Nu 3,119.6 million from the previous year's hydropower earnings of Nu 23,710.4 million. Although there was no significant variation in the energy generation, domestic energy consumption increased by more than 50 percent to Nu 6,185.4 million.

Following the relaxation of the international borders in September 2022, the service receipts increased by more than five folds amounting to Nu 10,483.7 million from Nu 1,649.2 million in FY 2021/22. This significant jump in the service exports was primarily driven by the growth of 412.5 percent in transport and 110.6 percent in travel receipts.

Conversely, the payments for service imports within this category (travel and transportation) was also accompanied by a significant increase, further compromising the net service earnings. The service imports payment from this category surged to Nu 20,304.1 million in FY 2022/23 from Nu 9,233.4 million in FY 2021/22. The travel services import mainly accounts the increased educational travel related service payments especially the tuition fees incurred by the aspiring Bhutanese to study in Australia and other countries.

**NOTE: Discrepancies in trade figures: Accounting principles variances between Department of Revenue and Customs (DRC), Ministry of Finance (MoF) and RMA**

The total merchandise goods on balance of payments (BoP) basis and merchandise goods sourced from DRC, MoF differs on the grounds of respective agency treatments and calculations. Based on the trade figures reported by DRC, the RMA carries out their own calculation as per the BoP Manual 6 (BPM6) guideline. Merchandise export figures are taken as it is, however, when it comes to the import from the Countries Other than India (COTI) in particular, CIF/FoB (20% freight and 1.125% insurance services) is subtracted from DRC import figure and accounted in the services account of the BPM6. In addition, goods procured at ports by carriers and estimated informal imports from India are also added in the total imports. With the above-mentioned adjustment and treatments, the trade and CAD figures of RMA differs compared to that of DRC statistics.

**Table 3.5.1** Reconciliation between Merchandise Source Data & Total Goods on a Balance of Payments Basis

Nu in Million	FY 2020/21		FY 2021/22		FY 2022/23	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise trade statistics as provided by DRC <sup>1</sup>	26,943.8	67,937.0	34,240.8	109,827.7	35,260.9	121,402.9
Adjustments						
+ Hydropower exports <sup>2</sup>	26,156.1		23,710.4		20,590.8	
+ Goods procured in ports by carriers <sup>3</sup>		87.3		177.5		660.9
+ Informal Trade at the Border		-		-	0	1,059.4
+ Net exports of goods under merchandising						
- CIF/FOB adjustment for COTI		2,524.4		6,451.1		6,360.8
<b>Total goods on a balance of payments basis</b>	<b>53,099.9</b>	<b>65,499.9</b>	<b>57,951.3</b>	<b>103,554.2</b>	<b>55,851.7</b>	<b>116,762.4</b>

Note: <sup>1</sup>Excluding hydropower exports. <sup>2</sup>Sourced from respective power plants. <sup>3</sup>Includes refueling & others at stations abroad by carriers.

In addition, with the increased outbound student travelers, the Annual Travel Scheme (ATS) substantially spiked, particularly from an additional facility provided on topping up facilities on ATS to cards from USD 1,000 to USD 3,000. As a result of marginal improvement in service export earnings, the service imports has resulted in a stagnant growth in net service payments compared to last year. This, however, is a notable improvement in the service earnings after two prolonged years of pandemic on the net service earnings.

Net primary income payments recorded a slight decrease of 0.1 percent, moving down from Nu 11,911.9 million of the preceding year. The decline was drawn by an increase in compensation receipts for Bhutanese nationals working abroad, which increased from Nu 103.3 million in the previous fiscal year to Nu 115.2 million during the review period. Concurrently, the external debt servicing has remained stable, underscoring an improvement in net primary income payments.

On the secondary income, the income and transfer receipts in the form of non-investment budgetary grants and inward remittances dropped by 2.1 percent from Nu 14,152.8 million of the preceding fiscal year. Inward remittances grew by 22.3 percent from Nu 7,111.3 million of last year and this was partly on account of the increased incentive scheme from 1 to 2 percent in July 2022 by the RMA. Outpacing the growth in the receipts, the payments have drastically increased by more than 100 percent largely dominated by labor payments (outward remittances) at Nu 6,360.9 million. This has led to the downfall in net secondary income receipts from Nu 11,024.5 million in FY 2021/22 to Nu 6,961.8 million during the review year.

A persistent trade deficit, and minimal growth in net receipts from invisibles has led to further deterioration in CAD to Nu 81,677.2 million (33.7% of GDP) compared with 28.1 percent of the previous year.

### Capital Account

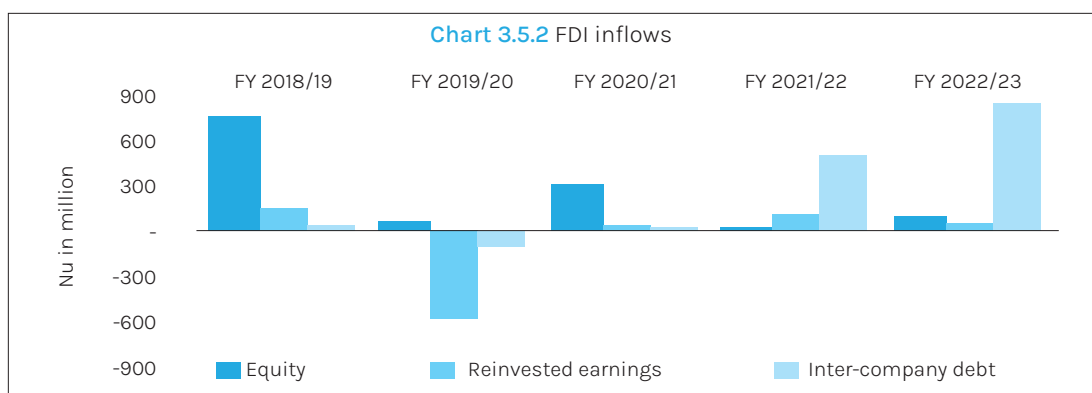
Capital inflows in Bhutan have persistently relied on external financing, primarily in the form of grants and aid for both hydropower and non-hydropower development projects. During the review year, the inflows in capital account experienced a significant growth of 26.3 percent from Nu 7,758.7 million in the previous year. This growth closely tracks to a substantial increase in budgetary grants for hydropower development projects, which increased from Nu 1,538.9 million to Nu 4,397.9 million in the current review year. Conversely, grants for non-hydropower projects fell by 13.1 percent in comparison to the previous year, amounting to Nu 5,405.2 million.

### Financial Account

The Financial account of Bhutan is predominated by external borrowings of the government and private entities and Foreign Direct Investment (FDI). In the FY 2022/23, the net financial inflows stood at Nu 25,437.4 million, a growth of 41.7 percent from the previous year as a result of increase in the financial inflows from the bilateral, multilateral agencies, and foreign investors.

The net other investment, mainly composed of external borrowings, has also recorded a substantial increase to Nu 24,358.2 million from Nu 17,097.2 million of the previous year.

This expansion is associated to an increase in hydropower related borrowings by 35.8 percent (Nu 17,743.3 million) from the previous year<sup>13</sup>. CC loan receipts largely on the non-hydropower accounted to Nu 9,885.3 million, which was a decline of 6.5 percent from the last year. Concurrently, total principal loan repayments during the review period amounted to Nu 5,970 million, of which Nu 3,181.5 million was concessional CC loans and the balance of Nu 2,788.5 million was for hydropower.



The net direct investment stood at Nu 979.2 million, up by 50.9 percent from the previous year. The increase in the net FDI flows was in view of a spike in equity capital injection to Nu 102.5 million against Nu 32.5 million of the previous year. This was also followed by 63.7 percent increase (Nu 827.5 million) in the inter-company debt from foreign investors.

The net capital flows (capital and financial flows) standing at Nu 35,240.5 million is adequate to finance 43.1 percent of the CAD. This has exerted pressure on the foreign exchange reserves to finance the CAD. With this, the overall balance (change in reserve assets) was still recorded high at negative Nu 28,791.6 million. The official grants and external borrowings continue to remain as a key driver in the overall BoP.

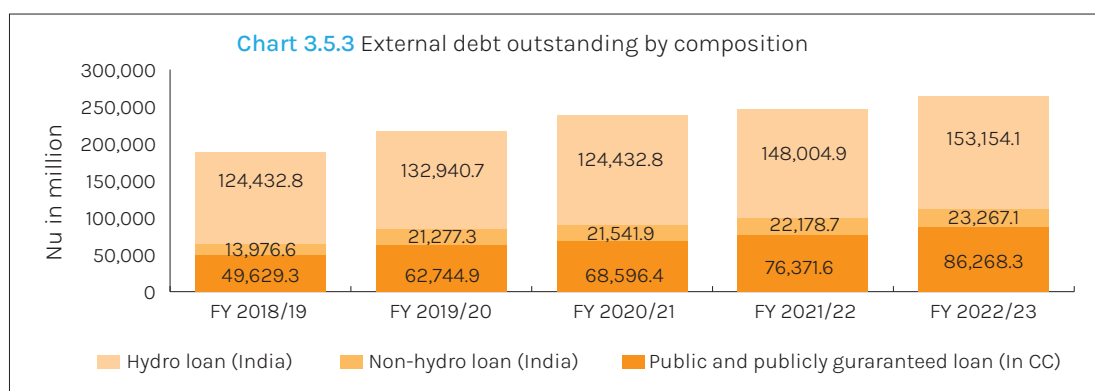
## External Debt

The current external borrowings are mainly for the investment purposes in the country, that has the potential to generate revenues in foreseeable future. Keeping with the past trend, hydropower development loans have dominated (58.1%) the public external debt portfolio, and the comfort with the hydropower development loans in the case of Bhutan lies in their self-liquidating nature and country's huge potential to harness hydropower energy.

As of June 2023, the total outstanding external debt<sup>14</sup> stock accounts to USD 3,213 million (Nu 263,603.5 million), constituting 108.5 percent of GDP. The debt stock increased by 6.7 percent from Nu 246,947.9 million in light of 13 percent rise in CC loans at Nu 86,268.3 million. Hydropower loans moderately increased to INR 153,154.1 million from INR 148,397.7 million in the FY 2021/22. The main driver of accumulation of external debt stock, rupee debt (66.9%) is self-liquidating hydropower projects debt while the remaining are non-hydropower (GoI Standby Credit and RBI Swap) which are incurred to meet BoP obligations with India. The remaining external debt stock was constituted by the CC debt, of which 97.7 percent is public debt and 2.3 percent is the private sector loan.

<sup>13</sup> The total hydropower borrowings is inclusive of accrued interest.

<sup>14</sup> The external debt compiled by the RMA comprises public and private debt, therefore the figures are not comparable to the debt figures published by MoF.



On the debt servicing part, the overall debt servicing in the FY 2022/23 amounted to USD 312.5 million compared to USD 317.1 million. Bhutan's debt service ratio measured as a percent of export earnings from goods and services is recorded at 37.9 percent during the review year.

### International Investment Position

Bhutan has continued to remain a debtor to the Rest of the World (RoW), the net International Investment Position<sup>15</sup> (IIP), stood at a negative USD 3,954.8 million in FY 2022/23. The country's external financial claims have decreased by 28.2 percent to USD 706.4 million in consequences of a drop in the reserve assets from USD 803.8 million to USD 553.8 million. Trade credit and other assets also recorded a notable dip leading to further drop in total external financial claims.

**Table 3.5.2** International Investment Position (IIP)

Item	Jun-19	Jun-20	Jun-21	Jun-22	Jun-23
<b>Net IIP</b>	<b>-2,557.9</b>	<b>-2,412.3</b>	<b>-2,983.0</b>	<b>-3,489.9</b>	<b>-3,954.8</b>
<b>Assets</b>	<b>1,277.2</b>	<b>1,577.7</b>	<b>1,470.9</b>	<b>983.4</b>	<b>706.4</b>
Currency and deposits	66.6	63.4	62.3	62.7	62.9
Trade credits	83.2	122.9	97.0	115.7	89.7
Reserve assets <sup>1</sup>	1,115.9	1,366.2	1,307.6	803.8	553.8
Others	11.4	25.2	4.0	1.3	0.0
<b>Liabilities</b>	<b>3,835.0</b>	<b>3,990.0</b>	<b>4,453.9</b>	<b>4,473.3</b>	<b>4,661.1</b>
Direct investment in Bhutan	147.3	129.8	134.7	138.0	147.4
o.w. Equity	120.8	106.1	110.9	108.7	108.1
o.w. Intercompany debt	26.6	23.7	23.8	29.3	39.3
Currency and deposits	81.0	69.4	67.5	64.5	72.3
Loans	3,541.9	3,740.1	4,201.5	4,192.1	4,360.5
Trade credits	56.5	42.5	41.7	44.8	47.0
SDR allocations	8.3	8.2	8.5	33.9	34.0
<b>Exchange rate to USD (end of period)</b>	<b>68.9</b>	<b>75.5</b>	<b>74.3</b>	<b>78.9</b>	<b>82.0</b>

<sup>1</sup>Excludes US dollar pledge on any outstanding overdraft as of the reference date (Differences in value of reserve assets reflected here from gross international reserves appearing elsewhere in the report may be due to exchange rates for individual components); Revisions made to this series: (i) Coverage of data on trade credits and FDI are being continuously improved.

<sup>15</sup> The difference between the country's external financial assets and liabilities.

With a decrease in external financial claims and increase in financial liabilities of the country with the RoW, the net IIP continues to remain negative at USD 3,954.8 million. The external financial liabilities increased by 4.2 percent from USD 4,661.1 million owing to an increase in external debt liabilities related to FDI.

Given the current uncertainties in the global economic environment, the Bhutanese economy is anticipated to remain highly vulnerable to external shocks. The primary challenges revolve around trade imbalances, inflationary pressures and the depreciation of the Ngultrum against the USD. In response to these challenges, the RMA is actively monitoring and taking measures to stimulate the economy while ensuring financial stability through the careful moderation of credit flow in the economy.

### Balance of Payments with India

India being Bhutan's predominant trading partner and the primary capital investor, the country's trade deficit with India comprised 74.2 percent of the overall trade deficit of Nu 60,910.6 million in the FY 2022/23. In the review year, the trade deficit surged by 60.3 percent from Nu 28,176.2 million, owing to an increase in merchandise imports by 16.5 percent from Nu 79,346.9 million, coupled with 7 percent decline in exports from Nu 51,170.7 million in FY 2021/22. Consequently, the trade deficit stood at Nu 45,177 million in the review year. The heightened imports pertains to a continued imports of machineries. Subsequently, the dip in exports was led by 13.2 percent decrease in hydropower exports to Nu 20,590.8 million in FY 2022/23 followed by 1.6 percent contraction in non-hydropower exports from Nu 27,460.3 million of the previous year.

On the invisibles<sup>16</sup> front, the net service payments with India recorded a marginal growth from Nu 4,685.8 million in FY 2021/22 to Nu 5,512.9 million in FY 2022/23. This uptick was driven by 17.3 percent growth in service imports amounting to Nu 6,760.1 million against the minimal increase of service exports from Nu 1,075 million in FY 2021/22 to Nu 1,247.2 million in FY 2022/23. Net primary income payments witnessed a marginal increase to Nu 12,941.1 million in FY 2022/23 from Nu 12,108.1 million of previous year, due to increase in interest payments on the hydropower loans. Secondary income account with India, recorded a deficit at Nu 2,931 million during the review year against surplus of Nu 4,217.8 million last year.

This net secondary payments is mainly on account of increase in payments dominated by worker's outward remittances. On the receipt side, 49.2 percent drop equivalent to Nu 3,025 million was recorded on account of decrease in non-investment budgetary grant inflows by 49.5 percent. As a result, the CAD widened by 63.3 percent (Nu 55,562.1 million) during the review year.

Capital inflows in the form of budgetary grants for investment increased by 31.2 percent to Nu 9,699.6 million in the current fiscal year. The hydropower development grants increased more than double to Nu 4,397.9 million. The grants for the non-hydropower investment marginally dropped by 9.4 percent to Nu 5,301.8 million in FY 2022/23. On the contrary, there

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<sup>16</sup> The invisibles comprises of the services, primary and secondary income balances.



was an increase in financial inflows by 83.4 percent to Nu 18,060.6 million, which was from an increase in external hydropower loan from Nu 10,283.4 million in FY 2021/22 to Nu 16,095 million in FY 2022/23.

### Balance of Payments with COTI

Although India remains Bhutan's primary trading partner in the realm of the merchandise goods, COTI stood as the principal contributor of the service receipts of the economy, accompanied by the substantial trade in merchandise goods. The CAD with COTI improved by 24.4 percent from Nu 19,984.6 million in FY 2021/22. This positive change is considering an improvement in trade deficit, net primary and secondary income receipts. Trade deficit with COTI improved by 10.2 percent from a deficit of Nu 17,514 million in the previous year. There was an increase in exports by 23.3 percent from Nu 6,693.3 million compared to last year.

Service receipts from COTI skyrocketed to Nu 9,236.5 million in the current FY, marking more than 15 times increase from the previous FY. This constitutes 88.1 percent of the total service receipts of Nu 10,483.7 million. This notable upswing is primarily in view of a growth in earnings from travel and transportation services, propelled by the growth in tourism. Bhutan received 9,744 international tourists, contributing to gross earnings (Sustainable Development Fee, accommodation and out of pocket expenditure) of Nu 1,617.6 million excluding the travels and transportation related service earnings. Service receipts from insurance and pension, financial services, telecommunications, and other sectors, although minimal, collectively contributed 20 percent of the receipts.

In contrast to the notable growth in the service receipts, service payments increased to Nu 19,556.7 million from Nu 10,047.4 million in FY 2021/22, resulting in further increase in net service payments. Among the total service payments, personal travel, particularly related to medical and education expenses dominated the service payments portfolio by 56.5 percent (Nu 11,053.3 million) followed by transportation service payments at 34.1 percent (Nu 6,665.6 million). Education expenses incurred by the aspiring Bhutanese students to study in Australia increased to Nu 8,256.4 million in the fiscal year from Nu 1,264.1 million of the previous year. Medical expenses also increased to Nu 123.5 million from Nu 65.7 million. Unlike with India, primary income balance with COTI recorded a surplus at Nu 1,045.8 million in FY 2022/23 against Nu 196.2 million in FY 2021/22, primarily due to a higher compensation received by Bhutanese working abroad and increased returns on investment by the RMA. Likewise, the net secondary income receipts also increased by 45.3 percent at Nu 9,892.9 million in the fiscal year. The positive growth in secondary income receipts was marked by an increase in inward workers' remittances which has predominantly been the largest contributor in the case of Bhutan. Further, minimal outward worker's remittances was recorded during review period.

The capital inflows from COTI amounted to Nu 103.4 million in FY 2022/23, a fall from Nu 368.3 million in FY 2021/22, on account of decline in the grants for investment. Similarly, net financial inflows experienced 8.9 percent contraction amounting to Nu 7,376.9 million, driven by the decrease in external loan disbursement from both the bilateral and multilateral partners.

## BOX IV

### Evaluating Bhutan's import through the lens of domestic credit & exchange rate using regression analysis.

Imports serve as a vital source of raw materials, capital goods and technology development, essential for enhancing the productive capacity of the economy. More specifically, they play a pivotal role in fostering domestic investment and driving economic progress. The importation of goods also stimulate innovation of domestic producers, positioning them to compete effectively with foreign products.

In the current landscape of globalization and financial integration, the Bhutanese economy is experiencing a notable transformations marked by a substantial increase in imports. This evolving scenario underscores the dynamic nature of economic interactions and the growing significance of international trade in Bhutan. Nevertheless, the expansion of international trade has coincided with an escalation in trade deficits, thereby exerting pressure on macroeconomic imbalances. Given this challenges in the BoP, it becomes imperative to understand the sensitivity of import demand. Therefore, this report seeks to elucidate the factors influencing import dynamics within the context of the Bhutanese economy by employing Ordinary Least Square estimation in the following model:

$$\log IMP_t = c + \beta_1 \log DC_t + \beta_2 \log ER_t + \mu_t \dots \dots \dots (1)$$

Where IMP is the total import, DC is the domestic credit, ER is the exchange rate (Nu/USD) and  $\mu$  is the random error term. The data (2011 to 2022) were transformed into their natural logarithms and the Augmented Dickey-Fuller test indicated the time series data for domestic credit was non-stationary at levels. Against this background, EViews 9 was used to conduct the regression and the ensuing estimation output was obtained as follows:

$$\log IMP_t = 4.22 + 0.96 DC_t + 1.31 ER_t \dots \dots \dots (2)$$

[2.08\*\*]    [6.85\*]

R-square = 0.52  
Adjusted R-Squared = 0.49  
Prob (F-statistic) = 0.0000

Figures in the parentheses are t-statistics and \* indicates significance level at 1% and \*\* at 5% respectively. As required, the residual diagnostic tests were conducted at 5% significance level. The Breusch-Pagan test suggests the absence of heteroskedasticity, and the series conform to normal distribution, as indicated by the Jarque-Bera test of normality. Additionally, no autocorrelation in the residuals was identified, as per the results of the Breusch-Godfrey Serial Correlation LM Test.

The estimated coefficients of independent variables show the expected signs, are statistically significant and exhibit substantial outcomes. The results reveal that domestic credit, serving as a source for private investment in Bhutan, emerges as a determinant of import demand. Furthermore, a significant factor influencing Bhutan's import demand is the exchange rate. Given the sustained depreciation of the Nu over extended periods, the cost of importing goods denominated in foreign currencies has increased. This emphasizes the notion that more Nu is required to purchase the same amount of goods and services at prevailing foreign prices.



### 3.6 Exchange Rate Developments

**Although the existing conventional peg exchange rate arrangement has traditionally served Bhutan's economic interests, the past two years have presented challenges originating beyond the regime. Global economic issues, stemming from geopolitical tensions and supply chain disruptions, have adversely affected Bhutan. On average, the Nu has depreciated by 2.4% in 2022.**

The Nu was pegged at par with INR in 1974, around the same period when flexible exchange rate regimes became increasingly popular. Given the close economic and financial integration with India, the current conventional peg exchange rate arrangement has served the economic interest of Bhutan, mainly by reducing trade uncertainties, anchoring prices, promoting investments and tourism. The exchange rate stability encourages trade and investment between Bhutan & India, as businesses and individuals are aware of the pegged regime. Furthermore, stable exchange rate makes Bhutan an attractive tourism destination for Indians as they are not exposed to significant exchange rate risks.

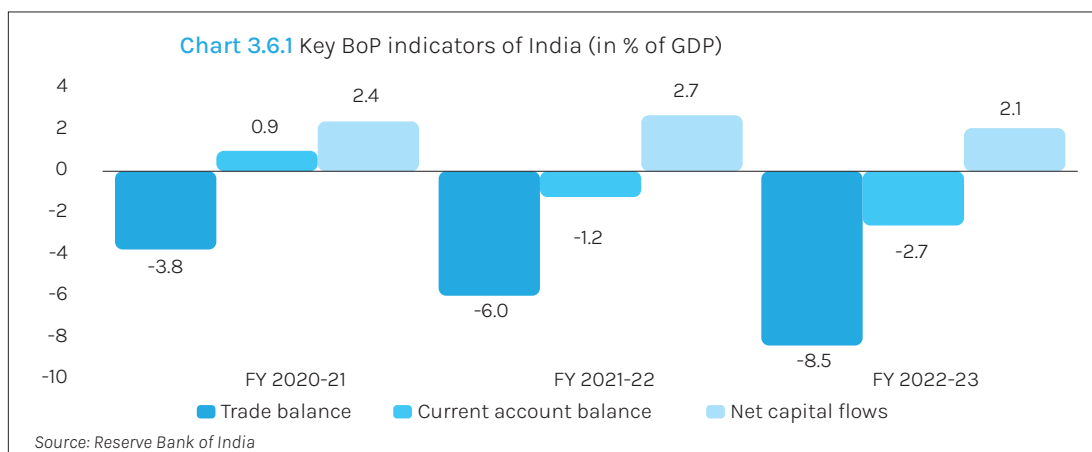
Not only does it serve as the nominal anchor of monetary policy and eliminates exchange rate risks, the free convertibility of Indian Rupee to Bhutanese Ngultrum has also helped reduce transaction costs for individuals and businesses. The free convertibility of INR to Nu has streamlined cross-border transactions by reducing transaction cost and promoted greater ease of doing business.

More importantly, the peg regime has enabled Bhutan to benefit from the low inflation conditions in India, which has also helped to maintain lower inflationary expectations in Bhutan, making it conducive for overall macroeconomic stability and providing reliable environment for businesses and consumers. The peg arrangement which serves as a nominal anchor for RMA's monetary policy operations has enabled the RMA to maintain financial stability without having to constantly adjust its exchange rate policy pursuant to international exchange rate swings.

Therefore, it is imperative to ascertain whether Bhutan's economic characteristic support the optimum currency criteria, meaning that the existing pegged regime is optimal for Bhutan under the current economic conditions. An in-house study conducted by the RMA and a few research papers have confirmed that Bhutan's economic conditions do meet the optimum criteria for peg regime.

#### Recent Exchange Rate developments in India

Considering the fixed one-to-one peg of Bhutanese Ngultrum to the INR, the fluctuations in the INR also directly impact the confidence of the Ngultrum in international markets. The performance of the Ngultrum in the international markets is intricately tied to the INR's performance on the global stage. Over the past two years, the INR has experienced a considerable volatility and has undergone a significant depreciation against the USD.



A significant depreciation of INR mirrors the continuous appreciation of the US Dollar in response to the aggressive tightening of monetary policy by the US Fed<sup>17</sup> and the surge in US Treasury yields<sup>18</sup>. These austerity measures taken by the US Fed has led to a surge in USD demand in foreign exchange markets. Additionally, the combination of elevated crude oil prices and Foreign Portfolio Investment (FPI) outflows from domestic capital markets in India has placed additional depreciation pressure on the INR<sup>19</sup>. The INR has been on depreciation especially after the supply chain disruptions in view of the geopolitical fragmentation and rising cost of crude oil. More than 85 percent of India's energy requirement depends on crude oil imports and higher oil import bills has put strain on India's trade balance.

Amidst these challenges, to further diversify and expand the sources of forex funding so as to mitigate volatility and dampen global spillovers, the RBI undertook several measures to enhance forex inflows while ensuring overall macroeconomic and financial stability. Notable interventions includes relaxations of investment by FPI in debt market and "Fully Accessible Route" for investment by Non-residents in government securities to encourage FPI. The RBI also permitted foreign currency lending by Authorized Dealer Category I banks to foreign currency borrowing by a larger set of borrowers finding difficult to directly access overseas markets on July 7, 2022.

The Indian residents were also permitted to hedge their exposure to gold price risk in overseas market and Standalone Primary Dealers were allowed to deal in offshore foreign currency settled INR derivatives market. Furthermore, in an effort to stimulate export growth and accommodate the growing interest of the global trading community in the INR, arrangements such as invoicing, payment and settlement of both exports & imports in INR have been implemented.

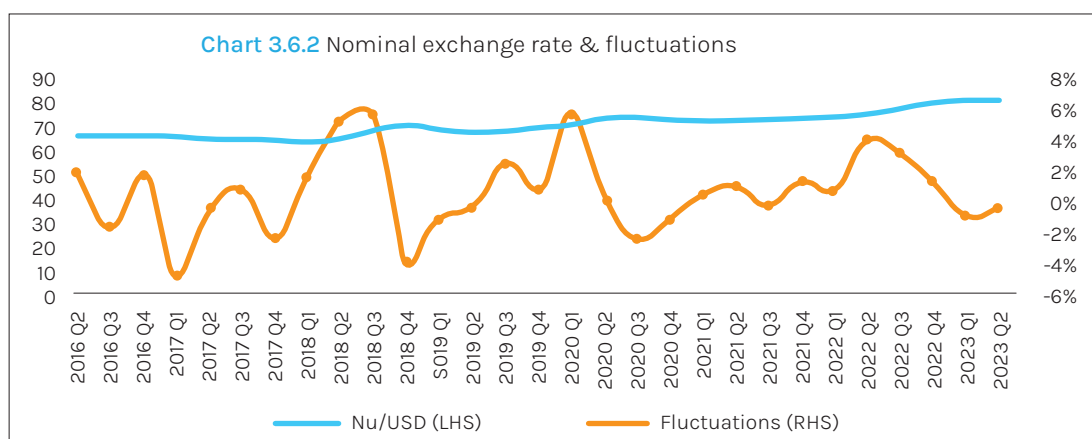
<sup>17</sup>The US Fed raised the rates 11 times since the early 2022 in an effort to reduce liquidity to the financial markets and tame down the inflation. The recent raise in the interest rates was following its meeting on July 25-26, 2023 by 0.25 percentage points taking the federal funds rate to a target of 5.25 to 5.5%.

<sup>18</sup> The yield on one month US Treasury securities was 5.52 percent on 11<sup>th</sup> September 2023 compared to 0.01 percent in May 2021.

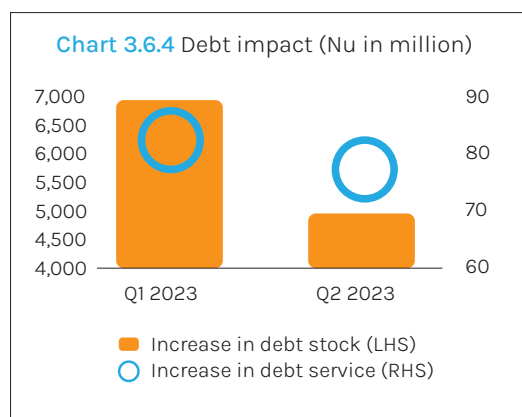
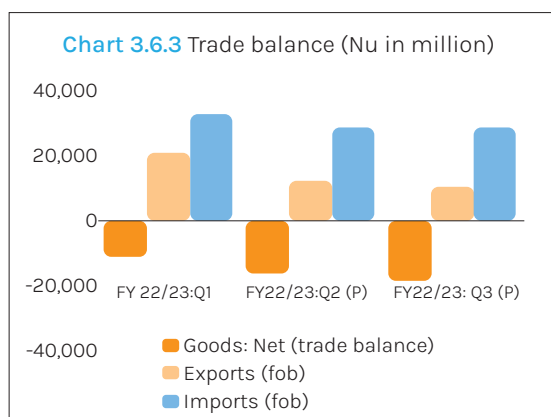
<sup>19</sup> As per the RBI Annual Report, the net inflows from FDI during 2022-23 amounted to USD 28 billion, showing a decrease from the previous year's figure of USD 38.6 billion. Additionally, there were net portfolio outflows totaling USD 5.9 billion during the year.

### The Depreciation of Ngultrum and Implications

Starting from the third quarter of 2022, the Nu has been consistently trading around the USD 80 mark. It reached its highest point in the fourth quarter of 2022, with an exchange rate of 82.9 Nu per US dollar. Moving into the second quarter of 2023, the Nu has experienced a depreciation of 3.9 percent compared to the same period in the previous year. When looking at the average exchange rate over the course of four quarters in 2022, the Nu has been depreciating by an average of 2.4 percent. These depreciations in the Nu aligned to INR illustrate the changing dynamics of the Nu in relation to the US Dollar over the period.



When the Nu depreciates against the US Dollar, it can have direct impact on Bhutan’s trade balance. Typically, a weaker currency make imports expensive and exports dearer, potentially boosting exports. However, Bhutan’s trade situation is unique due to its strong economic ties with India, which accounts for approximately 80 percent of the Kingdom’s total trade including hydropower exports. Under this circumstances, the depreciation of Nu does not necessarily lead to a more favorable balance of trade for Bhutan. Thus, there is a limited direct impact on the cost of trade for Bhutan in such economic situation.

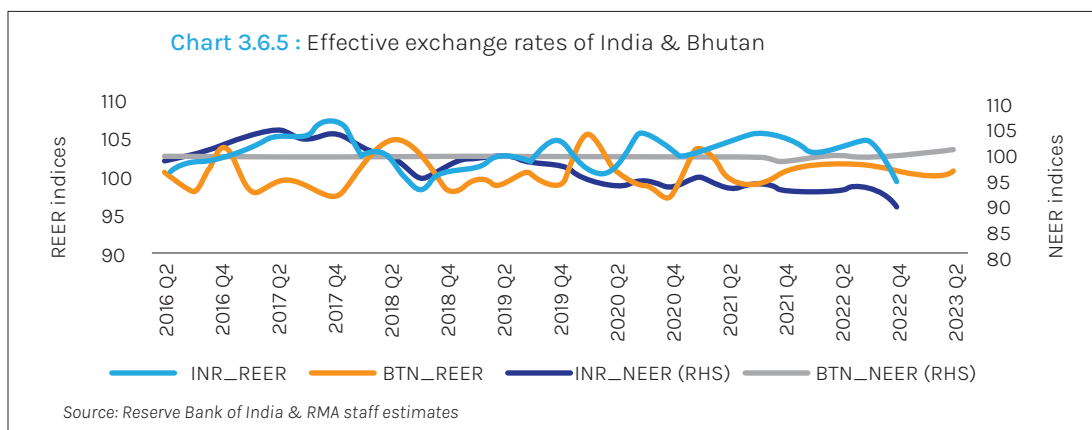


The depreciation of Nu also has a significant impact on the debt portfolio of an economy, particularly when the debt is denominated in CC such as USD. The INR denominated debt benefits from currency volatility but CC denominated debts are exposed to exchange rate risk. Given a significant depreciation of Nu this year, the debt service and overall debt stock in nominal currency has increased substantially. As the Nu slightly appreciated in the

second quarter of 2023 relative to first quarter, the economy witnessed a decline in the debt impact with the COTI. The depreciation of Nu not only increases the debt burden by requiring larger allocation of Nu for debt service obligation by the RGoB, but also raises concerns of debt sustainability in the long run. This particularly stems when the economy faces difficulties in generating sufficient foreign exchange earnings.

### The Effective Exchange Rates of Indian Rupee and Ngultrum

The variations in nominal exchange rate signals the amount of domestic currency needed to purchase foreign currency. It does not exactly reveal the true competitiveness of the currency. Thus, it is important to assess its Nominal Effective Exchange Rate (NEER)<sup>20</sup> and Real Effective Exchange Rates (REER)<sup>21</sup>, which serves as crucial tools for evaluating a country's economic competitiveness internationally. The NEER focuses on the changes in



currency value and the REER provides a more comprehensive view by incorporating price differentials, making it a key indicator of nation's trade competitiveness by taking account of both exchange rate and relative price levels.

The chart provides an overview of the NEER and REER for both India and Bhutan, providing a representation of how the effective exchange rates have evolved over the specified periods<sup>22</sup>. The NEER of Nu has consistently remained stable over the period relative to the currencies included in the basket, fluctuating within a narrow range of 98.2 to 100.1. Unlike the usual scenario where an increase in trade share with trading partners tends to exert upward pressure, it has remained constant. The stability can be viewed from the current exchange rate regime and its heavy reliance on trade with India.

<sup>20</sup> NEER is calculated as the weighted average of bilateral nominal exchange rates between the domestic currency and foreign currencies. The weights are determined based on the extent of trade with each specific country. An increase in NEER signifies that the domestic currency has strengthened in value compared to a weighted basket of currencies from its trading partner.

<sup>21</sup> REER is an adaptation of NEER that considers the ratio of domestic prices to foreign prices. It factors in inflation differentials between the domestic currency and its major trading partners. An increase in REER suggests that there is currency appreciation. This can lead to an increase in the cost of country's export, potentially resulting in a loss of international trade competitiveness.

<sup>22</sup> The indices of both the countries is trade weighted. For India, it is a 40-currency basket (2015-16 = 100). The index for Bhutan constitutes that of top 30 trading partners and corresponding currencies (2009=100).

The REER of Nu in contrast has exhibited fluctuation over the period and during certain periods, it appears to closely track the trend of the INR\_REER. The decline in BTN\_REER in 2022 is largely because of the depreciation of Nu against the basket of currencies and rising inflation among Bhutan's trading partners.

In the Indian case, (NEER/ REER) moved with a depreciating bias during 2022-23. On an average basis, the 40-currency NEER and REER depreciated by 2 percent and 1.8 percent, respectively, during the year (RBI).

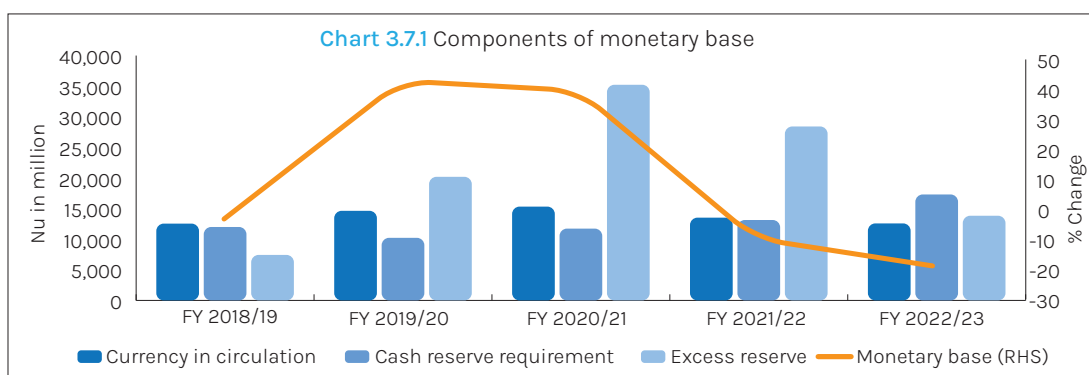
Given the largely uncertain global economic outlook, challenges arising from external imbalances are expected to exert significant pressure on exchange rate depreciation. As the performance of the Nu is closely tied to that of the Indian Rupee, the RMA will persist in closely monitoring market developments in India and other economies.

### 3.7 Money and Credit

The increase in Fixed & Current Deposits has driven the growth of Money Supply by 9.8% during the review period. Concurrently, credit growth in sectors like housing and education contributed to the expansion of domestic credit during the review period. Despite lower inflow of external grants and aid, the liquidity condition in the economy has remained stable and adequate to meet credit demand.

#### Monetary Base

The monetary base (M0<sup>23</sup>) is a monetary instrument used by the central bank to regulate the liquidity and money supply in the banking sector. At the RMA, the CRR is the only monetary policy tool used to regulate the money supply in the economy. During FY 2022/23, the M0 growth further declined by 20.6 percent (Nu 11,351.7 million) taking the M0 to Nu 43,717.7 million, compared to negative 11.6 percent in the previous FY. A significant decrease in M0 was largely a result of decline in excess reserves by 51.3 percent (Nu 13,832.3 million) maintained at the RMA at the end of business day in the form of current account. The liquidity in the banking sector has been on a declining trend in the recent years, primarily due to lower foreign exchange inflows related to the grants and aid. Moreover, the increasing demand for the liquidity to meet short-term payment obligations and financing needs for the government expenditure have also put a huge liquidity stress on the commercial banks.



Additionally, a moderate dip in the growth of Currency in Circulation (CiC) by 7 percent (Nu 942.1 million) also contributed to declining M0. In FY 2022/23 the CiC was recorded at Nu 12,577.9 million compared to Nu 13,520 million. The growing popularity of the digital payment platforms especially the evolution of digital payment<sup>24</sup> such as mobile application and internet banking resulted to a fall in the demand for cash holdings in the economy.

On the other, the CRR holdings during the FY 2022/23 rose to Nu 17,307.5 million, compared to Nu 13,741.7 million in the previous year. Along with the surge in the deposits base and revision in CRR by 1 percentage point from 7 percent to 8 percent on the deposit's liabilities with effect from October 31<sup>st</sup>, 2022, it directly translated to increase in the CRR holding.

<sup>23</sup> The Monetary Base (M0) represents the total amount of an economy's physical currency in circulation and the commercial banks' reserves (Cash Reserve Ratio and Excess Reserves) held at the central bank.

<sup>24</sup> A digital payment platform is a use of the electronic devices such as mobile phone, laptop and Automatic Teller Machines (ATMs) to transfer or make payments online without involving hard cash.



In the last five years, the average composition of CiC, CRR and excess reserve stood at 29.9 percent, 28.5 percent and 41.6 percent respectively. However, there was a significant shift in the share contribution of components to the monetary base. Notably, the share of the CRR has increased to 39.6 percent during the period, while excess reserve declined from 51.6 percent to 31.6 percent in the review period.

### Money Supply<sup>25</sup>

During the FY 2022/23, the broad money (M2) grew by 9.8 percent, reaching to Nu 216,694.2 million, compared to Nu 197,301.4 million in the previous FY. Demand deposits, particularly the current account deposits witnessed higher growth, contributing to an overall increase in the money supply.

On the M2 components side, the demand deposits which constitutes 51.5 percent and time deposits (43.6%) continues to drive the M2 development. Demand deposits (savings and current account deposits) grew at 11.3 percent to Nu 111,699.8 million during FY from Nu 100,333.1 million in the FY 2021/22. Current account deposits, which comprises of 41.8 percent of the demand deposits grew by 38.7 percent to Nu 46,714.8 million during FY 2022/23 from 17.2 percent in the last review period.

With a gradual increase in business activities and mandatory requirement of current account for business transaction have contributed to its growth. Similarly, the time deposits which constitutes 43.6 percent of the total money supply grew by 9.3 percent to Nu 94,453.7 million during the review period compared to Nu 86,381.6 million in the previous FY. A notable growth of more than 9 percent in time deposits was fueled by higher interest rates which averaged 7 percent in the FY 2022/23.

**Table 3.7.1** Monetary aggregates

Item	Nu in million			Growth in percent (y-o-y)		
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2020/21	FY 2021/22	FY 2022/23
I. Reserve Money	61,429.4	54,707.1	43,717.7	36.4	-10.9	-20.6
II. Broad Money (M2)	180,314.2	197,301.4	216,694.2	24.4	9.4	9.8
III. Narrow Money (M1)	101,825.9	110,574.9	121,235.1	19.0	8.6	9.6
<b>IV. Components of M2</b>						
1. Currency Outside Banks	11,874.7	10,241.7	9,535.3	0.8	-13.8	-6.9
2. Transferable Deposits	89,951.2	100,333.1	111,699.8	21.9	11.5	11.3
3. Time Deposits	77,953.3	86,381.6	94,453.7	32.9	10.8	9.3
4. Foreign Currency Deposits	535.0	345.0	1,005.3	-19.1	-35.5	191.4
<b>V. Sources of M2</b>						
1. Foreign Assets (Net)	98,552.0	97,558.1	79,757.4	17.2	-1.0	-18.2
2. Claims on Government	6,403.7	16,134.9	31,411.2	266.7	152.0	94.7
3. Claims on Other Public Sector	9,856.2	8,907.0	7,009.5	38.0	-9.6	-21.3
4. Claims on Private Sector	126,561.4	140,254.9	167,383.7	6.5	10.8	19.3
<b>VI. Money Multiplier</b>	2.9	3.6	5.0			

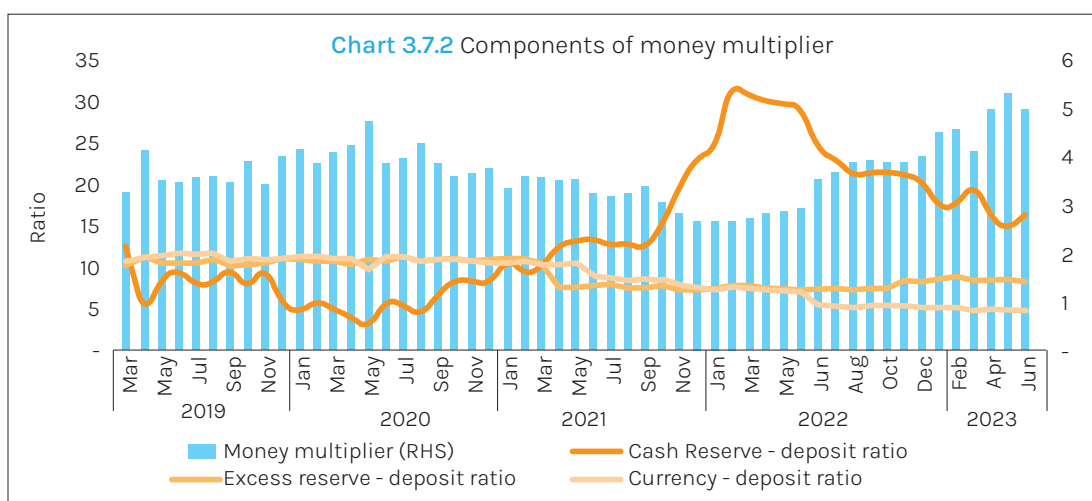
<sup>25</sup> The components of Broad Money (M2) are Narrow Money (M1), Time and Foreign Currency deposits. Narrow Money (M1) comprises of Currency Outside banks and Transferable deposits (Saving and Current Deposits).

On the counterparts of the M2, Net Domestic Assets (NDA) which makes up 63.2 percent of the total money supply recorded a significant growth of 37.3 percent (Nu 37,193.5 million) resulting a surge to Nu 136,936.7 million during FY 2022/23, compared to 22 percent in the previous FY. Claims on private sector, accounting for 77.2 percent of the total money supply, grew by 19.3 percent (Nu 27,128.8 million) during the FY 2022/23 compared to 10.8 percent in FY 2021/22.

The pickup in housing sector loans was due to pent-up demand in constructions and increase in education loans, which contributed to the significant growth in domestic credit. This is evident from the approval granted for the import of foreign laborers. A total of 140,830 foreign workers were approved during the FY 2022/23, with the construction sector alone recording 119,159 foreign workers<sup>26</sup>. Despite the six-month loan moratorium imposed on the housing and hotel construction by the RMA, the impact on the credit growth was limited since the directives on the housing loan moratorium came into effect only from 9<sup>th</sup> June 2023.

Similarly, claims on government have increased significantly amounting to Nu 31,411.2 million during the FY 2022/23 from Nu 16,134.9 million in the FY 2021/22. The issuance of government T-bills and long-term bonds to meet the government expenditures resulted in the spike in banks' claims on government<sup>27</sup>.

The Net Foreign Assets (NFA), on the other hand, grew by negative 18.2 percent during FY 2022/23 compared to negative 1 percent in the previous fiscal year. Decline in inflow of external grants and higher import payment obligations contributed to the fall in the NFA to Nu 79,757.4 million during the review period, compared to Nu 97,558.1 million in the FY 2021/22.



<sup>26</sup> For details, please refer Annual Report (June 2022 - June 2023) of the Department of Labour, Ministry of Industry, Commerce & Employment available at [https://www.moice.gov.bt/wp-content/uploads/2023/08/Annual\\_Report\\_FY2022\\_2023.pdf](https://www.moice.gov.bt/wp-content/uploads/2023/08/Annual_Report_FY2022_2023.pdf)

<sup>27</sup> As per the Annual Financial Statement published by Ministry of Finance (MoF), the government resorted to domestic borrowings to the tune of 72.6 percent of total fiscal deficit of Nu. 11,222.1 million in FY 2022/23.

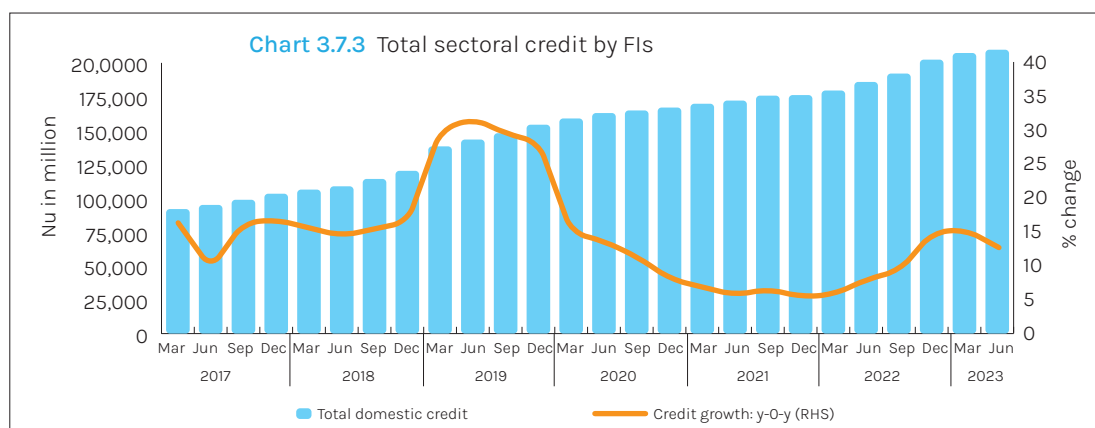
The money multiplier which reflects the potential creation of new money resulting from a change in the deposits in an economy, increased to 5 in FY 2022/23 from 3.9 in FY 2021/22. Increased deposit liabilities, higher claims on private sector and increased government spendings led to the expansion of the money supply through multiplier effects.

In the case of Bhutan, the monetary policy tool to regulate the money supply is the CRR<sup>28</sup>. During the recent review period, as the markets stabilized and liquidity conditions improved, the RMA increased the regulatory reserve requirement from 7 percent to 8 percent. This intervention had moderated the liquidity position. The increased in the CRR by 1 percentage point from 7 percent to 8 percent on the deposit liabilities of banks has led to an increase in the cash reserve to deposits ratio by 8.4 percent during the FY 2022/23 from 7.3 percent in the previous FY.

On the other hand, both excess reserve-deposits and currency-deposits ratio have declined significantly. The excess reserve-deposits ratio has declined sharply by 16.2 percent during the review period from the previous FY 2021/22 largely on the account of fall in the excess reserves of the banks. Similarly, an individual's preferences for holding cash relative to bank deposit liabilities declined further to 4.6 percent from 5.5 percent.

### Credit Market

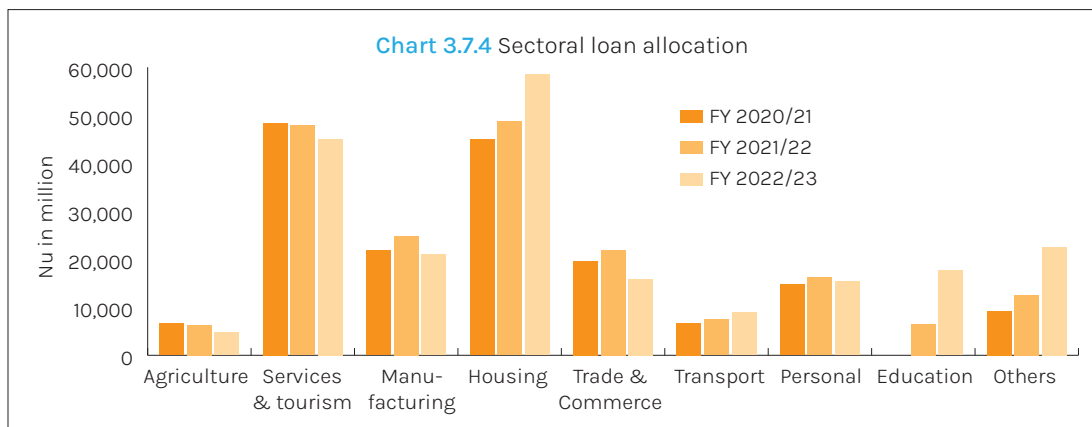
In absence of dynamic capital markets, the Financial Institutions (FIs)<sup>29</sup> in Bhutan serve as the intermediaries in the credit market by channelling funds from depositors to investor ensuring credit access for investment purposes. Credit services in Bhutan is primarily focused on supporting economic development, emphasising on promotion of agriculture, small businesses, and infrastructure development. Over the years, the financial inclusion particularly to access to credit has been expanding gradually through diversified financial products and improved access to financial services. The financial structure in Bhutan is predominantly “integrated” where both the commercial banks as well as non-banks provide similar financial services especially in terms of providing credit services.



<sup>28</sup>The cash reserve to deposits ratio represents a portion of customer deposits held by the commercial banks it has to hold as reserves at the central bank.

<sup>29</sup>The Financial Institutions includes five commercial banks and three non-banks (RICBL, BIL & NPPF). On the other, the Financial Services Providers (FSPs) includes FIs and the Micro-Finance Institutions. In-depth analysis of the financial sector is reviewed in chapter six of this report.

During FY 2022/23, the FIs' total domestic credit outstanding grew significantly by 12.8 percent amounting to Nu 23,791 million from 8 percent in the previous FY. The increase in domestic credit was driven by higher credit growth in housing and construction.



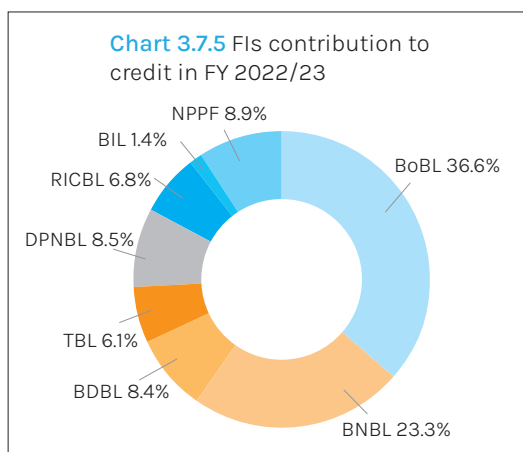
On the sectoral credit concentration, the housing sector accounts for 27.9 percent of the total domestic credit by the FIs during FY 2022/23. The pickup in construction industries, mainly in commercial purposes and softening of labor mobility increased the loans to housing sector by 20.1 percent taking its exposure to Nu 58,451.5 million. The credit to housing sector is anticipated to slowdown in the upcoming FY as a result of the loan moratorium imposed on the construction sector by the RMA against huge credit concentration and spillover effect to external vulnerabilities.

Similarly, the credit to transport sector saw a growth of 19.6 percent amounting to Nu 8,942.2 million during the FY 2022/23 compared to 11.3 percent in the previous year. Despite the extension of the moratorium on vehicle imports until February 2024, the provision for importing utility cars have resulted in a rise in loans to the transport sector.

Conversely, service and tourism sector accounting 21.5 percent of the total credit share declined by 5.9 percent during the FY 2022/23. Of the total credit of Nu 45,078.4 million in the service and tourism sector, 56.4 percent of the loan share is concentrated in the hotel and tourism sector while remaining are in the services.

The credit to production & manufacturing and trade & commerce sector witnessed a negative growth in FY 2022/23. The trade & commerce sector in particular experienced a significant dip of 28.9 percent during the review period amounting to Nu 15,845.3 million from a positive growth of 13.3 percent in FY 2021/22.

The credit to agriculture sector continues to remain below 5 percent of the total credit portfolio. In FY 2022/23, the credit to agriculture sector fell by 24.5 percent (Nu 1,550.8 million) drawing the loan outstanding to Nu 4,779.9 million from Nu 6,330.6 million in the previous FY. The decline in credit to agriculture sector was largely driven by fall in credit to crop cultivation & livestock farming and the credit moratorium which was imposed to Bhutan Development Bank Limited (BDBL).



The credit to deposits ratio, which measures demand for credit relative to funding available in the banking sector grew by 5.5 percent to 79.2 percent as of June 2023. The increase in the credit to deposits ratio from previous FY was mainly due to higher demand for credit relative to deposit liabilities.

In terms of total loan portfolio by source of finance, 82.8 percent was sourced from the commercial banks and remaining 17.2 percent from the non-banks. In Bhutan, the credit market is largely limited to the five

commercial banks and three non-banks. Coming to the banking sector's loan distribution, the BoBL, being the largest bank in the country, holds the highest share of 36.6 percent, followed by Bhutan National Bank Limited (BNBL) with 23.3 percent. In the non-banking sector, the National Pension and Provident Fund (NPPF) holds the highest share with 8.9 percent, followed by Royal Insurance Corporation of Bhutan Limited (RICBL) with 6.8 percent.

With increasing volume of domestic credit sourced from the financial sector, maintaining a sound credit quality continues to be one of the RMA's key priorities. The RMA undertook several interventions to control the excessive growth of bad quality assets in the financial sector. The RMA in collaboration with relevant stakeholders is actively involved in formulating policy measures to improve the asset quality and enhancing credit appraisal procedures for financial stability.





MEDIUM-TERM  
MACROECONOMIC  
OUTLOOK

## 4. Medium-term Macroeconomic Outlook

The global economy continues to recover slowly, with growing divergences from the blows of the pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. However, the degree of recovery differs across the globe, depending upon effectiveness of policy responses, and resilience and preparedness to deal with the external uncertainties, particularly from impact of the conflict in the Middle East.

According to the *World Economic Outlook (WEO) Update, October 2023*, the global economic growth is projected to slow down from 3.5 percent in 2022 to 3 percent in 2023 and 2.9 percent in 2024. Tightening financial conditions in response to monetary actions to address elevated inflation, persisting geopolitical tensions and growing geo-economic fragmentation render the outlook fragile, although the risks of global banking instability has subsided. Manufacturing activity is expected to contract across many countries, while services are relatively resilient. Headline inflation continues to decelerate, from 9.2 percent in 2022 (y-o-y) to 5.9 percent in 2023 and 4.8 percent in 2024, unevenly responding to the monetary policy tightening and moderation of global fuel and commodity prices.

On the regional front, India's economic prospects started showing recovery signs though it varies across different sectors. According to the forward-looking surveys and structural model estimates indicate that India's economic growth is projected at 6.5 percent in FY 2023/24, supported by robust agricultural performance, sustained buoyancy in contact-intensive services and boost in government investment. Headline CPI inflation is projected to average 5.4. percent in FY 2023/24, which is conditioned heavily on easing of the food inflation and disruption of supply chains. Moreover, the Google and Apple mobility indices revealed an improvement in movement trends of the people across different sectors as reflected in surge in fuel consumption. The petrol consumption touched the pre-pandemic level, while aviation turbine fuel and diesel consumptions also increased.

On the domestic economy, the domestic economic activity is gaining a gradual momentum after it was severely hit by the pandemic and rising cost of living but growth still remains below the pre-pandemic level with an uneven performance in different sectors. According to the Macroeconomic Framework Coordination Technical Committee (MFCTC) updates of October 2023 the domestic economy is estimated to grow slower to 3.9 percent in 2023 from 5.2 percent in 2022 and 4.7 percent in 2024. The downward revision in the growth is mainly because of significant decline in contribution of industry sector to the output from 5.6 percent in 2022 to negative 26.5 percent in 2023. The construction sector which contributes around 27 percent to service sector, is projected to decline significantly at negative 26.5 percent in 2023, largely attributed to impact of temporary moratorium of banking credit to finance the construction of commercial buildings and real estates.

Similarly, the hydropower sector which is the main contributor to economic growth is estimated to decline at negative 0.1 percent in 2023 before picking up at 8.9 percent in 2024. With the commissioning of PHPA-II and Nikachhu hydroelectric project in 2024, the hydropower sector performance is expected to see upward trajectory. Various measures in place to boost agricultural productivity through improved supply chain, mechanization, favorable weather condition and access to credit, the agriculture, livestock and forestry production is estimated to grow marginally on average of 1.7 percent in the medium term.



The growth in this sector is further expected to be supplemented by improvement in performances of forestry and logging.

On the demand side, the total consumption, which constitutes 74.2 percent of total output, is expected to increase by 3.3 percent in 2023 and 2.1 percent in 2024, due to sustained increase in both private and public consumptions. The growth of private consumption is anticipated to pick-up with revision in public service salary and wages. Further, public investment is estimated to decrease by 45 percent in 2023 which usually decreases during the final year of the government's tenure. The private investment on the other is expected to grow by 2.8 percent on an average.

Labor market in the country is yet to recover fully after deep wounds from the pandemic induced effect, with the overall unemployment rate peaking at 5.9 percent in 2022. This calls for an urgent concrete policy measures to address the unemployment challenges. The initiation of skills development plan, foreign worker management strategy and recovery in economic activity is expected to support the labor market, as the overall unemployment is anticipated to decrease to 5 percent in 2023 from 5.9 percent 2022. However, increasing number of graduates from training centers and university students entering into the job market is envisaged to further put pressure on the youth unemployment.

Inflation pressures from energy prices and supply chain disruptions which has been the main driver of inflation in many countries showed the sign of easing in the recent years. However, inflation outlook remains highly uncertain due to rising geo-political fragmentation and lingering effect of the monetary policy tightening in the AEs. The CPI headline inflation averaged slightly at 4 percent in the last 12 months, started to decelerate from October 2022, and then reaching to the lowest level at 3.2 percent in March 2023. Thereafter, the headline CPI inflation rose gradually over to 5.1 percent in September 2023. Buildup of the inflationary pressure in the recent months are largely on account of rise in housing & energy prices. Since the inflationary pressure in Bhutan is determined largely by exogenous factors - impacted by the pass-through effect from trade and exchange rate, the general price level in the country is estimated to hover at the range of 5-6 percent over the medium-term.

The future path of fiscal policy is likely to be determined by the debt overhang and contingent liabilities. As acceleration in government investment and economic activities are anticipated to pick up in various sectors, the total domestic revenue is also estimated to follow upward trajectory. In FY 2023/24, the domestic revenue is estimated to grow by 18.3 percent from Nu 44,874.9 million in FY 2022/23. The taxes on incomes, profits & capital, which comprises of 30 percent of total revenue is expected to grow by 6 percent in FY 2023/24 from Nu 31,486 million on account of higher mobilization of corporate and business income tax. The sales tax collection from hotels, airport tax, corporate income tax and business income tax from tourism allied businesses are also expected to gradually improve.

On the expenditure front, the total budget outlay is estimated to increase by 8.4 percent (Nu 75,016.1 million) in the FY 2023/24 from the previous year. The capital expenditure is projected to decline by negative 13.3 percent (Nu 29,315.7 million) in the FY 2023/24 from Nu 40,543 million in the previous year. Incurrence of lower capital expenditure during this

period is mainly due to preparation of plan activities in the first year of new government. The share of total capital expenditure to the total outlay, during the entire plan period is expected at 46.8 percent while share of total recurrent expenditure to total outlay is anticipated at 52.2 percent during the plan period.

To remain within the provision of Constitutional requirement, the recurrent budget constituting 53.7 percent of total outlay is estimated at Nu 40,315.7 million during the FY 2023/24, which is a 29 percent increase from the previous fiscal year.

Correspondingly, the total fiscal deficit during the FY 2023/24 is anticipated at Nu 15,141.5 million (5.6 % of GDP) which is 35.9 percent increase from the previous fiscal year<sup>30</sup>. The deficit is to be financed through domestic borrowings with issuance of long-term government bonds and short-term securities (T-bills), while remaining amount is expected to be financed from external borrowings. Notably, despite increase in fiscal deficit during the FY 2022/23, the public debt is projected to grow by 99 percent of GDP from 106 percent of GDP in the FY 2022/23, mainly on account of increase in borrowings for the hydropower construction and to finance external imbalance. The persistent increase in the public debt stock due to delay in completion of ongoing hydropower projects combined with sharp fall in domestic revenue base will continue to pose uncertainty over the medium term.

The current account imbalances is foreseen to remain elevated in the medium-term due to higher trade deficit and limited financial inflows leading to external vulnerabilities. With an increase in volume of trade, the overall trade deficit is presumed to register at 20.2 percent of GDP in FY 2023/24 from 24.3 percent of GDP in the previous year, largely contributed by higher imports against a marginal increase in exports. The improvement of trade deficit in FY 2023/24 onwards will be largely contributed by the hydropower export, which is envisaged to grow on average by 8 percent with the commissioning of two new hydropower projects in 2024. On the other, total import is anticipated to grow by negative 1.9 percent (Nu 113,242 million) in FY 2023/24 and expected to grow in FY 2024/25 onwards in the medium term with pick-up in full implementation of planned activities.

As economic conditions improve accompanied by incentives to promote tourism and inward remittances, the receipts related to services is presumed to improve, against a higher increase in payments for services. As such, with payments surpassing the receipts, the net service payments is projected to increase by 66.1 percent in the FY 2023/24. Improvement in trade balance (by 6.7 percent) combined with improvement in service receipts due to tourism income, the CAD is estimated to improve to 24.9 percent of GDP during the FY 2023/24, amounting to Nu 67,560.3 million from 33.7 percent of GDP from the previous year.

A positive capital and financial net flows in the form of official grants, hydro related and concessional loans is expected to increase by 5.2 percent in the FY 2023/24, owing to increase in hydropower loans and loan disbursements for developmental activities. Thus, the net surplus in the capital and financial account will be sufficient to finance the CAD over the medium term. Corresponding to these developments, Bhutan's overall balance is

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<sup>30</sup> For the computation of Debt to GDP ratio, revised 2017 base year ( from 2012 base year) has been used to reflect the structural transformation of our economy over years. Therefore, the Debt to GDP ratio is comparatively lower than the figure reported elsewhere.

expected to remain positive, sufficient to finance 12 months of essential imports.

The financial sector continued to exhibit a strong resilience with pick-up in domestic credit and adequate capital buffer and liquidity, despite the widespread possibility of global financial crisis after collapse of two banks in the United States of America. The domestic financial sector was well insulated from the systemic risks with improved asset quality, adequate capital and profitability that cushioned the banks and non-banks from diving into the potential financial stress. Further, timely, intrusive and conclusive banking supervision through clear & sound mandates, adequate resources and legal protection has reinforced the stability of financial sector.

The gradual recovery of economic activities, the pent-up demand particularly in construction and service sectors are expected to lift the domestic credit by 21.2 percent in FY 2023/24 from Nu 209,698.5 million in FY 2022/23. The growth is expected to be propelled by increased demand for investment in hotel & tourism, trade & commerce sectors, and overseas higher education loans. Meanwhile, banking credit to construction sector is anticipated to remain moderate, given the continued applicability of the ongoing loan moratorium. The RMA remained watchful of banking credit growth, especially in unproductive sectors. This caution is driven by its direct correlation to higher imports, posing challenges to foreign exchange reserves and exposing vulnerabilities to external factors.

Anticipating a rise in hydropower export inflows and official loans and grants in the medium term, the liquidity condition in the financial sector is projected to stay in surplus. This surplus is deemed sufficient for the government to address the fiscal deficit without impinging on credit to the private sector and without exerting inflationary pressures. The Government's plan of issuing additional long-term bonds for financing the fiscal gap will provide a new opportunity of investment for the banks and also for monetary policy operation through RMA's participation in the secondary market transactions.

Quick assessment on the prospect of the economy reveal that economic activities have not reached at the potential level, and targeted measures through the monetary and fiscal policy will be necessary to achieve productive growth over the medium term. The prolonged geopolitical tensions and geoeconomic fragmentation has once again exposed our economic vulnerabilities related to domestic productions bottleneck and policy implementation inconsistencies, increasing food & fuel price, youth unemployment problem, rising stock of public debt, and intensifying income inequality. In addition to above potential, rising climate change has become serious threat to developing economies, which will threaten the livelihood of people through sudden rise in cost-of-living with spike in commodity prices and spiraling household debt.

In the financial sector, new risks are anticipated to arise, particularly with a potential increase in NPL. Therefore, regulators and policymakers play a crucial role in revisiting and recalibrating our economic development models. It is imperative to reorient national plans and priorities to devise effective and sustainable solutions for addressing challenges and structural weaknesses.

There is no doubt that monetary and fiscal policies will continue to play an important role

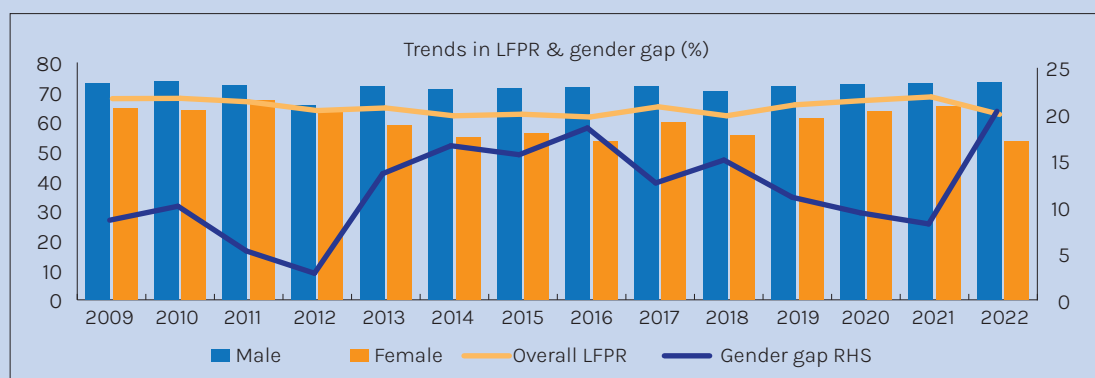
in increasing the productivity of economy towards the path of stronger, equitable, and resilient economy. Moreover, broad mix of policies is required to unlock the private capital necessary to cover climate mitigation investment needs in EMDEs.

Medium-Term Macroeconomic Outlook Indicators			
Components	Actual	Projection	
	2022	2023	2024
<b>Real Sector</b>			
<b>Production (Supply)-% Growth</b>			
Real GDP	5.3	3.8	4.7
<b>Agriculture, Livestock &amp; Forestry</b>	<b>-1.1</b>	<b>1.8</b>	<b>1.6</b>
<b>Industry</b>	<b>5.6</b>	<b>-6.2</b>	<b>1.2</b>
Mining & quarrying	-3.0	3.9	0.4
Manufacturing	6.7	4.5	2.9
Electricity & Water	-1.1	-0.1	3.9
Construction	16.5	-26.5	-10.8
<b>Services</b>	<b>6.8</b>	<b>10.5</b>	<b>7.3</b>
Wholesale and retail trade	14.4	9.1	8.6
Hotels and restaurants	31.6	14.3	16.2
Financing, insurance, real estates & business services	1.1	4.4	3.8
Nominal GDP (Nu in million)	227,813.7	256,418.9	285,493.2
Unemployment rate (%)	5.9	4.5-5	4.5-5
	<b>FY 2021/22 (Actual)</b>	<b>FY 2022/23</b>	<b>FY 2023/24</b>
<b>Prices</b>			
Headline CPI inflation (Annual Average)	5.7	4.5	5.5
<b>Fiscal (% of GDP)</b>			
Total Revenue and Grants	27.6	25.0	22.1
o.w Tax revenue	10.6	13.0	12.4
Total Expenditure	32.9	28.4	27.7
o.w Capital	12.8	14.0	10.8
Fiscal Balance	-9.4	-4.6	-5.6
<b>External (% of GDP)</b>			
Current account balance	-27.9	-31.8	-24.9
Trade balance	-21.1	-24.3	-20.2
External Debt	106	94	90
<b>Monetary (% change)</b>			
Money Supply	9.4	9.8	12.8
Net Foreign Assets	-1	-18.2	-7.8
Net Domestic Assets	22	37.3	2.3
o.w Credit to private sector	10.8	19.3	21.2
Private Credit to GDP ratio	77.5	80.5	87.8
*Source: MFCTC, Ministry of Finance (Projections as of October 2023). Fiscal Indicators for FY 2023/24 onwards are provisional **For the computation of GDP ratio, revised 2017 base year (from 2012 base year) has been used to reflect the structural transformation of our economy over years.			

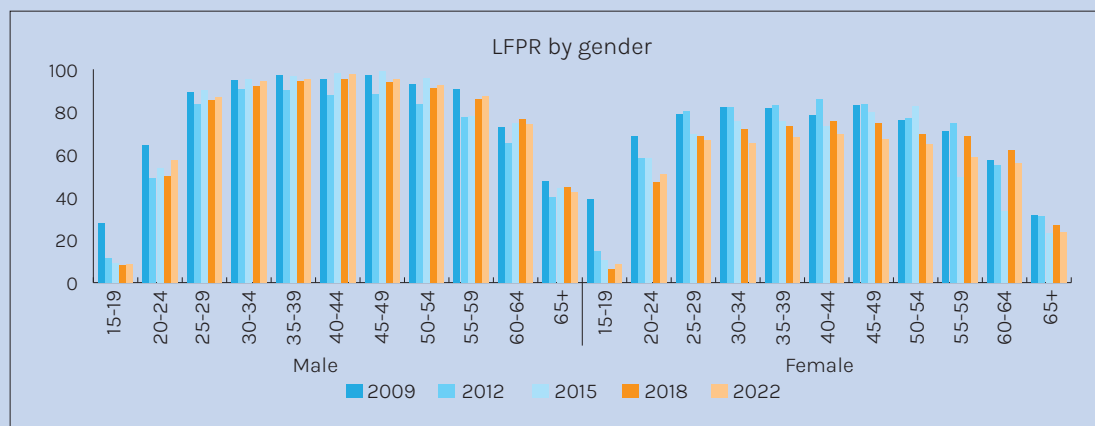
## BOX V

### Trends in Bhutan's Labour Force Participation Rate from 2009-2022

The labor force, or economically active population, serves as a fundamental metric for assessing the labor market, providing insights into a country's employment and unemployment dynamics. This measure not only evaluates the current employment characteristics of the population but also plays a crucial role in understanding the overall labor landscape in the economy. The Labor Force Participation Rate (LFPR), a key indicator, is defined as the proportion of the economically active population in relation to the working-age population. Therefore, this article provides an overview of the LFPR in the case of Bhutan. The data is compiled from the Labour Force Survey Reports published by the National Statistics Bureau and Ministry of Labour & Human Resources.



The total LFPR declined from 68.5% in 2009 to 63.1% in 2022 which were influenced by decline in female LFPR. The male LFPR remained equal or more than 70% across the years, with the exception of 2012 (65.7%). The decline in male LFPR was affected by the sharp drop in male employment in “technician and associate professionals” category of occupation in 2012.



The gender gap in labor force participation in last fourteen years (2009-2022) showed that the gender gap is widening. It widened from 8.2% in 2009 to 19.9% in 2022. Although the male LFPR in 2012 has fallen to 65.7%, the gender gap in labor force participation converged to 2.5%. Upon reviewing the trend, variations in the LFPR become apparent, particularly across age groups and genders, with distinct impact on females and the younger demographic. The

decline in labor force participation among young Bhutanese is notably evident in the age group 15-19, dropping from 33.4% in 2009 to 8.7% in 2022. This sharp decline can be attributed to the increased investment in years of schooling by young individuals over the years.

While this has contributed to a decline in the LFPR, it signifies a positive development as more university graduates enter the labor market. Additionally, the graph indicates a consistent decrease in the LFPR for individuals aged 65 years and above, irrespective of gender.

The graph also reveals that the female LFPR exhibited more frequent fluctuations compared to males. This suggests that female members often bear the responsibilities of caring for young children, older parents, and sick family members in the household. Consequently, females may exit the labor market to attend caregiving needs within their households.





## MONETARY POLICY OPERATION

## 5. Monetary Policy Operations and Liquidity Management

**With the recent increase in demand for banking credit for economic activities, liquidity in the banking sector remained at adequate level to support the growth while also ensuring to meet the prudential requirement. The RMA also initiated phase-wise interventions to manage and address liquidity requirements in the banking sector.**

As the central bank of Bhutan, the RMA's primary objective as per the Section 7 of the RMA Act 2010 is to achieve and maintain the price stability through formulating and implementing Monetary Policy. Given the pegged exchange rate with INR and being an import driven country the monetary policy operation in achieving price stability remains a challenge. However, there is a scope for the RMA to achieve certain level of objectives through an effective management of liquidity in the banking sector. To manage liquidity in the banking sector, the RMA relies primarily on CRR as a monetary policy tool to achieve its objective.

In the case of liquidity sources in the economy, inflow of foreign exchange in the form of grants & aid, exports of goods & services, and inward remittances are the main drivers. Currently, the RMA is in the process of developing the market based monetary policy and liquidity management framework which will also encompass standing window facility for the banks and Open Market Operations (OMO) enabling the trading of securities in secondary market.

### Banking Sector Liquidity

The central bank's balance sheet plays a key role in influencing the liquidity position in the banking sector. The overall liquidity condition in a banking sector were assessed using the autonomous factors in the central bank's balance sheet, which are not directly under the control of commercial banks.

As of June 2023, banking sector liquidity stood at Nu 13,832 million compared to Nu 24,482.4 million during the previous year. The decline in inflow of foreign exchange and increasing demand for meeting a short-term foreign exchange payment obligations, and rising financing needs for the government expenditure, the liquidity in banks has been decreasing steadily over the period.

The current account balances of the banks maintained with the RMA serve as an indicator whether the liquidity in the banks are adequate to meet the daily financial obligations in the economy. In recent times, some banks encountered liquidity stress due to higher demand for the payments, because of which the RMA has introduced short-term measures in different stages. In phase I, the RMA discontinued with the Sweeping<sup>31</sup> of project accounts for an interim period to free the liquidity stress in the banking sector. Additionally, the RMA also issued the Domestic Liquidity Management Framework (DLMF) to the banks to manage the short-term liquidity requirements and promote the money market in the economy. Under the DLMF there is a standing facility where the banks can access liquidity

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<sup>31</sup> Sweeping accounts are the accounts of the government and hydropower projects maintained with the commercial banks that are being swept by the RMA at the end of the day to reduce volatility in the banking sector liquidity.



by pledging eligible securities<sup>32</sup> and deposit their surplus fund to the RMA. Through such facilities, the banks can avail the liquidity on an overnight basis as well as weekly depending on the requirements at the interest rate prescribed by the RMA.

**Table 5.1** Banking sector liquidity and its drivers (Nu in million)

Liquidity Drivers	Jun-20	Jun-21	Jun-22	Jun-23
Net Foreign Assets	73,993.1	88,274.8	85,289.2	66,566.5
<i>Foreign assets</i>	102,023.1	112,445.3	112,125.6	94,827.1
<i>Foreign liabilities</i>	-28,030.0	-24,170.5	-26,836.3	-28,260.6
<b>Net Domestic Assets</b>	-23,495.2	-18,116.5	-21,729.3	-26,175.8
<i>Domestic financial assets</i>	787.5	2,195.4	1,291.9	1,220.2
<i>Non-financial assets</i>	853.4	916.6	933.0	1,055.3
<i>Capital and reserves</i>	-24,700.9	-20,573.0	-23,269.5	-27,716.0
<i>Other domestic liabilities</i>	-435.2	-655.4	-684.7	-735.4
Currency in Circulation	-14,635.8	-15,323.3	-13,520.0	-12,577.9
Net Government A/c	-1,294.5	-2,195.1	-2,927.7	3,327.0
Sweeping Fund	-4,153.6	-5,685.1	-4,482.9	-
<b>Total net autonomous factors</b>	<b>30,414.0</b>	<b>46,954.7</b>	<b>42,629.4</b>	<b>31,139.8</b>
<i>Cash Reserve</i>	10,223.78	11,728.97	13,135.1	17,307.5
<i>Excess Reserves</i>	20,190.19	35,225.75	29,494.3	13,832.3

During the review period, the liquidity in the banking sector was mainly driven by the foreign exchange reserve positions. The NFA, which primarily injects liquidity in the banking sector, stood at Nu 66,566.5 million largely on account of the short-term deposit and investment to the COTI, accounting 66.5 percent of the total foreign assets. The NFA however declined by 22 percent as of June 2023 as compared to FY 2021/22. A higher external payment obligations in the form of import bills and debt servicing resulted in a fall of foreign assets from Nu 108,665.5 million in June 2022 to Nu 94,827.1 million as of June 2023.

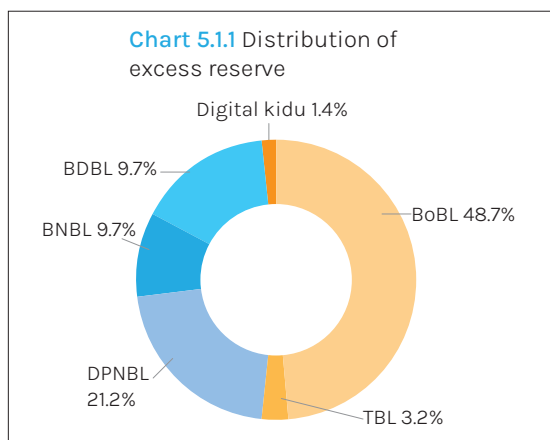
The CiC, which absorbs liquidity from the banking sector, has been on declining trend, reaching at Nu 12,577.9 million as of June 2023 compared to Nu 13,520 million in June 2022. An increasing popularity of mobile banking applications and other digital payment usage has contributed to a negative 7 percent growth in CiC. Further, advancement in digitalization in the banking sector and significant improvement in financial services, have provided seamless transaction of fund transfer ensuring that the money remain within the banking system.

The NDA increased to Nu 26,175.8 million, largely driven by higher capital and general reserves of the RMA. Additionally, the RMA has temporarily discontinued the sweeping of the project accounts<sup>33</sup>, with effect from 22<sup>nd</sup> June 2023 to address the liquidity shortage in the banking sector.

<sup>32</sup> A list of eligible collateral assets includes (i) Government Securities, (ii) Corporate and private bonds, (iii) Commercial paper and (iv) Certificate of deposits and (iv) any other eligible collateral approved by the RMA, with application of appropriate risk control measures.

<sup>33</sup> Project Accounts are those Hydro projects and projects related accounts managed by their respective authority, not the Ministry of Finance.

As a result, the total liquidity surplus in the banking sector amounted to Nu 31,139.8 million as of June 2023, of which CRR absorbed Nu 17,307.5 million. The excess liquidity of Nu 13,832.3 million after maintaining a precautionary liquidity buffer<sup>34</sup> of Nu 3,000 million, the pure excess liquidity stood at Nu 10,832.3 million, which represents the idle liquidity after fulfilling all the mandated obligation.



In terms of distribution of liquidity amongst the bank, the BoBL holds 48.7 percent of the total liquidity. The higher share of BoBL was mainly on account of government deposits maintained with the BoBL. This was followed by DPNBL with 21.2 percent, DBDL with 15.8 percent and then BNBL with 9.7 percent. Other subsidiary government accounts (Revenue, Budget Fund, Non-Revenue/Deposit) and Embassy accounts are maintained with the commercial banks, mainly with BoBL and DPNBL, which influences its stand in liquidity market.

To address the short-term liquidity issues encountered by the banking sector, the RMA initiated short-term possible measures in Phase-wise as follows:

### **i. Discontinuing of the sweeping account**

The RMA has been sweeping accounts of government and government related project accounts at the end of the working day to reduce the volatility and increase the predictability of liquidity position in the banks. Given the minimal impact that a sweeping account will have on macroeconomic stability, the RMA decided to temporarily discontinue the sweeping account of the banks until the liquidity situation in the banking sector is improved. The discontinuing of the sweeping account is expected to address an immediate liquidity shortage that the banks are currently facing.

### **ii. Use of Interbank borrowing and lending**

Simultaneously, the banks can exercise interbank borrowing and lending enabling the banks to manage and redistribute the liquidity more efficiently, timely and prudently.

### **iii. Liquidity management operation (Overnight and Weekly Domestic Liquidity Facility).**

In order to promote easy access to liquidity in the banking sector, the RMA formulated a Forward-Looking DLMF. The banks using this liquidity window can avail short term liquidity in case they face short term liquidity crunch by pledging eligible securities/collateral.

<sup>34</sup> Precautionary Liquidity Buffer are buffer/reserve set aside from excess reserves by the commercial banks to ensure they meet short-term payment and settlement and other financial obligations to maintain stability.

#### **iv. Revision of CRR**

Another possible measure that the RMA undertake is the revision of the CRR. In the event of the liquidity situation in the banking sector getting worse, the RMA reviews and accordingly revise the CRR on a staggering basis. However, both RMA as well as the banks closely monitor the need for the revision in the CRR depending on the status of the foreign exchange inflows and impact on the external reserves' holdings. The major risk associated with the reduction in the CRR is that it may directly translate into imports, further putting pressure on the already challenging foreign currency reserves.

These measures collectively aim to alleviate the liquidity stress in the banking sector, maintain stability, and ensure the sound functioning of the financial system while addressing the potential risks associated with liquidity shortages. The RMA will closely monitor the situation to make informed decisions as needed to support the banking sector and the broader economy.

## BOX VI

### Decoding the functions of the Domestic Liquidity Management Committee at the RMA

As the central bank of Bhutan, the RMA employs conventional policy tools such as the CRR and regulatory interventions to ensure an adequate and uninterrupted flow of credit in the economy. These policy interventions are geared towards promoting economic growth and maintaining stability in the financial sector. To ensure the realization of its objectives, the RMA has its own internal liquidity management committee tasked with overseeing and managing liquidity in the financial system.

The committee is chaired by the Deputy Governor, and its members include Directors from the Department of Foreign Exchange & Reserve Management, the Department of Banking, and the Department of Macroeconomic Research & Statistics. In the last fiscal year, the committee convened on seven different occasions on the following dates:

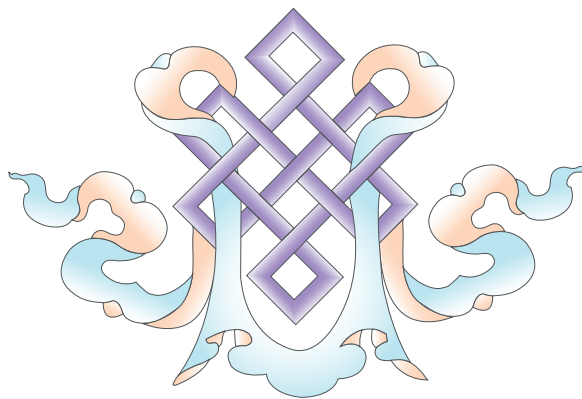


In June 2023, three separate meetings were convened as the banking sector showed signs of developing a liquidity crunch. The timely meetings and deliberations played a crucial role in ensuring adequate liquidity in the banking sector, thereby averting any potential abrupt liquidity shocks.

The committee engages in various key deliberations, including the preparation of liquidity reports, discussions on CRR revisions, review the DLMF and OLMO. Noteworthy topics in these meetings also involve the consideration of commercial banks' proposals on the issuance of bonds, release of unutilized mopped CRR balances, and discontinuation of sweeping accounts.

Beyond the committee's mandate, it also initiates dialogues with FIs and other key domestic institutions to discuss the liquidity matters, such as the Ministry of Finance, whenever necessary.





FINANCIAL SECTOR  
DEVELOPMENT

## 6. Financial Sector Performance Review

**Numerous prudential interventions during the year were undertaken to ensure financial stability and provide uninterrupted flow of credit to the economy. A notable achievement was witnessed in the asset quality, as the GNPL during the review period dipped to a low of 3.7% against a credit growth of 12.8% in FY 2022/23. On the other, stern loan provisioning requirement and loan deferment facility has brought down the overall profit of the financial sector.**

Amidst the growing geopolitical tensions and global economic imbalances, the banking system in Bhutan continued to demonstrate a strong resilience. This situation also arises amid growing concerns about the potential risks for a new widespread banking crisis and spillover effects on the other economic sectors, following the collapse of banks like Silicon Valley Bank (SVB) and Signature Bank in the United States in the first quarter of 2023. The resilience in the banking system was evident through improved quality of balance sheet and sound asset quality.

Financial stability was ensured through numerous prudential intervention and supervisory procedures of the RMA, which were in accordance with the international best practices. In particular, greater focus was emphasized in managing the NPLs with the scope to improve the asset quality in the financial sector. Additionally, the RMA also imposed a temporary moratorium on new housing and hotel construction loans in view of the concerns associated to building a pressure on the foreign exchange reserves and growing credit concentration in these sectors which will adversely impact financial stability.

Through these supervisory interventions and diligent compliance monitoring, the financial sector exhibited a strong capital level, sufficient liquidity buffers, and improved asset quality. The objective of these interventions and monitoring efforts is to safeguard the stability and efficiency of the financial system, in accordance with the Financial Services Act of Bhutan (FSAB 2011). As empowered by the FSAB, diligent supervision of compliance and risk assessments was also carried out during the review period.

As a result of prudent regulation, it has ensured strong capital and liquidity in the financial sector, providing adequate resources for lending to the domestic economy. The core capital and CAR for the commercial banks remained at 10.9 percent and 15.1 percent, well above the minimum regulatory requirement of 7.5 and 12.5 percent respectively. Driven by the increase in cash balances and marketable securities, the quick assets during the review period stood at Nu 63,810.7 million, enabling the Statutory Liquidity Ratio (SLR) of the bank and non-banks stand comfortably above the minimum prudential requirements of 20 percent for banks and 10 percent for the non-banks. Further, a parallel growth in credit and deposits during the FY 2022/23 resulted in increased CD ratio with the ratio reported at 79.2 percent from 74.3 percent in FY 2021/22.

One of the milestone achievement during the year has been the ability to manage the NPLs. Compared to the FY 2021/22, there has been a monumental decrease in the NPL ratio from 8.6 percent to 3.7 percent as of FY 2022/23, reduction by Nu 8,299.8 million. The decrease in the NPLs was largely due to effective prudent NPLs management and accounting treatment

of NPLs in off-balance sheet items. In spite of a decreased NPLs, the profitability of the financial sector decreased by Nu 1,761.3 million, as a result of stern loan provisioning by the RMA, and loan deferment facility provided during the COVID-19 pandemic. In light of this background, this section provides a comprehensive overview of the financial sector in the economy.

### Review of Financial Institutions Balance Sheet

The financial sector demonstrated an increase in the business size during the FY 2022/23, as it grew by 11.6 percent, to the tune of Nu 35,547.2 million. The assets growth was propelled by an increase in loans and advances amounting to Nu 31,493.7 million and balances with bank amounting to Nu 18,353.3 million. Unlike in the past, financial sector also demonstrated a build-up of fixed assets amounting to Nu 18,993.1 million during the review period. Of the total assets, loans and advances alone accounted for 59.6 percent. On the liabilities front, the growth in total liabilities in FY 2022/23 was fueled by deposits and paid-up capital of Nu 44,612.7 million and Nu 1,492 million, respectively.

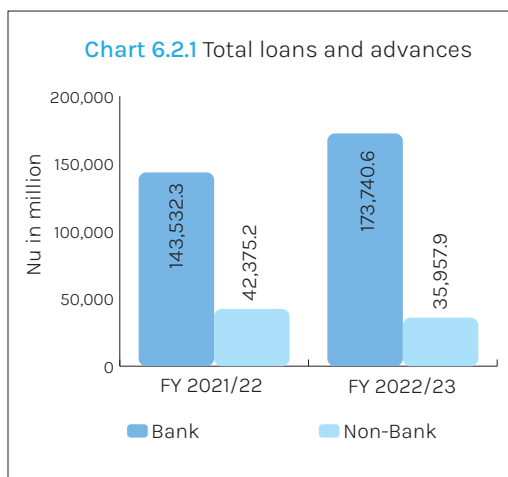
**Table 6.1 FIs Balance Sheet (Nu in million)**

Assets			Liabilities		
Particulars	Jun-22	Jun-23	Particulars	Jun-22	Jun-23
Cash & Bank Balances	37,598.1	3,317.7	Paid-up Capital	10,690.9	12,182.9
Balances with Banks (India & Abroad)	4,272.4	22,625.7	Reserve	22,192.5	22,554.9
Balances with RMA	41,187.3	30,447.1	Deposit Liabilities	193,198.9	237,811.7
Marketable Securities	29,165.4	29,191.8	Borrowings	767.9	1,229.7
Loans & Advances (Net of Provision)	171,953.1	203,446.8	Bonds/Debentures		742.1
Equity Investments	6,764.3	25,757.4	Provision	5,974.5	6,385.3
Fixed Assets	5,973.4	17,513.7	Insurance Fund	62,917.0	49,105.6
Other Assets	8,763.1	8,924.1	Current & Other Liabilities	9,935.5	11,212.2
<b>Total</b>	<b>305,677.2</b>	<b>341,224.3</b>	<b>Total</b>	<b>305,677.2</b>	<b>341,224.3</b>

Although the size of balance sheet of the FIs increased by 11.6 percent during FY 2022/23, the cash & bank balances (asset) and insurance fund (liabilities) declined significantly by 91.2 percent and 21.9 percent respectively. A significant decline in cash & bank balances was a result of rising loans and advances as well as accelerating increase in investments opportunities in fixed assets and equity post pandemic.

### Total Loans & Advances and Sectoral Exposures.

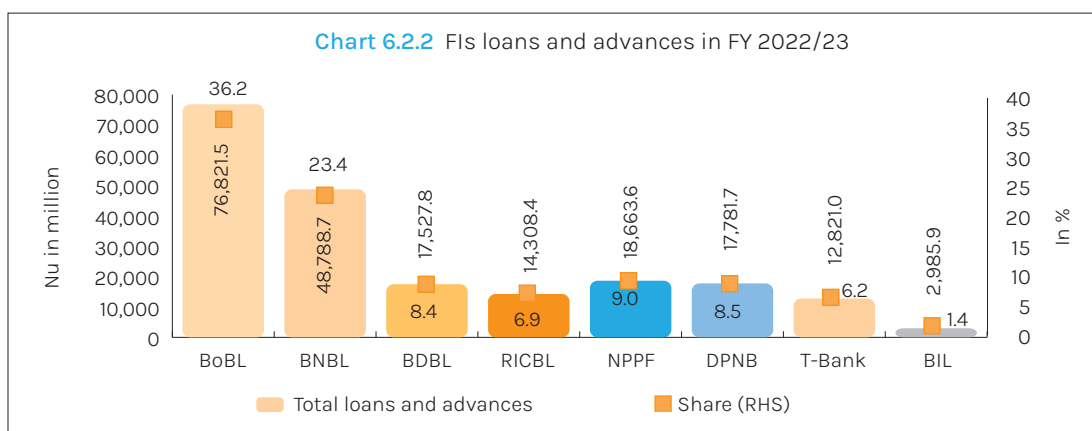
The domestic credit maintained an upward trajectory despite the challenging economic environment. During the FY 2022/23, the total loans and advances of the FIs stood at Nu 209,698.5 million, recording a growth of 12.8 percent. Of the total loan exposure, the banking sector accounted for 82.9 percent (Nu 172,403.6 million) and the non-banks with 17.1 percent (Nu 35,957.9 million).



In May 2022, as part of the Prompt Corrective Action framework (PCA), the RMA imposed a credit moratorium to BDBL, National Cottage & Small Industries Development Banks Ltd (NCSIDB)<sup>35</sup>, and RICBL. This initiative was directed in response to a significant increase in NPLs and to control excessive growth of NPLs. Consequently, this led to a major drop in outstanding loans and advances for the non-banks.

The growth in the loans and advances was mainly driven by increase in loans to housing and transport sectors amounting to Nu 58,451.5 million and Nu 8,942.2 million respectively. These sectors saw a growth of 20.1 percent and 19.6 percent respectively. Likewise, the loans to FIs also increased its exposure by Nu 383.3 million during the review period.

Given the lingering impact of the COVID-19 pandemic and ongoing geopolitical conflicts on economic recovery, loans were prioritized for sectors such as education, contractors, forestry and logging, and mining and quarrying in FY 2022/23.

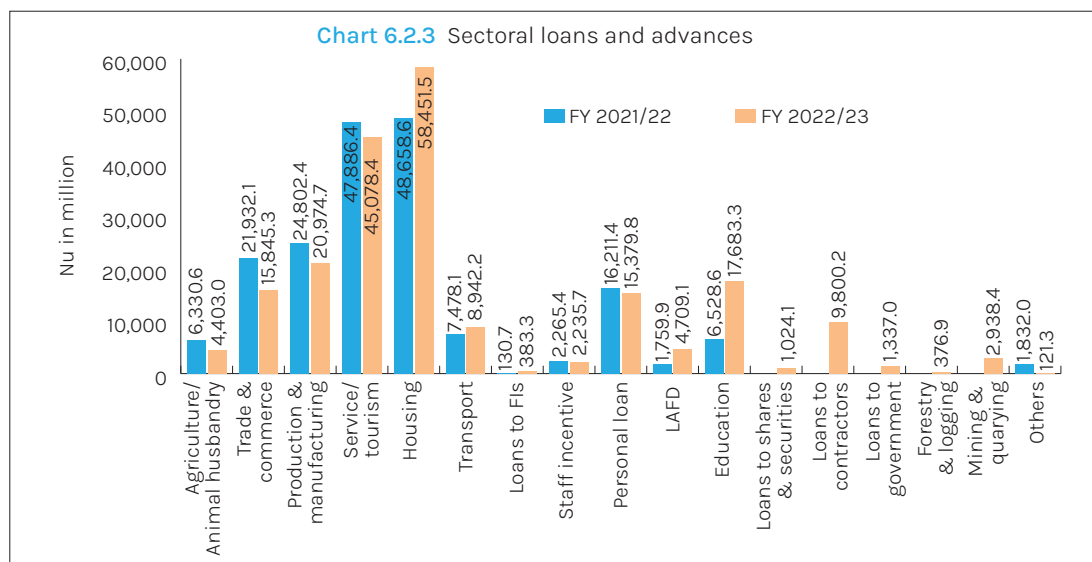


Certainly, the banking sector maintains a predominant share in the loans and advances compared to the non-banks. Specifically, the two largest banks, BoBL & BNBL hold substantial loan shares amounting to 36.2 percent and 23.4 percent respectively. The higher

<sup>35</sup> As of writing this report, the National CSI Development Bank Limited was merged with the Bhutan Development Bank Limited on October 26, 2023.



share in these two banks is largely on account of the higher deposit which enables them to provide credit advances and also due to higher operational branch outreach. Although BDBL outnumbers other FSPs in terms of branch offices, its business is predominantly small borrowers and agriculture based. While other FSPs maintains loans and advances shares ranging from 6 to 12 percent, BIL holds the smallest share at 1.4 percent. This can be attributed to its limited branch network, constrained business operations and relative novelty in the market.



During the review period, the sectoral loan exposures exhibited a varied growth pattern. While the housing and service & tourism sectors retained the highest shares, the service/tourism sector depicted a declining trend, unlike the previous periods. Sectors such as agriculture, trade, production & manufacturing witnessed a decrease in outstanding loans due to a downturn in business and economic activities.

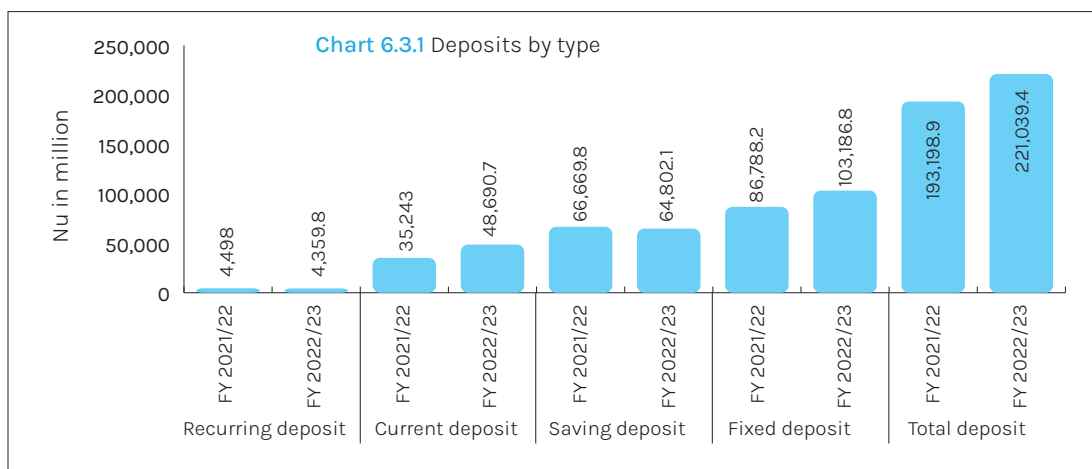
A notable decline in personal loans was offset by an increase in education loans, presenting a contrasting scenario. Personal loans, primarily disbursed to civil servants based on their salaries, saw a significant reduction due to substantial attrition<sup>36</sup>. Simultaneously, the past two years have witnessed a notable emigration of Bhutanese citizens seeking higher education abroad, particularly Australia and Canada. This has significantly driven the education loan portfolio, with many individuals seeking financial support from financial institutions to meet their educational financing needs<sup>37</sup>. As a result, the education loan in one fiscal year surged by 170 percent, amounting to Nu 11,154.7 million.

### Deposit Portfolio of the Commercial Banks

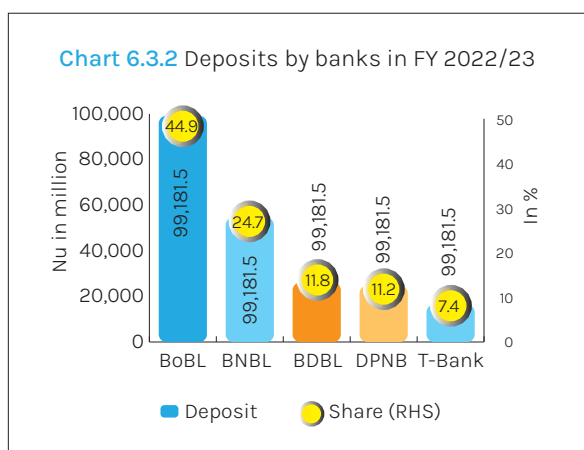
During the review period the deposits held with the commercial banks rose by 14.4 percent. The total bank deposits in FY 2022/23 stood at Nu 221,039.4 million, with term deposits and

<sup>36</sup> More than 3,413 civil servants voluntary resigned in the FY 2022 - 23 as per the reports published by the Kuensel dated 12<sup>th</sup> August 2023.

<sup>37</sup> Beginning 1<sup>st</sup> July 2022 to 31<sup>st</sup> March 2023, more than 13,683 individuals were granted visas to Australia including students and dependents as per local newspaper The Bhutanese dated 15<sup>th</sup> July 2023.



demand deposits accounting to 48.7 percent (Nu 107,546.62 million) and 51.3 percent (Nu 113,492.8 million) respectively. The Fixed Deposits (FD) constituted 46.7 percent of the total deposits, with Savings Deposits (SB) following at 29.3 percent and Current Deposits (CD) at 22 percent. Not only did the Recurring Deposits (RD) held the smallest share at 2 percent, but there was also a decline of Nu 138.2 million in FY 2022/23. Additionally, Savings (SB) witnessed a decrease of 2.8 percent, amounting to Nu 1,867.7 million in the same period. The



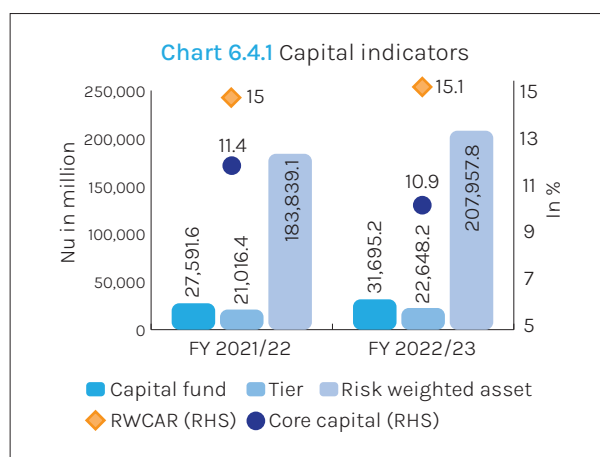
gradual recovery of economic activities led to increased individual spendings. The nature of these individual deposits, coupled with higher attrition in both the civil and corporate sectors and the emigration to other countries, had a negative impact on these deposits as well. A consistent extension of credit to corporate borrowings indirectly led to the surge in CD, while the attraction of a better rate of return on term deposits facilitated the growth of FD in FY 2022/23.

Among the commercial banks, the oldest and largest bank, BoBL, retains the largest share of deposits. BoBL commands 44.9 percent, totaling Nu 99,181.5 million, followed by BNBL at 24.7 percent. As a state-owned enterprise, BoBL serves as the custodian of government and corporate accounts, boasting a substantial customer base.

### Financial Soundness Indicators

Assessing the capital, assets, earning and liquidity of the financial institutions is essential given its ability to evaluate the financial soundness and the risks they may pose to the broader financial system. By monitoring and using these parameters as a tool, both regulators and market participants can make more informed decisions about the stability and resilience of financial institutions.

## Capital Position of the Financial Sector



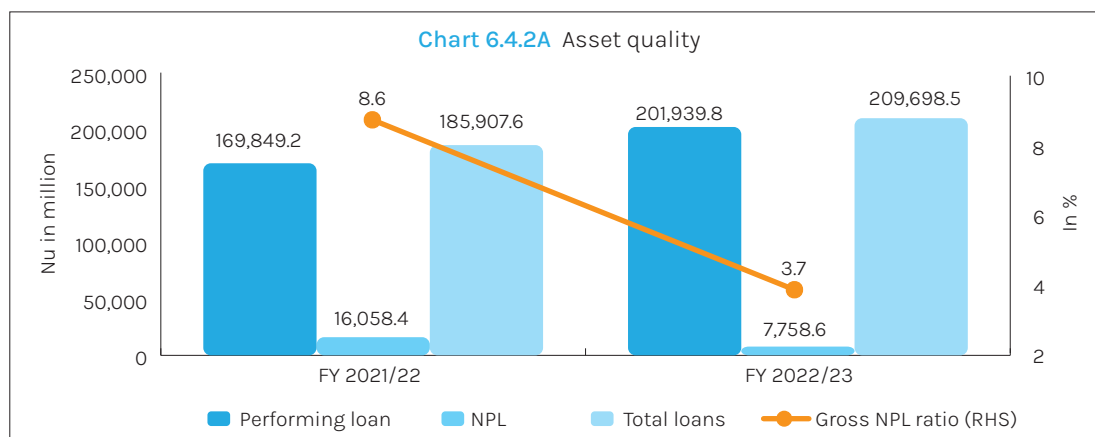
The strong capital ensures the financial sector stability and resilience. The domestic financial institutions remained well positioned to withstand unexpected losses in times of shocks. During the review period, the Tier 1 capital<sup>38</sup> increased by 7.8 percent, which has offset the increase in total Risk Weighted Assets (RWA) by 13.1 percent. Therefore, an increase in Tier 1 capital alongside an increase in RWA signifies that the bank is aligning its capital resources with its risk exposure,

signaling a prudent risk management practice in the financial sector.

The core capital ratio slightly decreased by 0.5 percent, marking at 10.9 percent, which is above the minimum regulatory requirement of 7.5 percent. All financial institutions witnessed a marginal decrease in the core capital compared to the previous year, with the exception of BDBL, which has seen a 1.2 percent increase. The increase in Tier-1 capital was driven by the increase in Tier-1 capital of BNB, DPNBL, and BDBL. Similarly, the financial institutions' Risk Weighted Capital Adequacy Ratio (RWCAR) rose from 15 percent to 15.1 percent.

## Asset Quality of the Financial Sector

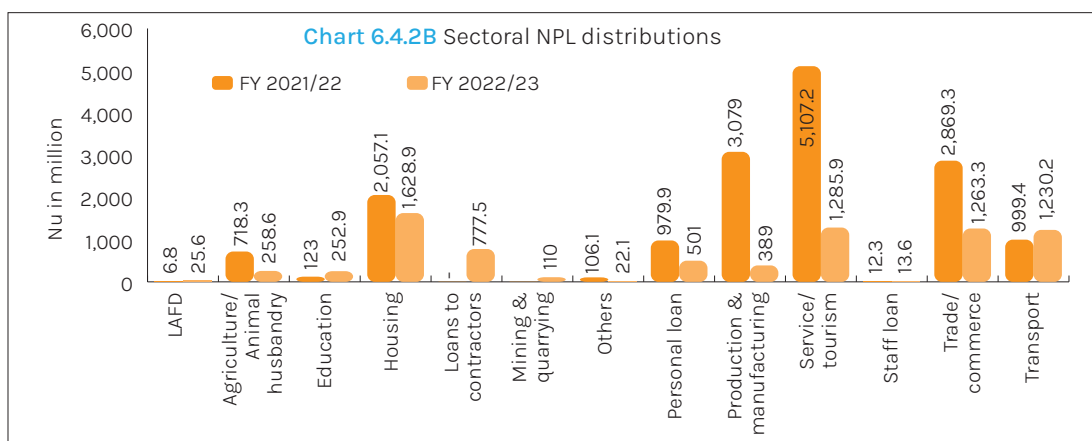
In a continued effort to revive the adversely affected economic sectors, the RMA issued and implemented several measures to address the NPL issues in the financial sector. A large stock of unresolved NPLs in the financial sector compromises the lending and earning capacity and threatens the solvency and profitability of FSPs. As a matter of comfort, the NPL in the Bhutanese financial sector has been comparatively low during the review period. Low levels of NPLs were managed through measures extended to the borrowers,



<sup>38</sup> Tier 1 capital constitutes Paid-up Capital, General (statutory) Reserves, Share Premium and Retained Earnings (Free Reserve).

including loan deferment facilities, and assiduous recovery efforts from both the RMA and FSPs. Moreover, with the implementation of the charged-off framework, FIs have also been writing off the bad debts that they have been unable to recover over the years. Furthermore, to ensure NPLs are managed prudently, the PCA framework mandates FIs to maintain NPL below 7.5 percent of their total loan portfolio.

The overall NPLs in the financial sector decreased to Nu 7,758.6 million (at GNPL of 3.7 percent) during the review period as compared to Nu 16,058.4 million in the previous period. The NPL ratio is expected to improve further as FIs usually carry out rigorous follow-up and loan recovery towards the end of calendar year.

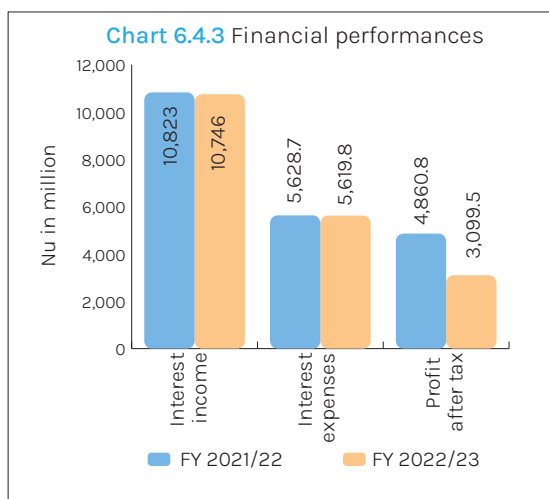


All the sectoral classification of the loans recorded a decline in the NPLs during the review period. A notable improvement in the quality of loans were observed in the sectors that was severely impacted by the COVID-19 pandemic. These sector comprises of service and tourism, housing, trade & commerce and production & manufacturing. In FY 2022/23, despite being able to curb the NPLs in housing sector it was the sector with highest exposure to NPLs with 21 percent of the total NPLs. Notwithstanding a higher credit growth in trade & commerce, service & tourism, transport and housing sectors, these four sectors combined have accounted for almost 69.7 percent of the total NPL during the FY 2022/23.

Moving forward, the financial sector’s exposures to credit risk is likely to remain elevated due to escalating global uncertainties emerging from geopolitical issues, residual effects resulting from COVID-19, rising inflation and rapid depreciation of the Nu against the USD.

### Earnings and Financial Performances

In the FY 2022/23, the Bhutanese FIs experienced a declining profitability, marking a stressful situation. Although the Profit-After-Tax (PAT) declined by 36.2 percent as a result of fall in interest income in FY 2022/23, other soundness indicators exhibited sound stability. The decline in the PAT can be associated to government’s suspension of the

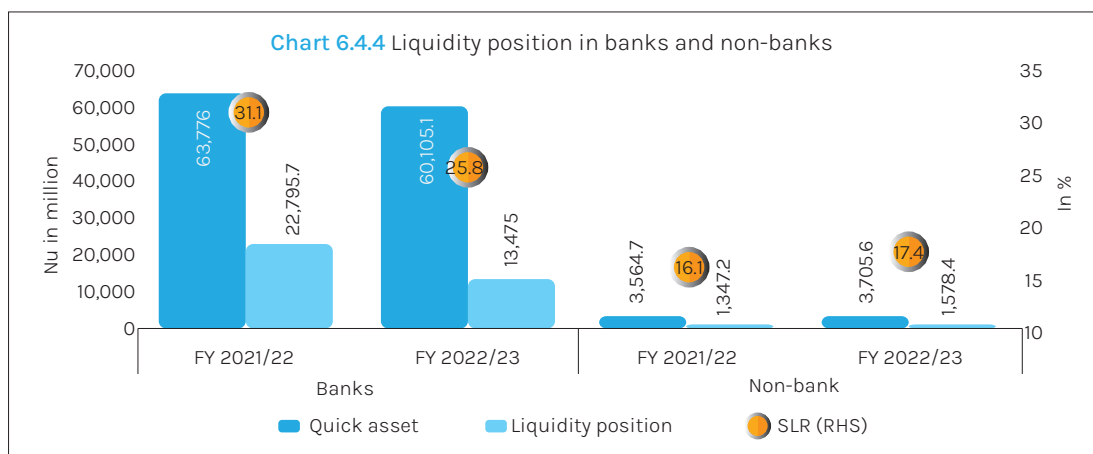


Interest Payment Support (IPS) program. Additionally, the loan deferment facility had a significant negative effect on their cash flow.

The FIs recorded an interest income of Nu 10,746 million as of June 2023. On the other, interest expenses on deposit liabilities have also decreased slightly by Nu 8.9 million. The decrease in the NPLs during the period also resulted in the write-back of loan provisions, helping the FIs to plough back the provisions to Profit and Loss account.

### Liquidity Positions in the Financial Sector

The liquidity positions of the FIs remained comfortable during FY 2022/23, despite the quick assets<sup>39</sup> of the commercial banks during the review period decreasing by Nu 3,670.9 million. The decline in quick assets is a result of rising loan and advance as well as accelerating increases in investments opportunities in fixed assets and equity post pandemic.



The Statutory Liquidity Ratio (SLR) position of the banks and non-banks were in comfortable position, much higher than the prudential requirement of 20 and 10 percent respectively. As of June 2023, the banking sectors' SLR stood at 25.8 percent.

For the non-banks, the total quick assets declined by Nu 140.9 million on account of decrease in demand and time deposits maintained with the commercial banks. However, the SLR of non-banks was reported at 17.4 percent which is comfortably above the minimum prudential requirement. On the whole, the SLR of the FIs stood at 25.6 percent reflecting a strong liquidity position as of FY 2022/23.

<sup>39</sup> Quick Assets are composed of cash, gold & precious metals, balances with RMA, RMA securities, government & government-guaranteed securities, demand deposits with banks in Bhutan and international banks, and money market instrument with remaining maturity of 90 days.

### The Microfinance Institutions and National CSI Bank

In an undeterred effort to enhance financial inclusion, Micro Finance Institutions (MFIs) and NCSIDB continues to play a progressive role by mobilizing savings and deposits in the rural Bhutan. As of FY 2022/23, the total loan accounts increased by 139 contributing a total loan sanction of Nu 3,261.4 million as compared to the preceding year of Nu 3,360.8 million. Of their total portfolio, the NCSIDB held 81.2 percent with total loan of Nu 2,649.3 million.

**Table 6.5** Loan and NPL of MFIs and CSI bank (Nu in million)

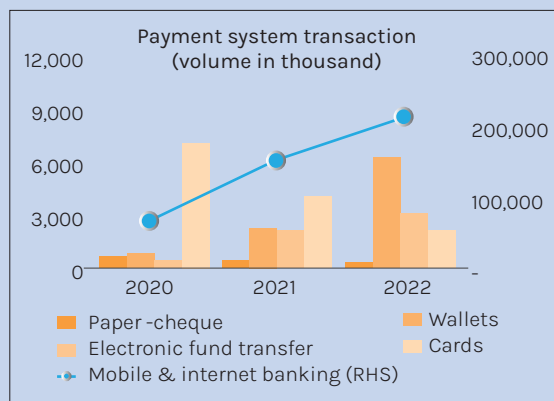
SI no	Particulars	Jun-22	Jun-23
1	Total Loan Sanctioned	3,360.8	3,261.4
2	Total Loan Outstanding	2,666	2,227.8
3	Total NPL	254.7	507.7
4	Total no. of loan a/cs	12,857	12,996
5	NPL to loan ratio	9.6%	22.8%

The NCSIDB and MFIs reported a substantial decrease in asset quality, with a total NPLs of Nu 507.7 million (NPL ratio of 22.3%) as compared to Nu 254.7 million (NPL ratio of 9.6%) in FY 2022/23. The CSI bank's NPLs, which totaled to Nu 473.3 million, was a major contributor in the NPL's significant increase. Nevertheless, the NCSIDB and MFIs thrive on making prudential measures to resolve NPL given the growing period of probable economic uncertainties and the disproportionate vulnerability of micro borrowers.

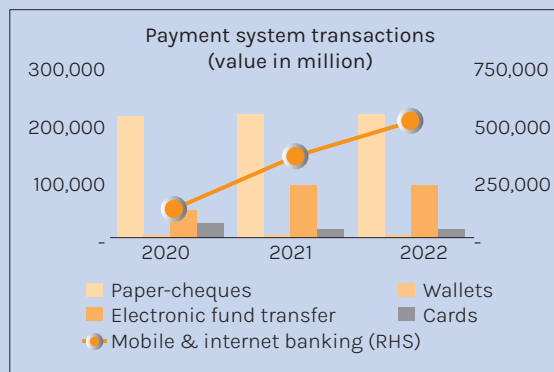
## BOX VII

### The pulse of Bhutan's domestic payment channels & evolution

Guided by its vision and long-term strategic plan (Druk Nguldrel Lamtoen - 2030), the RMA strives to advance innovation and technology to enhance safe, secure and efficient payment system in the country. In pursuant to this strategic vision in transformation of the payment landscape to meet the demands of the digital age, the RMA has undertaken various initiatives in supplement of the past developments. The recent opening of payment and settlement accounts of the respective banks w.e.f 1<sup>st</sup> July 2023 for easier and timely reconciliation, reflect its effort to improve payment infrastructure. Rigorous supervision and monitoring of the payment systems, amendment of the rules and regulations has enabled a resilient performance of the payment system in the country.



Bhutan's payment ecosystem remains robust with timely introduction of three payment systems (CTS, BFS, BIRT) and eleven payment channels\* - cheque, mobile banking, Bhutan QR code, Payment gateway, internet banking, e-wallets, electronic fund transfer, ATM and PoS. These channels are provided by six Banks and two telecommunication companies, catering ample payment solutions to the population of 700 thousand. In recent years, there has been a noticeable upward trend in the adoption of domestic digital payments, surpassing the use of paper-based transactions, reflecting a broader move towards digitalized payment landscape.



Mobile and internet banking, in particular, stands out as highest preferred payment channel among retail and merchants. Amid the COVID-19 pandemic, these channels demonstrated their indispensability, and

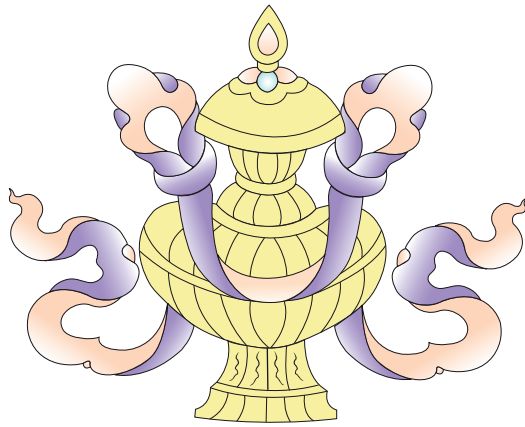
its adoption continued to grow significantly thereafter. To encourage this usage, efforts has been made by all the banks under RMA's supervision to further enhance the infrastructure, especially focusing on enhancing the functionality of the widely used banking apps and QR codes. Popular in government and corporation for bulk payments and transfer, the electronic fund transfer stands second in the payment channel portfolio followed by the wallets. The growth in performance in these three channels signifies the users' preference towards high-end digital payment, in context of an emerging and the increasing use of new technologies. For more details on payment & systems report, please follow <https://www.rma.org.bt/paymentsystemreport.jsp>

\*Mobile and internet banking data in the chart includes mobile banking, internet banking, Bhutan QR Code and Payment Gateway. For the cards, it is inclusive of ATMs & PoS









ANNUAL FINANCIAL  
STATEMENT

## RMA's Accounts for Financial Year 2022-2023

As required by Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the Statutory Audit of the Authority's accounts for the financial year (FY) 2022-2023 was successfully carried out by Dechok & Associates Private Limited. The Authority adopted the new version of Bhutanese Accounting Standards (BAS 2020), which was issued by AASBB in January 2022, wherein the major standards adopted by the Authority are BFRS 9 (Financial instruments with Expected Credit Loss Model) and BFRS 16 (Lease) and accordingly the accounts for the FY 2022-23 were prepared in compliance to the above standards.

### Statement of Financial Position

The overall Financial Position decreased by Nu 12.53 billion from Nu 117.72 billion on June 30, 2022, to Nu 105.19 billion on June 30, 2023 as detail below:

#### Assets

##### a. Foreign currency financial assets

The decrease in the total foreign currency financial assets by Nu 15.87 billion during the FY 2022-2023 was mainly due to sale of USD for INR to meet the import payment. The decrease is mainly seen in the balances under deposits up to 3 months by Nu 9.49 billion followed by balances with other foreign banks by Nu 8.57 billion.

##### b. Foreign currency non-financial assets

The foreign currency non-financial assets decreased mainly due to sale of monetary gold and digital assets during the period. On the other hand, the following other asset classes have seen a growth.

##### c. Local currency financial assets

There has been a growth in the local currency financial assets by Nu 4.55 billion mainly attributed to an increase in Ways and Means advances to RGoB by Nu 3.6 billion followed by an increase of Nu 965.17 million in the Authority's deposits maintained with the commercial banks.

##### d. Local currency non-financial assets

Local currency non-financial assets have seen a growth by Nu 252.86 million mainly due to increase in balances under other assets by Nu 219 million.

#### Liabilities

##### e. Local Currency financial liabilities

The local currency financial liabilities decreased by Nu 18.50 billion from Nu 62.53 billion on June 30, 2022, to Nu 44.03 billion in June 30, 2023 mainly due to decrease in balances of commercial banks maintained with RMA by Nu 14.94 billion and decrease in balance of RGoB maintained with RMA by Nu 2.62 billion on account of GCA and NRF fund balance. On

the contrary, the following classes of liabilities & equity have seen a growth:

#### **f. Foreign Currency Financial liabilities**

The Foreign currency financial liabilities increased by Nu 1.61 billion from Nu 31.57 billion on June 30, 2022 to Nu 33.18 billion in June 30, 2023 mainly due to the increase of Nu 1.08 billion in RBI Swap facility availed by RMA coupled with increase in the exchange rate (USD to INR).

#### **g. Equity**

The Equity has increased by Nu 4.34 billion on account of increase in the retained earnings (Profit) by Nu 3.65 billion followed by plough back of General reserve from the profit.

### **Statement of Comprehensive Income**


During the FY 2022-2023, the net profit of the year grew by Nu 763.49 million from Nu 4.43 billion on June 30, 2022 to Nu 5.19 billion on June 30, 2023 mainly contributed by an increase in realized gain on sale of foreign currency assets by Nu 2.92 billion and an increase in the interest income earned from foreign currency investment attributed by increase in the interest rate (INR- from 4.38% to 6.40% & CC- from 0.62% to 3.17%) on deposits and an increase in the USD-Nu exchange rate (from Nu 78.96 to Nu 82.02) during the period. Further, decrease in the overall operating expenses by Nu 27.13 million mainly due to decrease in the employee cost by Nu 19.52 million attributed by high attrition rate contributed to the increase in the overall net profit.

**Royal Monetary Authority of Bhutan**  
**Statement of Financial Position**

Assets	(Amount in Nu. '000)		
	Note	June 30, 2023	June 30, 2022
<b>Foreign currency financial assets</b>			
Cash and cash equivalents	8	28,719,135	47,973,007
Deposits with banks	9	-	-
Trading assets	10	17,048	969
Securities	11	59,617,814	57,388,135
IMF related assets	12	5,089,512	4,738,350
Interest and other receivables		1,347,159	555,456
<b>Total foreign currency financial assets</b>		<b>94,790,667</b>	<b>110,655,917</b>
<b>Local currency financial assets</b>			
Cash and cash equivalents	9	1,138,858	173,693
Gratuity fund	9	60,297	71,183
Loans to staff	13	8,718	14,395
Ways and means advance to Royal Government	14	3,600,000	-
<b>Total local currency financial assets</b>		<b>4,807,873</b>	<b>259,271</b>
<b>Foreign currency non- financial assets</b>			
Monetary gold	15	-	688,898
Other foreign currency non-financial asset	16	-	780,745
<b>Total foreign currency non-financial assets</b>		<b>-</b>	<b>1,469,644</b>
<b>Local currency non-financial assets</b>			
Non-monetary gold	17	70,181	55,566
Inventory for banknotes	18	238,823	213,524
Property, Plant and Equipment	19	134,584	139,988
Intangible assets	19	2,019	2,511
Other assets	20	5,142,312	4,923,467
<b>Total non-financial assets</b>		<b>5,587,920</b>	<b>5,335,055</b>
<b>Total Assets</b>		<b>105,186,460</b>	<b>117,719,888</b>

The financial statements were authorised for issuance by the Board of Directors of the Royal Monetary Authority of Bhutan and signed on September 22, 2023 on its behalf by:

  
 Yeshi Jamtsho, FCCA - Managing Partner  
 Dechok & Associates Pvt. Ltd.

  
 Dasho Penjore - Governor  
 Royal Monetary Authority of Bhutan

The notes on page 14 to 65 are an integral part of these financial statements.

**Royal Monetary Authority of Bhutan  
Statement of Financial Position**

<b>Liabilities and Equity</b>	<i>(Amount in Nu. '000)</i>		
	<b>Note</b>	<b>June 30, 2023</b>	<b>June 30, 2022</b>
<b>Foreign currency financial liabilities</b>			
Balances of Royal Government	21	7,284,226	7,347,627
IMF related liabilities	12	4,561,598	4,256,001
Due to IFIs	22	4,808	3,675
Due to foreign central banks	22	21,187,980	19,916,600
Accrued interest payables		144,232	50,337
<b>Total foreign currency financial liabilities</b>		<b>33,182,845</b>	<b>31,574,239</b>
<b>Local currency financial liabilities</b>			
Currency in circulation	23	12,573,108	13,519,102
Balances of commercial banks	24	31,139,788	46,080,487
Balances of Royal Government	21	309,547	2,927,678
Due to other financial institutions	22	3,127	542
<b>Total local currency financial liabilities</b>		<b>44,025,569</b>	<b>62,527,810</b>
<b>Other liabilities</b>			
Deferred grants	25	107,856	107,906
Gratuity and other employee benefits	34	113,874	131,218
Others	26	148,905	109,226
<b>Total Other Liabilities</b>		<b>370,635</b>	<b>348,350</b>
<b>Total Liabilities</b>		<b>77,579,049</b>	<b>94,450,399</b>
<b>Equity</b>			
Capital		800,000	800,000
General reserve	27	2,000,000	
BAS transition reserve	27		138,814
Revaluation reserve	27	19,434,893	20,600,536
Retained earnings	27	5,373,960	1,724,408
Other reserves	27	(1,441)	5,731
<b>Total Equity</b>		<b>27,607,411</b>	<b>23,269,489</b>
<b>Total Equity and Liabilities</b>		<b>105,186,460</b>	<b>117,719,888</b>

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The notes

Partner  
Ltd.  
part of these financial statements.

Yeshi Yamtsho, FCCA, Managing  
Decho & Associates Pvt. Ltd.  
on page 54 to 65 are an integral



Dasho Penjore – Governor  
Royal Monetary Authority of Bhutan


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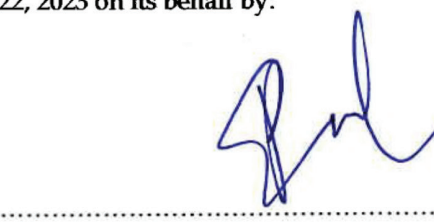
**Royal Monetary Authority of Bhutan  
Statement of Comprehensive Income**

<i>(Amount in Nu. '000)</i>			
	Notes	June 30, 2023	June 30, 2022
<b>Foreign currency income and expenses</b>			
Interest income on foreign currency financial assets	28	2,836,986	1,725,441
Interest expense on foreign currency financial liabilities		(941,364)	(675,332)
Gain/(loss) on trading of assets		18,012	96,131
Expected Credit Losses on foreign currency financial assets	29	(34,057)	-
<b>Net foreign currency income</b>		<u>1,879,577</u>	<u>1,146,241</u>
<b>Local currency income</b>			
Interest income on local currency financial assets	28	67,325	12,469
Expected Credit Losses on local currency financial assets	29	(8,355)	-
<b>Net local currency income</b>		<u>58,969</u>	<u>12,469</u>
<b>Net foreign currency income</b>		<u>1,938,546</u>	<u>1,158,709</u>
<b>Other income</b>			
Realised gain/(loss) on sale of assets	30	3,762,239	846,477
Unrealised fair value gain/(loss) of assets	31	(161,515)	(1,810,734)
Foreign exchange revaluation gain/loss	32	99,961	4,687,553
Others	33	(36,778)	(16,045)
<b>Net other income</b>		<u>3,663,907</u>	<u>3,707,251</u>
<b>Total net operating income</b>		<u>5,602,453</u>	<u>4,865,961</u>
<b>Expenses</b>			
Cost of banknote printing		(38,822)	(50,367)
Employee benefits	34	(212,878)	(232,398)
Administrative expenses	35	(164,140)	(160,203)
<b>Total operating expenses</b>		<u>(415,839)</u>	<u>(442,967)</u>
<b>Net profit for year</b>		<b>5,186,614</b>	<b>4,422,993</b>
<b>Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods</b>			
Actuarial gain on Staff gratuity Fund		(1,441)	5,731
<b>Total Comprehensive Income</b>		<u>5,185,173</u>	<u>4,428,724</u>

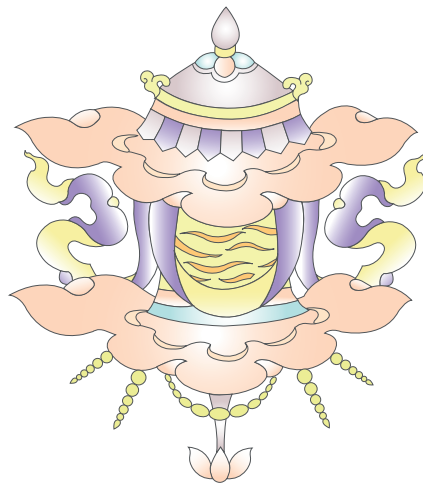
Please refer to Note 36 on profit for distribution

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 Dasho Penjore – Governor  
 Royal Monetary Authority of Bhutan

The notes on page 14 to 65 are an integral part of these financial statements.



**STATISTICAL  
APPENDIX**

**Table 1** Gross Domestic Product at current prices

Sector	Nu in million					Shares of GDP in 2022 (%)
	2018	2019	2020	2021	2022	
1. Agriculture, Livestock & Forestry	23,940.8	24,917.0	28,596.5	32,326.3	33,422.6	14.7
1.1. Crops	10,784.6	11,778.4	13,629.8	15,723.1	15,521.9	6.8
1.2 Livestock	8,118.2	8,591.2	10,043.7	11,273.1	12,025.6	5.3
1.3 Forestry & Logging	5,038	4,547.3	4,922.9	5,330.1	5,875.1	2.6
2. Mining & Quarrying	4,089.7	4,935.3	2,467.1	3,878	4,080.8	1.8
3. Manufacturing	15,453.7	11,811.6	8,976.4	14,785.3	19,881.5	8.7
4. Electricity	18,601.4	23,579.1	32,224	30,920.5	30,536.1	13.4
5. Water Supply	42.6	46.1	49.2	54.8	58	0.0
6. Construction	24,116.7	23,382.6	14,177	15,082.9	17,944.9	7.9
7. Wholesale & Retail Trade	15,725.1	19,247.7	18,609.1	22,300.1	27,007.1	11.9
8. Transport, Storage	13,664.6	16,825.8	11,209.7	12,473.2	15,792.2	6.9
9. Hotels & Restaurants	4,736.3	5,451.4	1,739.2	1,952.4	2,677.4	1.2
10. Communication	4,279.5	4,868.2	5,529.4	6,241.8	6,896.5	3
11. Finance & Insurance	9,321.3	10,623.7	10,015.6	11,433.5	11,908.2	5.2
12. Real Estate & Dwellings	5,778.1	6,111.9	6,786.7	7,436.0	8,137.5	3.6
13. Professional, Administrative and Support Services	3,162.8	3,488.5	3,221.9	3,375.0	4,102.7	1.8
14. Public Administration and defense	14,592.0	16,922.5	20,673.3	23,343.1	24,928.9	10.9
15. Education	6,207.8	8,252.9	9,424.3	10,197.6	10,697.8	4.7
16. Human Health and social work Health	2,135.9	2,736.8	3,368.1	3,627.3	3,862.4	1.7
17. Entertainment, recreation and other services	985.1	1,076.6	443.1	318.9	622.5	0.3
18. Taxes Net of Subsidies	9,839.7	8,370.1	4,597	4,917.6	5,256.5	2.3
<b>GDP at Market Prices</b>	<b>176,673.0</b>	<b>192,647.8</b>	<b>182,107.4</b>	<b>204,664.4</b>	<b>227,813.7</b>	<b>100</b>
<b>GDP Growth Rate (%)</b>	<b>4.7</b>	<b>9</b>	<b>-5.5</b>	<b>12.4</b>	<b>11.3</b>	

**Source:** National Accounts Statistics, 2022, National Statistics Bureau. Discrepancies in the figures are due to rounding.



**Table 2** Gross Domestic Product at constant prices

Sector	Nu in million					Growth: 2022 (%)
	2018	2019	2020	2021	2022	
1. Agriculture, Livestock & Forestry	22,445.8	22,833.8	23,747.2	24,085.4	23,809.6	-1.1
1.1. Crops New series	10,522.7	10,837.1	11,324.4	11,490.2	11,031	-4
1.2 Livestock	8,088.0	8,314.6	8,654.1	8,764.5	8,792.1	0.3
1.3 Forestry & Logging	3,835.1	3,682.1	3,768.7	3,830.7	3,986.5	4.1
2. Mining & Quarrying	7,388.8	8,423.2	2,722.3	4,218.2	4,090.6	-3
3. Manufacturing	11,974.7	11,674.9	8,835.9	9,206	9,825.3	6.7
4. Electricity	18,734.9	20,251.3	25,399	24,473.5	24,195.2	-1.1
5. Water Supply	42.6	46.1	49.2	54.8	58.1	6
6. Construction	25,105.6	22,006.8	16,411.8	17,572.8	20,463.8	16.5
7. Wholesale & Retail Trade	15,269.5	18,301.7	16,704	18,100.6	20,698.6	14.4
8. Transport, Storage	14,328.8	16,655.1	11,748	11,822.8	12,378.7	4.7
9. Hotels & Restaurants	4,515.4	5,008.5	1,425.5	1,466.4	1,929.4	31.6
10. Communication	4,293.2	4,908.8	6,047.4	7,835.2	8,967.1	14.4
11. Finance & Insurance	9,174.2	10,106.6	9,368.1	10,369.4	10,485.6	1.1
12. Real Estate & Dwellings	5,643.6	5,874.5	6,171.2	6,402	6,568.9	2.6
13. Professional, Administrative and Support Services	3,123.3	3,374.5	3,077.6	3,036.1	3,461	14
14. Public Administration & defense	14,032.8	15,902.3	18,268.1	18,961.5	19,248.3	1.5
15. Education	6,032.3	7,812	8,402.5	8,318	8,328	0.1
16. Entertainment, recreation & other services	979.9	1,061	435.7	303.9	576.9	89.8
17. Taxes Net of Subsidies	9,536.4	7,917.4	4,097.9	4,086.1	4,181.1	2.3
<b>GDP at Market Prices</b>	<b>174,662.8</b>	<b>184,714.9</b>	<b>165,840</b>	<b>173,172.4</b>	<b>182,201.4</b>	<b>5.2</b>
<b>GDP Growth Rate (%)</b>	<b>3.5</b>	<b>5.8</b>	<b>-10.2</b>	<b>4.4</b>	<b>5.2</b>	

**Source:** National Accounts Statistics, 2022, National Statistics Bureau. Discrepancies in the figures are due to rounding.

**Table 3** Gross Domestic Product by expenditure at current prices

Sector	Year					Share of GDP in 2022 (%)
	Nu in million					
	2018	2019	2020	2021	2022	
<b>1. Final Consumption Expenditure</b>	<b>118,980</b>	<b>129,311.3</b>	<b>139,546.2</b>	<b>153,081.6</b>	<b>178,988.8</b>	<b>78.6</b>
Households & NPISHs	86,304.5	92,481.3	98,908.3	106,679.6	131,108.4	57.6
General Government	32,675.5	36,829.9	40,637.9	46,402	47,880.4	21
<b>2. Gross Domestic Capital Formation</b>	<b>95,430.8</b>	<b>88,782.4</b>	<b>71,150.4</b>	<b>90,847.7</b>	<b>127,071.8</b>	<b>55.8</b>
a. Construction	57,061.2	50,651.1	38,873.8	43,907.1	52,212.6	22.9
b. Machinery & Equipment	37,295.1	37,034.7	30,774.9	45,142.6	71,712.8	31.5
c. Software, database	346.9	546.3	591.1	981.5	1,617.5	0.7
d. Valuables	44.5	89.6	132.8	255.1	251.9	0.1
e. Changes in Inventories	683.2	460.7	777.8	561.3	1,277.1	0.6
<b>3. Net Export</b>	<b>-37,737.8</b>	<b>-25,445.9</b>	<b>-28,589.2</b>	<b>-39,264.8</b>	<b>-78,246.9</b>	<b>-34.3</b>
<b>Export of Goods &amp; Services</b>	<b>51,570.3</b>	<b>60,602.2</b>	<b>51,109.6</b>	<b>59,759.4</b>	<b>58,756.9</b>	<b>25.8</b>
Export of Goods	41,413	48,122	48,255	57,991	56,871	25
Export of Services	10,157.3	12,480.2	2,854.6	1,768.4	1,885.9	0.8
<b>Import of Goods &amp; Services</b>	<b>89,308.2</b>	<b>86,048.1</b>	<b>79,698.8</b>	<b>99,024.2</b>	<b>137,003.8</b>	<b>60.1</b>
Import of Goods	70,858.7	69,594.5	66,900.2	86,400	115,523.9	50.7
Import of Services	18,449.5	16,453.6	12,798.6	12,624.3	21,479.9	9.4
<b>Gross Domestic Product</b>	<b>176,673</b>	<b>192,647.8</b>	<b>182,107.4</b>	<b>204,664.4</b>	<b>227,813.7</b>	<b>100</b>
<b>GDP Growth rate (%)</b>	<b>4.7</b>	<b>9</b>	<b>-5.5</b>	<b>12.4</b>	<b>11.3</b>	

**Table 4** Gross Domestic Product by expenditure at constant prices

Sectors	Year					Share of GDP in 2022 (%)
	Nu in million					
	2018	2019	2020	2021	2022	
<b>1. Final Consumption Expenditure</b>	<b>118,381.1</b>	<b>119,816.4</b>	<b>124,037.7</b>	<b>124,249.7</b>	<b>128,095.5</b>	<b>70.3</b>
Households & NPISHs	86,572.1	84,914.7	87,579.7	85,469.6	90,216	49.5
General Government	31,809.1	34,901.7	36,458	38,780.1	37,879.5	20.8
<b>2. Gross Domestic Capital Formation</b>	<b>90,984.1</b>	<b>84,232.4</b>	<b>65,831.5</b>	<b>78,969.9</b>	<b>101,741.9</b>	<b>55.8</b>
a. Construction	55,885.3	48,934.7	37,059.7	40,182.2	47,349.8	26
b. Machinery & Equipment	34,116.7	34,253.1	27,458.2	37,446.7	52,914	29
c. Software, database dev. (gov)	317.2	505.3	527.4	813.7	1,193.5	0.7
d. Valuables	40.7	82.9	118.5	211.5	185.8	0.1
e. Changes in Inventories	624.2	456.5	667.7	315.7	98.8	0.1
<b>3. Net Export of Goods &amp; Services</b>	<b>-34,702.4</b>	<b>-19,333.8</b>	<b>-24,029.1</b>	<b>-30,047.1</b>	<b>-47,636.0</b>	<b>-26.1</b>
Export of Goods & Services	48,130.8	60,712.5	48,767.5	49,273.6	45,282.7	24.9
Export of Goods	38,650.9	48,209.6	46,043.7	47,815.5	43,829.3	24.1
Export of Services	9,479.9	12,502.9	2,723.8	1,458.1	1,453.4	0.8
<b>Import of Goods &amp; Services</b>	<b>82,833.2</b>	<b>80,046.3</b>	<b>72,796.6</b>	<b>79,320.7</b>	<b>92,918.7</b>	<b>51</b>
Import of Goods	65,721.3	64,740.4	61,106.4	69,208.4	78,350.6	43
Import of Services	17,111.9	15,305.9	11,690.2	10,112.3	14,568.1	8
<b>GDP, Expenditure</b>	<b>174,662.8</b>	<b>184,714.9</b>	<b>165,840.0</b>	<b>173,172.4</b>	<b>182,201.4</b>	<b>100</b>
<b>GDP Growth rate</b>	<b>3.50</b>	<b>5.76</b>	<b>-10.22</b>	<b>4.42</b>	<b>5.21</b>	

Table 5 Consumer Price Index: period average

Items	Weight (%)	2019				2020				2021				2022				2023				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Food	45.95	96.32	98.427	99.513	99.523	99.837	102.163	104.427	108.463	115.147	117.497	121.513	121.48	119.687	124.65	126.927	126.48	125.77	127.407	128.683	130.577	132.957
Non-food	54.05	98.287	99.337	99.657	100.067	100.44	100.44	100.543	100.76	102.013	102.233	104.033	106.05	108.307	109.94	110.963	114.32	116.097	116.723	117.743	118.587	120.34
<b>Total</b>	<b>100</b>	<b>97.493</b>	<b>98.97</b>	<b>99.6</b>	<b>100.063</b>	<b>100.163</b>	<b>101.227</b>	<b>102.307</b>	<b>104.227</b>	<b>107.85</b>	<b>108.98</b>	<b>111.727</b>	<b>112.88</b>	<b>113.393</b>	<b>116.467</b>	<b>118.03</b>	<b>119.753</b>	<b>120.443</b>	<b>121.873</b>	<b>122.65</b>	<b>123.953</b>	<b>125.977</b>
Percentage change on the previous year																						
Food	46.0	3.8	3.8	3.2	3.1	3.7	3.8	4.9	9	15.3	15	16.4	12.	3.9	6.1	4.5	4.1	5.1	2.2	1.4	3.2	5.7
Non-food	54.1	1.3	2.6	2.9	2.7	2.2	1.1	0.9	0.7	1.6	1.8	3.5	5.3	6.2	7.5	6.7	7.8	7.2	6.8	6.1	3.7	3.7
<b>Total</b>	<b>100</b>	<b>2.3</b>	<b>3.1</b>	<b>3</b>	<b>2.9</b>	<b>2.7</b>	<b>2.3</b>	<b>2.7</b>	<b>4.4</b>	<b>7.7</b>	<b>7.7</b>	<b>9.2</b>	<b>8.3</b>	<b>5.1</b>	<b>6.9</b>	<b>5.6</b>	<b>6.1</b>	<b>6.2</b>	<b>4.6</b>	<b>3.9</b>	<b>3.5</b>	<b>4.6</b>

**Table 6** Summary of budgetary operations

Item	Nu in million				
	Year				
	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Revenue &amp; Grants</b>	<b>42,033.3</b>	<b>54,603.9</b>	<b>59,696.1</b>	<b>54,354.6</b>	<b>60,468.8</b>
Domestic Revenue	34,707.7	36,218.9	35,855.4	39,043.1	44,874.9
Tax	27,171.1	22,793	20,661.8	25,843.1	31,466.7
Non-tax	7,536.5	13,425.9	15,193.7	13,200	13,408.2
<b>Other Receipts (Net)</b>	<b>-3,190.9</b>	<b>1,959.2</b>	<b>8,958.4</b>	<b>1,728</b>	<b>1,230.6</b>
<b>External Grants</b>	<b>10,516.5</b>	<b>16,425.8</b>	<b>14,882.3</b>	<b>13,583.5</b>	<b>14,363.3</b>
GOI	6,484.8	11,444	10,323.6	9,644.4	10,968
Others	4,031.7	4,981.8	4,558.7	3,939.1	3,395.3
<b>Program</b>	<b>989.5</b>	<b>2,550</b>	<b>1,700</b>	<b>850</b>	<b>2,556.2</b>
GOI	850	2,550	1,700	850	2,550
Others	139.5	0.0	0.0	0.0	6.2
<b>Project tied</b>	<b>9,527</b>	<b>13,875.8</b>	<b>13,182.3</b>	<b>12,733.5</b>	<b>11,807.2</b>
GOI	5,634.8	8,894	8,623.6	8,794.4	8,418
Others	3,892.2	4,981.8	4,558.7	3,939.1	3,389.1
<b>Outlay</b>	<b>44,776.7</b>	<b>57,989.2</b>	<b>70,835.9</b>	<b>68,926.7</b>	<b>71,691</b>
<b>Total expenditure</b>	<b>44,054.1</b>	<b>57,572.3</b>	<b>71,091.8</b>	<b>69,156.6</b>	<b>69,226.2</b>
Current	27,768.7	35,525.4	43,515.8	34,444.7	35,428
Capital	16,285.5	22,046.9	27,576	34,711.9	33,798.2
<b>Net Lending</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2,870.9</b>
<b>Advances/Suspense (Net)</b>	<b>722.6</b>	<b>417</b>	<b>-255.9</b>	<b>-230</b>	<b>-406.1</b>
<b>Overall Balance</b>	<b>-2,743.4</b>	<b>-3,385.4</b>	<b>-11,139.8</b>	<b>-15,032</b>	<b>-11,222.1</b>
<b>Financing</b>	<b>2,743.4</b>	<b>3,385.4</b>	<b>11,139.2</b>	<b>15,032</b>	<b>11,222.1</b>
<b>Net Lending</b>	<b>1,318.5</b>	<b>729.3</b>	<b>745.6</b>	<b>3,677.6</b>	<b>4,255.3</b>
Recovery	1,516.1	875.8	2,404.8	259	5,087.7
Lending	197.6	146.5	1,659.2	3,937	832.4
<b>Net Borrowing</b>	<b>1,425</b>	<b>2,656.1</b>	<b>10,578.3</b>	<b>12,577.8</b>	<b>184.1</b>
<b>Borrowing</b>	<b>3,767</b>	<b>4,443.7</b>	<b>14,315.7</b>	<b>18,025</b>	<b>5,834.6</b>
External	3,432.6	5,303.3	5,212	9,520.8	8,727.5
Internal	334.5	-859.6	9,103.7	8,504.2	-2,892.9
<b>Repayment</b>	<b>2,342.1</b>	<b>1,787.6</b>	<b>3,737.3</b>	<b>5,447.2</b>	<b>5,650.5</b>
External	2,331.5	1,776.2	3,725.1	5,434.1	5,650.5
Internal	10.6	133.8	12.3	13.2	0.0
<b>Resource Gap</b>	<b>-1,318.5</b>	<b>-729.2</b>	<b>-560.9</b>	<b>-2,454.2</b>	<b>-11,038</b>

**Source** - Annual Financial Statement: 2020/21 & 2021/22 and MFCTC File June Updates , Ministry of Finance. Figures may not add due to rounding.

**Table 7** Monetary survey

Nu in Million					
Items	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Broad Money (M2)<sup>1</sup></b>	<b>121,416.7</b>	<b>144,890.5</b>	<b>180,314.2</b>	<b>197,301.4</b>	<b>216,694.2</b>
Narrow Money (M1)	69,203.4	85,575.6	101,825.9	110,574.9	121,235.1
Currency Outside Banks	9,744.1	11,782.9	11,874.7	10,241.7	9,535.3
Transferable Deposits	59,459.3	73,792.8	89,951.2	100,333.1	111,699.8
Current Deposits	22,530.4	27,326.5	28,756.1	33,686.5	46,714.8
Saving Deposits	36,928.9	46,466.3	61,195.2	66,646.6	64,984.9
Other Deposits	52,213.4	59,314.8	78,488.3	86,726.6	95,459.1
Time Deposits	51,011.3	58,653.1	77,953.3	86,381.6	94,453.7
Foreign Currency Deposits	1,202	661.7	535.0	345	1,005.3
<b>Factors Affecting M2</b>					
Foreign Assets (Net)	63,920.6	84,090.6	98,552	97,558.1	79,757.4
Indian Rupee	5,592.1	6,583.2	-245.1	-12451.8	-15827.6
Convertible Foreign Currency	58,328.5	77,507.4	98,797.2	110,010	95,585
Net Domestic Assets	57,496.1	60,799.9	81,762.2	99,743.3	136,936.8
Domestic Credit	113,488.2	122,112.9	142,821.3	165,296.9	205,804.4
Claims on Government	2,406.9	-3,840.4	6,403.7	16,134.9	31,411.2
Claims on Other Public Sector <sup>2</sup>	6,230.8	7,140.8	9,856.2	8,907	7,009.5
Claims on Private Sector <sup>3</sup>	104,850.5	118,812.5	126,561.4	140,254.9	167,383.7
Other Items Net <sup>4</sup>	55,992.1	61,313	61,059.1	65,553.5	68,867.6
<b>Percent Change (y-o-y)</b>					
<b>Broad Money (M2)</b>	<b>5.6</b>	<b>19.3</b>	<b>24.4</b>	<b>9.4</b>	<b>9.8</b>
<b>Narrow Money (M1)</b>	<b>4.4</b>	<b>23.7</b>	<b>19</b>	<b>8.6</b>	<b>9.6</b>
Currency Outside Banks	5.5	20.9	0.8	-13.8	-6.9
Transferable Deposits	4.2	24.1	21.9	11.5	11.3
Current Deposits	-11.5	21.3	5.2	17.1	38.7
Saving Deposits	16.9	25.8	31.7	8.9	-2.5
Other Deposits	7.3	13.6	32.3	10.5	10.1
Time deposits	10.5	15	32.9	10.8	9.3
Foreign Currency Deposits	-52.2	-44.9	-19.1	-35.5	191.4
Foreign Assets (Net)	-3.2	31.6	17.2	-1	-18.2
Indian Rupee	-12.9	17.7	-103.7	-4979.3	27.1
Convertible Foreign Currency	-2.1	32.9	27.5	11.3	-13.1
Net Domestic Assets	17.4	5.7	34.5	22	37.3
Domestic Credit	13.1	7.6	17	15.7	24.5
Claims on Government	-52.1	-259.6	266.7	-152	-94.7
Claims on Other Public Sector <sup>1</sup>	-25	14.6	38	-9.6	-21.3
Claims on Private Sector <sup>2</sup>	20.5	13.3	6.5	10.8	19.3
Other Items Net <sup>3</sup>	9	9.5	-0.4	7.4	5.1
<p>1. Excludes figures from non-banks</p> <p>2. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations.</p> <p>3. Claims on Private Sectors includes Claims on NBFIs.</p> <p>4. Other Items Net Includes money market instruments.</p>					

**Table 8** Royal Monetary Authority survey

Nu in million					
Items	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Assets</b>					
Foreign Assets	73,116.5	100,449.4	115,271.8	115,486.1	98,062
Indian Rupee	17,266.4	26,183.9	19,540	8,137.3	5,783.9
Convertible Foreign Currency	55,850	74,265.5	95,731.8	107,348.7	92,278.2
Claims on DMBs	724.8	759.7	883.9	1,277.6	1,206.7
Claims on Government	2,500	-	-	-	3,636.5
Claims on Private Sector	26.1	21.1	17.3	14.4	8.7
Claims on NBFIs	-	-	-	-	-
Govt. securities	-	-	-	-	-
<b>Liabilities</b>					
Reserve Money	31,973.9	45,049.7	62,278.0	56,149.4	43,717.7
o/w Currency Outside Banks	9,744.1	11,782.9	11,874.7	10,241.7	9,535.3
Foreign liabilities	14,007.1	21,322.4	21,541.9	22,190.3	23,369.6
Indian Rupee	14,007.1	21,322.4	21,541.9	22,190.3	23,369.6
Covertable foreign currency	-	-	-	-	-
Government Deposits	4,310.11	5,705.23	8,147.40	7,758.17	593.77
RMA Bills outstanding	0.0	0.0	0.0	0.0	0.0
Capital Accounts	6,354.7	5,113.0	(248.9)	501.0	8104.2
Other Items (Net) <sup>1</sup>	19,721.4	24,039.9	24,454.5	30,179.1	27,128.7
<b>Percent Change (y-o-y)</b>					
Foreign Assets	-2.8	37.4	14.8	0.2	-15.1
Indian Rupee	-7.2	51.6	-25.4	-58.4	-28.9
Convertible Foreign Currency	-1.3	33	28.9	12.1	-14
Reserve Money	-4.5	40.9	38.2	-9.8	-5.6
Foreign liabilities	1.7	52.2	1	3	100
Other Items Net	-7.5	21.9	1.7	23.4	-39.5
1. Other Items (Net) includes money market instruments.					

**Table 9** Deposit money banks survey

Nu in million					
Items	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Assets</b>					
Reserves	21,724.9	30,833.1	49,552.9	44,464.4	33,484.7
Foreign Assets	4,811.2	4,963.6	4,822.2	4,446	5,227.2
Indian Rupee	2,332.8	1,721.6	1,756.8	1,601.2	1,758.1
Convertible Foreign Currency	2,478.5	3,242	3,065.4	2,844.9	3,469.1
Claims on Government	4,217	1,864.8	14,551.1	23,893.1	28,368.5
Claims on Other Public Sector <sup>1</sup>	6,230.8	7,140.8	9,856.2	8,907	7,009.5
Claims on Private Sector <sup>2</sup>	104,824.4	118,791.4	126,544.1	140,240.5	167,374.9
Capital Accounts	19,542.3	17,584	20,974	23,435.2	28,815.4
Other Items Net <sup>3</sup>	9,762.4	12,198.5	15,342.1	11,026.3	7,109.2
<b>Liabilities</b>					
Demand Deposits	59,459.3	73,792.8	89,951.2	100,333.1	111,699.8
Current Deposits	22,530.4	27,326.5	28,756.1	33,686.5	46,714.8
Saving Deposits	36,928.9	46,466.3	61,195.2	66,646.6	64,984.9
Time Deposits	51,011.3	58,653.1	77,953.3	86,381.6	94,453.7
Foreign Currency Deposits	1,202.	661.7	535	345	1,005.3
<i>Percent Change (y-o-y)</i>					
Reserves	-8.5	41.9	60.7	-10.3	-24.7
Foreign Assets	-10.2	3.2	-2.8	-7.8	17.6
Claims on Other Public Sector	-25	14.6	38	-9.6	-21.3
Claims on Private Sector	20.6	13.3	6.5	10.8	19.3
Capital Accounts	8.5	-10	19.3	11.7	23
Other Items Net	26.3	25	25.8	-28.1	-35.5
Demand Deposits	4.2	24.1	21.9	11.5	11.3
Current Deposits	-11.5	21.3	5.2	17.1	38.7
Saving Deposits	16.9	25.8	31.7	8.9	-2.5
Time Deposits	10.5	15	32.9	10.8	9.3
Foreign Currency Deposits	-52.2	-44.9	-19.1	-35.5	191.4
<p>1. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations.</p> <p>2. Claims on Private Sectors includes Claims on NBFIs.</p> <p>3. Other Items (Net) includes money market instruments.</p>					

**Table 10** Financial sector investment by economic activity

Nu in Million					
Economic Sector/Source	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Agriculture</b>	<b>6,247.3</b>	<b>6,629.6</b>	<b>6,603.1</b>	<b>6,323.8</b>	<b>4,403</b>
Bank of Bhutan	197.2	212.8	222.5	278.9	87.9
Bhutan National Bank	65.3	83.7	80.7	74	84.8
Bhutan Development Bank Limited	5,969.6	6,251.5	6,219.6	5,891.2	4,176.8
TBank Limited	2.4	2	1.8	1.6	3.7
Druk PNB Bank Limited	7.7	24.3	21.3	17.9	22.1
Royal Insurance Corporation of Bhutan	1.9	53.3	55.5	59.4	27.7
Bhutan Insurance Limited	3.2	2	1.8	0.8	-
National Pension and Provident Fund					-
<b>Service and Tourism</b>	<b>31,523.7</b>	<b>39,619.9</b>	<b>41,481.6</b>	<b>42,771.4</b>	<b>25,107.2</b>
Bank of Bhutan	11,784.8	13,872.1	16,266.2	17,039	10,145.8
Bhutan National Bank	5,833.9	10,064.8	8,160.5	8,429.8	8,218.1
Bhutan Development Bank Limited	3,055.8	3,387.1	3,706.6	3,696.9	1,054.1
TBank Limited	1,084.4	1,447	1,756.9	1,856.8	1,125.9
Druk PNB Bank Limited	2,463.5	3,215.2	3,660.1	3,924	2,413.7
Royal Insurance Corporation of Bhutan	7,243	7,565.7	7,858.2	7,738.3	1,905.5
Bhutan Insurance Limited	58.3	67.9	73.2	86.6	135.1
National Pension and Provident Fund					109.1
<b>Manufacturing</b>	<b>15,231.8</b>	<b>16,957.0</b>	<b>19,288.4</b>	<b>20,046.4</b>	<b>20,974.7</b>
Bank of Bhutan	4,596.3	5,951.4	6,530.5	6,939.3	7,534.1
Bhutan National Bank	4,579.5	3,409.3	4,747.3	4,450.2	3,309.3
Bhutan Development Bank Limited	972.7	988.5	1,103.2	1,244	301.3
TBank Limited	300.1	317.2	287.3	361.5	30.1
Druk PNB Bank Limited	2,192.4	2,915.6	3,047.7	3,347.2	3,406.1
Royal Insurance Corporation of Bhutan	2,401.8	3,220.0	3,380.8	3,435.9	1,929.2
Bhutan Insurance Limited	189	155.1	191.6	268.3	326.9
National Pension and Provident Fund					4,137.7
<b>Building &amp; Construction</b>	<b>32,581.8</b>	<b>39,728.3</b>	<b>42,330.6</b>	<b>46,227.4</b>	<b>58,451.5</b>
Bank of Bhutan	12,407.6	15,210.3	15,988.6	17,340.1	24,136.8
Bhutan National Bank	8,811.8	10,632.1	11,481.8	12,622.8	15,620.0
Bhutan Development Bank Limited	3,693.9	4,416.2	4,888.1	5,384.4	4,453.8
TBank Limited	2,625.9	2,966.2	3,079.0	3,416.5	4,121.3
Druk PNB Bank Limited	1,933.9	3,018.3	3,257.3	3,757.0	5,173.9
Royal Insurance Corporation of Bhutan	2,701.5	2,797.5	2,884.1	2,905.3	2,015.3
Bhutan Insurance Limited	407.3	687.6	751.7	801.2	782.8
National Pension and Provident Fund					2,147.6
<b>Trade &amp; Commerce</b>	<b>17,719.0</b>	<b>17,913.6</b>	<b>19,681.6</b>	<b>22,301</b>	<b>15,845.3</b>
Bank of Bhutan	2,425.7	2,911.8	2,785.9	2,928.6	2,780.9
Bhutan National Bank	6,964.7	6,149.3	7,816	9,385.8	5,827.7
Bhutan Development Bank Limited	1,515.4	2,046.4	2,119.4	2,469.4	2,132.6
TBank Limited	942.6	879.8	864.9	1,121.5	233.1
Druk PNB Bank Limited	1,411.8	1,569	1,765.5	1,882.8	1,865.8
Royal Insurance Corporation of Bhutan	4,159.4	4,074.2	4,061.1	3,997.4	2,460.9
Bhutan Insurance Limited	299.3	283.0	268.8	515.3	468.9
National Pension and Provident Fund					75.5



<b>Transport (Heavy + Light)</b>	<b>6,747.6</b>	<b>6,279.7</b>	<b>6,716.5</b>	<b>7,479.0</b>	<b>8,942.2</b>
Bank of Bhutan	2,076.9	1,817.9	1,802	1,995.8	2,102
Bhutan National Bank	1,884.2	1,881.2	1,934.9	2,072.3	3,698
Bhutan Development Bank Limited	1,036.9	1,010.8	1,378.3	1,564.1	1,189.7
TBank Limited	206.1	209.1	230.4	287.6	275.8
Druk PNB Bank Limited	157.9	142.1	134	170.7	169.8
Royal Insurance Corporation of Bhutan	696.3	623.9	641.1	714.7	829.4
Bhutan Insurance Limited	689.3	594.8	595.8	673.7	677.5
National Pension and Provident Fund					-
<b>Personal Loans</b>	<b>13,816.9</b>	<b>14,279.6</b>	<b>14,770.8</b>	<b>15,535.3</b>	<b>15,379.8</b>
Bank of Bhutan	5,597.0	6,306.6	6,255.8	6,592.3	6,191.3
Bhutan National Bank	1,270.8	1,175.7	1,395.1	1,810.5	1,558.2
Bhutan Development Bank Limited	2,458.2	2,349.7	2,451.8	2,249.5	1,183.1
TBank Limited	1,508.2	1,698.6	1,766.3	1,787.4	1,519.9
Druk PNB Bank Limited	725.4	687.4	909.2	1,066.4	273.4
Royal Insurance Corporation of Bhutan	2,176.1	1,925.3	1,869.4	1,789.0	1,087.5
Bhutan Insurance Limited	81.3	136.3	123.1	240.2	60.1
National Pension and Provident Fund					3,506.3
<b>Staff loan</b>					<b>2,265.4</b>
Bank of Bhutan					827.4
Royal Insurance Corporation of Bhutan					209.6
Bhutan Development Finance Corporation					246.7
Bhutan National Bank					500.1
Tbank Limited					208.1
Druk Punjab National Bank Limited					134.4
Bhutan Insurance Limited					
<b>EDP Loans</b>					<b>81.3</b>
Bank of Bhutan					
Royal Insurance Corporation of Bhutan					
Bhutan Development Finance Corporation					
Bhutan National Bank					
Tbank Limited					
Druk Punjab National Bank Limited					
Bhutan Insurance Limited					
<b>Loan Against Shares</b>	<b>553.1</b>	<b>417.9</b>	<b>390.2</b>	<b>589.8</b>	<b>1,024.1</b>
Bank of Bhutan	17.7	16.9	16.6	15.2	-
Bhutan National Bank	-	-	-	-	106.5
Bhutan Development Bank Limited	-	-	-	-	28
TBank Limited	314.6	353.4	329.2	363.5	401.3
Druk PNB Bank Limited	117.5	1.1	0.7	103.9	374.5
Royal Insurance Corporation of Bhutan	57.1	17.4	15.8	14.8	12.2
Bhutan Insurance Limited	46.2	29.1	27.8	92.4	101.6
National Pension and Provident Fund					-
<b>Government (Short term loans)</b>	<b>855.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bank of Bhutan	461.5	-	-	-	1,337
Bhutan National Bank	394	-	-	-	-
Bhutan Development Bank Limited	-	-	-	-	-
TBank Limited	-	-	-	-	-
Druk PNB Bank Limited	-	-	-	-	-
Royal Insurance Corporation of Bhutan	-	-	-	-	-
Bhutan Insurance Limited	-	-	-	-	-
National Pension and Provident Fund					

<b>Credit Card</b>	<b>23</b>	<b>15.4</b>	<b>45.5</b>	<b>50.2</b>	<b>47.2</b>
Bank of Bhutan	20.2	12.3	42.8	48.3	45.8
Bhutan National Bank	2.4	3.0	2.7	1.9	1.4
Bhutan Development Bank Limited	-	-	-	-	-
TBank Limited	-	-	-	-	-
Druk PNB Bank Limited	-	-	-	-	-
Royal Insurance Corporation of Bhutan	0.4	0.1	0.0	-	-
Bhutan Insurance Limited	-	-	-	-	-
National Pension and Provident Fund	-	-	-	-	-
<b>Others</b>	<b>4,295.7</b>	<b>3,207.7</b>	<b>3,112.0</b>	<b>6,302.2</b>	<b>72.6</b>
Bank of Bhutan	1,040.1	1,067.1	1,014.2	1,681.2	-
Bhutan National Bank	406.2	476.7	426.1	567.4	72.6
Bhutan Development Bank Limited	1,037.6	662.6	548.5	541.5	-
TBank Limited	1,064.3	157.0	316.1	2,583.7	-
Druk PNB Bank Limited	192.5	86.9	84.5	165.7	-
Royal Insurance Corporation of Bhutan	527.8	735.2	697.8	733.0	-
Bhutan Insurance Limited	27.1	22.3	24.8	29.6	-
National Pension and Provident Fund	-	-	-	-	-
<b>Service Sector</b>					<b>19,971.2</b>
Bank of Bhutan					6,288
Bhutan National Bank					2,688
Bhutan Development Bank Limited					1,160.5
TBank Limited					1,570.7
Druk PNB Bank Limited					1,131.5
Royal Insurance Corporation of Bhutan					1,145
Bhutan Insurance Limited					70.9
National Pension and Provident Fund					5,916.6
<b>Education Loan</b>					<b>17,683.3</b>
Bank of Bhutan					10,653.1
Bhutan National Bank					1,874.4
Bhutan Development Bank Limited					388.3
TBank Limited					1,769.7
Druk PNB Bank Limited					296
Royal Insurance Corporation of Bhutan					40.7
Bhutan Insurance Limited					-
National Pension and Provident Fund					2,661.2
<b>Loan to Contractor</b>					<b>9,800.2</b>
Bank of Bhutan					2,760.9
Bhutan National Bank					2,603.8
Bhutan Development Bank Limited					950.1
TBank Limited					412.8
Druk PNB Bank Limited					659.4
Royal Insurance Corporation of Bhutan					2,292.8
Bhutan Insurance Limited					120.2
National Pension and Provident Fund					-
<b>Loan Against Term Deposits</b>					<b>4,709.1</b>
Bank of Bhutan					608.2
Bhutan National Bank					2,057.7
Bhutan Development Bank Limited					56.6
TBank Limited					620.1
Druk PNB Bank Limited					1,366.5
Royal Insurance Corporation of Bhutan					-
Bhutan Insurance Limited					-
National Pension and Provident Fund					-

<b>Mining and Quarrying</b>					<b>2,938.4</b>
Bank of Bhutan					954.9
Bhutan National Bank					532.7
Bhutan Development Bank Limited					171.4
TBank Limited					528.6
Druk PNB Bank Limited					252.8
Royal Insurance Corporation of Bhutan					343.2
Bhutan Insurance Limited					126.5
National Pension and Provident Fund					28.2
<b>Forestry and Loggings</b>					<b>376.9</b>
Bank of Bhutan					7.7
Bhutan National Bank					27.2
Bhutan Development Bank Limited					33.3
TBank Limited					-
Druk PNB Bank Limited					241.9
Royal Insurance Corporation of Bhutan					9.4
Bhutan Insurance Limited					57.4
National Pension and Provident Fund					-
<b>Loans to Financial Service Providers</b>					<b>383.3</b>
Bank of Bhutan					375.2
Bhutan National Bank					8.1
Bhutan Development Bank Limited					-
TBank Limited					-
Druk PNB Bank Limited					-
Royal Insurance Corporation of Bhutan					-
Bhutan Insurance Limited					-
National Pension and Provident Fund					-
<b>Medical Loans</b>					<b>1.5</b>
Bank of Bhutan					1.5
Bhutan National Bank					-
Bhutan Development Bank Limited					-
TBank Limited					-
Druk PNB Bank Limited					-
Royal Insurance Corporation of Bhutan					-
Bhutan Insurance Limited					-
National Pension and Provident Fund					-
<b>TOTAL</b>	<b>129,595.4</b>	<b>145,048.7</b>	<b>154,420.2</b>	<b>167,626.4</b>	<b>209,714</b>

**Table 11** Deposit base of commercial banks by sector

Items	Nu in million				
	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Total Deposits</b>	<b>111,672.6</b>	<b>133,107.6</b>	<b>168,439.5</b>	<b>187,059.7</b>	<b>207,158.9</b>
Individuals	74,013.5	84,503.7	107,739.1	123,875.5	139,353.4
Govt. Corps.	14,987.3	18,870.6	23,991.1	26,135.1	27,877.9
<b>Govt.</b>					
Others	22,671.9	29,733.3	36,709.4	37,049.1	39,927.5
<b>Demand deposits</b>	<b>59,459.3</b>	<b>73,792.8</b>	<b>89,951.2</b>	<b>100,333.1</b>	<b>111,699.8</b>
Individuals	47,587.9	57,140.1	68,244.0	77,445.2	89,031.4
Govt. Corps.	2,417.3	4,302.8	5,155.1	5,590.3	5,650.7
<b>Govt.</b>					
Others	9,454.1	12,350.0	16,552.0	17,297.6	17,017.7
<b>Time Deposits</b>	<b>52,213.4</b>	<b>59,314.8</b>	<b>78,488.3</b>	<b>86,726.6</b>	<b>95,459.1</b>
Individuals	26,425.6	27,363.7	39,495.0	46,430.2	50,322
Govt. Corps.	12,570	14,567.8	18,835.9	20,544.8	22,227.2
<b>Govt.</b>					
Others	13,217.8	17,383.4	20,157.3	19,751.5	22,909.9
<b>% of total deposits</b>					
Individuals	66.3	63.5	64	73.5	82.7
Govt. Corps.	13.4	14.2	14.2	15.5	16.6
<b>Govt.</b>					
Others	20.3	22.3	21.8	22.0	23.7
<b>Demand deposits</b>	<b>53.2</b>	<b>55.4</b>	<b>53.4</b>	<b>59.6</b>	<b>66.3</b>
Individuals	42.6	42.9	40.5	46.0	52.9
Govt. Corps.	2.2	3.2	3.1	3.3	3.4
<b>Govt.</b>					
Others	8.5	9.3	9.8	10.3	10.1
<b>Time Deposits</b>	<b>46.8</b>	<b>44.6</b>	<b>46.6</b>	<b>51.5</b>	<b>56.7</b>
Individuals	23.7	20.6	23.4	27.6	29.9
Govt. Corps.	11.3	10.9	11.2	12.2	13.2
<b>Govt.</b>					
Others	11.8	13.1	12	11.7	13.6
<b>Source:</b> Commercial Banks					

**Table 12** Annual overall Balance of Payments estimates

	Nu in million				
Item	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>A. CURRENT ACCOUNT</b>	<b>-35,431.7</b>	<b>-27,712.5</b>	<b>-21,374.1</b>	<b>-60,737</b>	<b>-81,677.2</b>
Goods and Services	-31,904.2	-29,321.4	-20,991.1	-59,849.5	-76,743.7
<b>Goods: Net (Trade Balance)</b>	<b>-28,338.6</b>	<b>-22,726.4</b>	<b>-12,400</b>	<b>-45,690.2</b>	<b>-60,910.6</b>
Exports (fob)	42,951.6	46,862.8	53,099.9	57,864	55,851.7
Imports (fob)	71,290.2	69,589.2	65,499.9	103,554.2	116,762.4
<b>Services</b>	<b>-3,565.6</b>	<b>-6,595</b>	<b>-8,591.2</b>	<b>-14,159.3</b>	<b>-15,833</b>
Credit	11,902.5	9,611.2	1,469.3	1,649.2	10,483.7
Debit	15,468.2	16,206.2	10,060.4	15,808.6	26,316.8
<b>Primary Income</b>	<b>-15,589.7</b>	<b>-10,749</b>	<b>-11,221.4</b>	<b>-11,911.9</b>	<b>-11,895.4</b>
Credit	2,640.4	2,117.9	1,600	1,836.3	2,955.9
Debit	18,230.1	12,867	12,821.4	13,748.2	14,851.2
<b>Secondary Income</b>	<b>12,062.3</b>	<b>12,358</b>	<b>10,838.4</b>	<b>11,024.5</b>	<b>6,961.8</b>
Credit	14,232.5	13,871.4	13,725.3	14,152.8	13,849.7
o.w. Budgetary grants	6,999.3	6,807.6	5,692.8	6,156.9	4,292.7
Debit	2,170.2	1,513.3	2,886.9	3,128.3	6,887.9
<b>B. CAPITAL ACCOUNT</b>	<b>8,769.1</b>	<b>10,373.2</b>	<b>6,835.3</b>	<b>7,758.7</b>	<b>9,803.1</b>
o.w. Budgetary grants for investment *	4,088	6,436.1	6,147.8	6,219.8	5,405.2
o.w. Grants for hydropower development	4,681.1	3,937.2	1,267.4	1,538.9	4,397.9
<b>C. FINANCIAL ACCOUNT **</b>	<b>-9,712.8</b>	<b>-27,252.1</b>	<b>-19,169.1</b>	<b>-17,946.3</b>	<b>-25,437.4</b>
<b>Direct Investment in Bhutan: net incurrence of liabilities</b>	918.5	-621.3	362.4	648.9	979.2
o.w. Equity capital	754.4	67.4	315.8	32.5	102.5
<b>Portfolio Investment</b>	0.0	0.0	0.0	0.0	0.0
<b>Other Investment</b>	<b>-7,389.6</b>	<b>-28,992.3</b>	<b>-17,200</b>	<b>-17,097.2</b>	<b>-24,358.2</b>
<b>Other Investment: net acquisition of financial assets</b>	2,110.2	3,472.3	-2,137.5	1,746.5	-1,738.4
<b>Other Investment: net incurrence of financial liabilities</b>	9,499.8	32,464.5	15,062.5	18,843.7	22,619.9
o.w. RGOB loans ***	16,356.9	26,708.4	15,019.3	18,120.6	21,885.9
o.w. Other loans	-6,268.4	7,071.8	264.6	636.8	861.2
<b>D. Net Errors &amp; Omissions</b>	19,260	10,179.2	-8,689.7	2,631.1	17,645.1
<b>E. Overall Balance</b>	<b>2,310.2</b>	<b>20,092.2</b>	<b>-4,059.5</b>	<b>-32,400.9</b>	<b>-28,791.6</b>
<b>F. Reserve Assets</b>	<b>2,310.2</b>	<b>20,092.2</b>	<b>-4,059.5</b>	<b>-32,400.9</b>	<b>-28,791.6</b>

\* Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards. \*\* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. \*\*\* Includes hydropower loans & accrued interest. Bhutan's BOP statistics were revised in line with the IMF's BPM6 methodology (from FY 2006/07 onwards)

**Table 13** Annual Balance of Payments estimates with India

Item	Nu in million				
	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>A. CURRENT ACCOUNT</b>	<b>-38,659.9</b>	<b>-25,996.5</b>	<b>-22,179.7</b>	<b>-40,752.3</b>	<b>-66,562.1</b>
Goods and Services	-29,022.5	-18,936.1	-13,344.1	-32,862	-50,689.9
<b>Goods: Net (Trade Balance)</b>	<b>-26,322.6</b>	<b>-15,895.5</b>	<b>-9,112.6</b>	<b>-28,176.2</b>	<b>-45,177</b>
Exports (fob)	33,804	40,975.6	46,878.9	51,170.7	47,600.4
Imports (fob)	60,126.6	56,871.1	55,991.5	79,346.9	92,777.4
<b>Services</b>	<b>-2,699.9</b>	<b>-3,040.6</b>	<b>-4,231.5</b>	<b>-4,685.8</b>	<b>-5,512.9</b>
Credit	3,741	3,362.1	945.6	1,075	1,247.2
Debit	6,440.9	6,402.7	5,177.1	5,760.8	6,760.1
<b>Primary Income</b>	<b>-15,544.5</b>	<b>-11,335</b>	<b>-11,221.3</b>	<b>-12,108.1</b>	<b>-12,941.1</b>
Credit	1,021.8	880.3	886.8	593.6	351.9
Debit	16,566.2	12,215.3	12,108	12,701.8	13,293.1
o.w. Interest on hydropower loans *	764.4	8,582.2	10,637.6	12,244.3	12,572.4
<b>Secondary Income</b>	<b>5,907</b>	<b>4,274.6</b>	<b>2,385.6</b>	<b>4,217.8</b>	<b>-2,931</b>
Credit	7,153.9	4,897.9	3,790	5,949.7	3,025
o.w. Budgetary grants	4,410.5	4,666.1	4,284	5,848.5	2,956.1
Debit	1,246.9	623.3	1,404.4	1,731.9	5,956.1
<b>B. CAPITAL ACCOUNT</b>	<b>8,709.7</b>	<b>10,346.6</b>	<b>6,493.5</b>	<b>7,390.4</b>	<b>9,699.6</b>
o.w. Budgetary grants for investment **	4,028.6	6,409.4	5,806	5,851.5	5,301.8
o.w. Grants for hydropower development	4,681.1	3,937.2	1,267.4	1,538.9	4,397.9
<b>C. FINANCIAL ACCOUNT ***</b>	<b>-8,799.7</b>	<b>-20,457.1</b>	<b>-15,003.2</b>	<b>-9,848.8</b>	<b>-18,060.6</b>
<b>Direct Investment in Bhutan: net incurrence of liabilities</b>	188.8	51	221.2	140.2	-77.5
o.w. Equity capital	39.0	37.7	227	18.9	9.4
<b>Portfolio Investment</b>					
<b>Other Investment</b>	<b>-7,206.2</b>	<b>-21,524.9</b>	<b>-13,175.4</b>	<b>-9,508.5</b>	<b>-18,038</b>
<b>Other Investment: net acquisition of financial assets</b>	1,851.2	3,400.7	-2,262	1,566.3	-1,943.1
<b>Other Investment: net incurrence of financial liabilities</b>	9,057.4	24,925.6	10,913.4	11,074.8	16,095.0
o.w. Hydropower loans (incl. accrued interest) *	14,660.6	17,689.8	10,427	10,283.4	14,958.4
o.w. Other loans	-6,029.4	7,236.1	264.6	636.8	1,084.9
<b>D. Net Errors &amp; Omissions</b>	21,019.1	2,385.7	-4,301.7	12,101.5	36,746.7
<b>E. Overall Balance</b>	<b>-131.4</b>	<b>7,192.7</b>	<b>-4,984.8</b>	<b>-11,411.7</b>	<b>-2,055.1</b>
<b>F. Reserve Assets</b>	<b>-131.4</b>	<b>7,192.7</b>	<b>-4,984.8</b>	<b>-11,411.7</b>	<b>-2,055.1</b>

\* Includes accrued interest (from FY 2006/07 onwards), and are therefore not comparable with figures published by the Ministry of Finance. \*\* Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards. \*\*\* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

**Table 14** Annual Balance of Payments estimates with COTI

Nu in million					
Item	FY 2018/19	FY 2019/20	FY 2020/21	FY 2011/22	FY 2022/23
<b>A. CURRENT ACCOUNT</b>	<b>3,228.3</b>	<b>-1,715.9</b>	<b>805.6</b>	<b>-19,984.6</b>	<b>-15,115.2</b>
Goods and Services	-2,881.7	-10,385.3	-7,647.1	-26,987.6	-26,053.8
<b>Goods: Net (Trade Balance)</b>	<b>-2,016</b>	<b>-6,830.9</b>	<b>-3,287.4</b>	<b>-17,514</b>	<b>-15,733.6</b>
Exports (fob)	9,147.6	5,887.2	6,221	6,693.3	8,251.3
Imports (fob)	11,163.6	12,718.1	9,508.4	24,207.3	23,984.9
<b>Services</b>	<b>-865.8</b>	<b>-3,554.4</b>	<b>-4,359.7</b>	<b>-9,473.6</b>	<b>-10,320.2</b>
Credit	8,161.5	6,249.1	523.7	574.2	9,236.5
Debit	9,027.3	9,803.5	4,883.4	10,047.8	19,556.7
<b>Primary Income</b>	<b>-45.3</b>	<b>586</b>	<b>-0.1</b>	<b>196.2</b>	<b>1,045.8</b>
Credit	1,618.6	1,237.6	713.2	1,242.7	2,603.9
Debit	1,663.9	651.6	713.3	1,046.5	1,558.2
<b>Secondary Income</b>	<b>6,155.3</b>	<b>8,083.4</b>	<b>8,452.8</b>	<b>6,806.7</b>	<b>9,892.9</b>
Credit	7,078.7	8,973.4	9,935.3	8,203.2	10,824.7
o.w. Budgetary grants	2,588.7	2,141.4	1,408.8	308.4	1,336.6
Debit	923.4	890	1,482.5	1,396.4	931.8
<b>B. CAPITAL ACCOUNT</b>	<b>59.5</b>	<b>26.7</b>	<b>341.8</b>	<b>368.3</b>	<b>103.4</b>
o.w. Budgetary grants for investment *	59.5	26.7	341.8	368.3	103.4
<b>C. FINANCIAL ACCOUNT **</b>	<b>-913.1</b>	<b>-6,795.1</b>	<b>-4,165.9</b>	<b>-8,097.5</b>	<b>-7,376.9</b>
<b>Direct Investment in Bhutan: net incurrence of liabilities</b>	729.7	-672.3	141.2	508.8	1,056.6
o.w. Equity capital	715.4	29.7	88.8	13.6	93.1
<b>Portfolio Investment</b>					
<b>Other Investment</b>	<b>-183.4</b>	<b>-7,467.4</b>	<b>-4,024.7</b>	<b>-7,588.7</b>	<b>-6,320.2</b>
<b>Other Investment: net acquisition of financial assets ***</b>	259	71.6	124.5	180.2	204.7
<b>Other Investment: net incurrence of financial liabilities</b>	442.4	7,539.0	4,149.1	7,768.9	6,524.9
o.w. RGOB loans	1,696.3	9,018.5	4,592.2	7,837.1	6,927.5
o.w. Other loans	-239	-164.3	0.0	0.0	-223.6
<b>D. Net Errors &amp; Omissions</b>	<b>-1,759.2</b>	<b>7,793.6</b>	<b>-4,388</b>	<b>-9,470.4</b>	<b>-19,101.6</b>
<b>E. Overall Balance</b>	<b>2,441.7</b>	<b>12,899.4</b>	<b>925.3</b>	<b>-20,989.2</b>	<b>-26,736.5</b>
<b>F. Reserve Assets</b>	<b>2,441.7</b>	<b>12,899.4</b>	<b>925.3</b>	<b>-20,989.2</b>	<b>-26,736.5</b>

\* Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards. \*\* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. \*\*\* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

**Table 15** Composition of imports from COTI

								Nu in million
SI	IMPORT CATEGORY	2018	2019	2020	2021	2022	% Share in Total	Annual % change
1	Live Animals & Animal Products	121.3	93.3	31.6	95.3	102.5	0.3	7.6
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	56.2	63.4	65.0	42.9	78.0	0.2	82.0
3	Animal or Vegetable Fats & Oils	149.2	193.6	1.8	7.8	15.1	0.0	92.7
3.1	<i>Palm Oil (Crude &amp; Other)</i>	146.5	189.8	-	-	-	-	-
4	Processed Foods & Beverages	666.3	693.5	568.8	1,166.2	1,340.8	4.0	15.0
5	Mineral Products inc. oils & fuels	515.4	527.9	365.4	1,815.8	1,919.6	5.7	5.7
6	Products of Chemical & Allied Industries	709.1	1,028.3	852.6	2,822.4	2,565.5	7.6	(9.1)
6.1	<i>Medicines / Pharmaceutical Products</i>	128.5	842.9	105.2	1,112.9	1,352.0	4.0	21.5
6.2	<i>Photographic / Cinematographic goods</i>	1.0	0.3	8.8	2.6	4.0	0.0	52.6
7	Plastic & Rubber Products	679.0	575.9	261.9	327.8	594.1	1.8	81.2
8	Wood and Wood Products	31.4	73.5	63.6	21.6	80.5	0.2	272.6
9	Wood Pulp Products	118.6	203.8	78.9	69.7	1,389.2	4.1	1,894.2
10	Textiles, Footwear & Hats/ Headgear	335.5	277.7	408.5	738.7	1,438.4	4.3	94.7
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	105.0	72.1	59.3	107.0	137.0	0.4	28.0
11.1	<i>Ceramic Products</i>	42.3	22.0	28.7	50.1	53.7	0.2	7.1
12	Pearls and Products of Precious/Semi-precious Metal & Stones	19.8	42.6	64.9	123.8	109.0	0.3	(12.0)
13	Base Metals and Articles of Base Metal	457.7	728.4	594.5	433.5	711.3	2.1	64.1
14	Machinery, Mechanical/ Electrical Appliances & Equipment and Parts	5,298.1	4,661.6	4,031.7	10,706.4	20,001.8	59.4	86.8
14.1	<i>Magnetic Discs &amp; Media (recorded/unrecorded)</i>	172.1	33.9	169.8	34.7	4,887.4	14.5	13,965.1
15	Transport Vehicles & Aircraft and Engines & Parts	963.5	2,446.7	6,865.9	670.1	1,487.4	4.4	122.0
16	Optical, Photographic, Cinematographic & Measuring Equipment	1,005.4	473.6	676.0	1,034.9	880.6	2.6	(14.9)
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.1	0.8	0.0	0.0	9.9	0.0	43,698.7
18	Miscellaneous Manufactured Products	301.8	296.5	267.6	406.8	838.5	2.5	106.1
	<b>TOTAL</b>	<b>11,533.5</b>	<b>12,453.1</b>	<b>15,258.3</b>	<b>20,590.7</b>	<b>33,699.1</b>	<b>100</b>	<b>63.7</b>



**Table 16** Composition of exports to COTI

Nu in million								
SI	EXPORT CATEGORY	2018	2019	2020	2021	2022	% Share in Total	Annual % change
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,287.43	1,383.08	1,063.58	1,238.91	1,573.08	20.44	26.97
1.1	Oranges	349.72	521.46	279.85	383.30	314.80	4.09	(17.87)
1.2	Apples	8.28	17.64	0.00	6.09	8.12	0.11	33.22
1.3	Cardamoms	613.00	605.98	657.56	680.53	949.75	12.34	39.56
2	Processed Foods & Beverages	16.03	24.62	21.26	78.23	28.16	0.37	(64.01)
3	Mineral Products inc. oils & fuels	3,944.10	5,229.40	3,321.31	4,651.93	3,771.03	48.99	(18.94)
3.1	Limestone & other	326.21	422.71	253.89	447.17	437.62	5.69	(2.14)
3.2	calcereous stone	202.15	242.18	67.62	90.01	126.25	1.64	40.26
3.3	Dolomite							
	Bituminous Coal	219.06	83.56	3.94	6.25	-	-	(100.00)
4	Products of Chemical & Allied Industries	258.49	63.74	31.51	17.20	17.04	0.22	(0.93)
5	Plastic & Rubber Products	0.62	35.62	0.02	0.11	0.47	0.01	330.61
6	Wood and Wood Products	11.40	22.44	1.78	4.47	0.44	0.01	(90.07) (9.10)
7	Wood Pulp Products	2.16	0.23	0.01	0.25	0.23	0.00	
8	Textiles, Footwear & Hats/Headgear	0.10	0.58	0.98	1.40	3.22	0.04	130.02 382.61
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	10.68	0.85	0.12	0.03	0.17	0.00	
10	Articles of Precious/ Semi-precious Metals	-	-	0.03	-	0.00	0.00	-
11	Base Metals and Articles of Base Metal	3,703.11	899.23	294.83	1,174.75	2,276.37	29.58	93.77
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	-	-	-	8.81	9.51	0.12	7.99
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	-	-	-	-	-	-	-
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	6.41	8.48	6.92	5.01	16.89	0.22	237.44
14	Miscellaneous Manufactured Products	2.87	8.75	0.11	0.40	0.32	0.00	(19.99)
	<b>TOTAL</b>	<b>9,243.40</b>	<b>7,677.02</b>	<b>4,742.46</b>	<b>7,181.49</b>	<b>7,696.91</b>	<b>100</b>	<b>7.18</b>

**Source:** Bhutan Trade Statistics, Department of Revenue & Customs. (Note: An entry of "0.0" indicates a marginal value compared to "-" which indicates no value for that particular item.)

**TABLE 17:** Composition of imports from India

		Nu in million						
Sl. #	IMPORT CATEGORY	2018	2019	2020	2021	2022	% Share in Total	Annual % change
1	Live Animals & Animal Products	2,679.9	2,893.7	2,817.7	3,715.5	3,668.8	4.3	(1.3)
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	3,572.2	3,957.8	4,876.7	6,535.5	7,304.4	8.6	11.8
3	Animal or Vegetable Fats & Oils	1,199.4	1,241.8	1,505.9	2,440.8	2,489.8	2.9	2.0
4	Processed Foods & Beverages	2,354.7	2,455.8	2,826.7	4,019.3	5,251.5	6.2	30.7
5	Mineral Products inc. oils & fuels	16,106.0	14,675.4	10,804.8	14,677.7	19,786.5	23.3	34.8
6	Electricity	295.0	206.0	181.0	-	-	-	-
7	Products of Chemical & Allied Industries	2,269.8	2,517.5	2,259.5	2,954.5	3,565.4	4.2	20.7
7.1	Medicine / Pharmaceutical Products	303.8	503.7	339.2	566.7	441.8	0.5	(22.0)
8	Plastic & Rubber Products	2,642.9	2,873.4	2,439.2	3,393.3	3,837.7	4.5	13.1
9	Wood and Wood pulp products	3,306.6	2,922.6	2,883.7	4,002.1	5,071.0	6.0	26.7
9.1	Wood and Wood Products	2,504.6	2,106.9	2,321.4	3,709.6	4,201.3	4.9	13.3
9.2	Wood Pulp Products	802.0	815.7	562.4	838.8	869.7	1.0	3.7
10	Textiles, Footwear & Hats/ Headgear	878.9	827.8	1,192.8	2,467.2	2,349.0	2.8	(4.8)
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	1,314.1	1,390.2	883.8	902.8	1,832.0	2.2	102.9
11.1	Ceramic Products	429.1	513.2	317.5	476.2	830.7	1.0	74.5
12	Pearls and Products of Precious/Semi-precious Metal & Stones	0.9	1.7	1.3	3.3	4.9	0.0	46.6
13	Base Metals and Articles of Base Metal	7,389.2	8,163.2	5,872.2	6,067.2	10,267.7	12.1	69.2
14	Machinery, Mechanical/ Electrical Appliances & Equipment and Parts	9,233.7	7,308.6	8,488.4	12,516.6	14,059.0	16.5	12.3
15	Transport Vehicles & Aircraft and Engines & Parts	5,807.8	4,104.9	3,109.1	5,588.2	3,037.3	3.6	(45.6)
16	Optical, Photographic, Cinematographic & Measuring Equipment	403.6	356.5	399.9	550.7	651.9	0.8	18.4
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	1.4	4.8	0.1	0.4	2.1	0.0	470.0
18	Miscellaneous Manufactured Products	652.0	757.2	835.9	1,644.5	1,914.1	2.2	16.4
	<b>TOTAL</b>	<b>60,108.1</b>	<b>56,659.0</b>	<b>51,378.9</b>	<b>71,479.7</b>	<b>85,093.2</b>	<b>100</b>	<b>19.0</b>

**Table 18** Composition of exports to India

Nu in million								
SI	EXPORT CATEGORY	2018	2019	2020	2021	2022	% Share in Total	Annual % change
1	Live Animals & Animal Products	50.5	1.9	8.1	27.2	35.7	0.1	31.1
1.1	Raw Hides & Skins	-	-	-	-	-	-	-
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1,101.5	1,577.2	1,241.1	1,933.3	1,280.1	2.6	(33.8)
2.1	Potatoes	492.8	2.8	-	500.7	466.8	0.9	(6.8)
3	Animal or Vegetable Fats & Oils	265.0	150.4	0.4	-	0.1	0.0	-
3.1	Palm Oil	-	-	-	-	0.1	0.0	-
4	Processed Foods & Beverages	1,043.7	1,165.5	909.9	1,302.9	1,387.8	2.8	6.5
5	Mineral Products inc. oils & fuels	4,959.9	7,904.8	3,382.9	5,210	5,188.3	10.6	(0.4)
6	Electricity	10,578	16,237	27,523	24,436	22,475	45.7	(8.0)
7	Products of Chemical & Allied Industries	1,128.9	804	482.7	452.5	635.4	1.3	40.4
8	Plastic & Rubber Products	559	528.9	214.1	163.2	70.6	0.1	(56.7)
9	Wood and Wood Pulp Products	488	255.8	125.9	189.3	224.5	0.5	18.6
9.1	Wood Pulp Products	20.6	17.9	6.6	19.3	7.0	0.0	(63.8)
10	Textiles, Footwear & Hats/ Headgear	0.4	2.7	0.9	1.7	2.5	0.0	43.8
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	68.5	19.6	6.5	4.9	1.5	0.0	(69.2)
12	Base Metals and Articles of Base Metal	11,905	11,132.6	9,613.6	17,116.8	17,861	36.3	4.3
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	16.1	24.1	0.2	3.6	7.3	0.0	104.4
14	Transport Vehicles & Aircraft and Engines & Parts	-	-	-	0.0	2.2	0.0	552,477.3
15	Optical, Photographic, Cinematographic & Measuring Equipment	0.2	0.1	2.9	0.1	0.0	0.0	(70.6)
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.3	0.7	-	0.4	0.3	0.0	(27.6)
17	Miscellaneous Manufactured Products	4.8	4.5	1.2	3.0	1.3	0.0	(56.3)
	<b>TOTAL</b>	<b>32,169.8</b>	<b>39,809.5</b>	<b>43,513.4</b>	<b>50,844.9</b>	<b>49,173.5</b>	<b>100</b>	<b>(3.3)</b>

**Source:** Bhutan Trade Statistics, Department of Revenue & Customs. (Note: An entry of "0.0" indicates a marginal value compared to "-" which indicates no value for that particular item.)

**Table 19** Direction of trade

Item	Nu in million				
	2018	2019	2020	2021	2022
<b>Exports</b>					
India	32,169.8	39,809.5	43,513.4	50,844.9	49,173.5
Bangladesh	5,948.4	6,095.4	3,955	5,212.9	4,665
Italy	917.9	506.9	169.4	850.3	1,742.3
Nepal	525.1	427.8	358.9	586.6	462.4
South Korea	1.4	0.0	0.2		157.3
Vietnam	43.9	73.8	46.5	68.7	138.7
United Kingdom	8.4	34.9	20	4.1	81.8
Spain		28.7	6.2	9.5	72
Netherlands	550.3	67.8	8	43	67.9
Switzerland	0.4	0.3	2.7	22.2	64.1
Germany	423.2	15.5	3.6	80.4	45.7
Singapore	100	42	2.6	23.5	38.4
Japan	49	47	39.6	21.7	36.2
United States	11.2	34.4	5.4	12	29.5
France	10.6	7.7	1.2	5.4	22.9
Belgium	68.4	38.2	7.3		17.5
Thailand	52.3	28.9	5.9	9.1	16.4
UAE	90.1	2.2	39.1	19.6	10.1
Australia	0.9	0.4	0.7	5.4	8.9
Taiwan	14.6	7.5	3.1	3.2	2.4
Others	304.8	215	67.2	169.2	9.2
<b>Total Exports</b>	<b>41,290.5</b>	<b>47,484.1</b>	<b>48,256.1</b>	<b>57,991.5</b>	<b>56,862.2</b>
<b>Imports</b>					
India	60,108.1	56,659	51,378.9	71,479.7	85,093.2
China	1,613.7	1,809.4	2,133.8	7,594.8	10,886.1
Hong Kong	172.8	133.5	114	62.9	5,059.8
Singapore	1,486.2	1,213.1	1,044.3	2,349.8	3,700.1
Thailand	1,050.2	974.2	1,270.7	1,914.4	3,002.8
South Africa	46.5	29.2	36.7	436.9	915.7
Bangladesh	454	625.2	440.5	814.2	848.3
Japan	783.9	636.8	377.2	469.5	807.9
Malaysia	143.6	214.1	195.4	205.5	669
South Korea	1,665	854.8	125.1	629.9	640.3
Sweden	181.6	507.2	50.6	60.6	572.4
Indonesia	163.7	349	103.5	24.6	567.3
Nepal	91.3	217.5	39.5	276.1	465.4
United States	254.7	230.5	196.8	387.7	428.7
UAE	401.7	126.2	357.1	530.2	378.7
Germany	340.5	287.9	682.8	427.2	343.6
Denmark	64.5	38	54.8	101.5	333.3
Gabon					325.3
United Kingdom	205.6	71.8	189.7	122.6	319.9
Australia	31.9	29.9	126.5	350.2	292.7
Others	2,382.1	3,764.5	7,002.0	1,377.6	1,332.3
<b>Total Imports</b>	<b>71,641.6</b>	<b>68,771.6</b>	<b>65,919.9</b>	<b>89,616.0</b>	<b>116,982.9</b>

An entry of "0.0" indicates a marginal value compared to "-" which indicates no value for that particular item. Source: Bhutan Trade Statistics, Department of Revenue and Customs.

Table 20 Bhutan's outstanding external debt

Item	Rupee/Ngultrum in million					USD in million				
	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>1. Convertible Currency Debt</b>	<b>49,629.3</b>	<b>62,744.9</b>	<b>68,596.4</b>	<b>76,371.6</b>	<b>86,268.3</b>	<b>720.1</b>	<b>830.8</b>	<b>922.7</b>	<b>978.1</b>	<b>1051.5</b>
<b>Public</b>	<b>47,643.5</b>	<b>60,705.4</b>	<b>66,569.3</b>	<b>74,311.8</b>	<b>84,314.2</b>	<b>691.3</b>	<b>803.8</b>	<b>895.4</b>	<b>951.8</b>	<b>1027.7</b>
World Bank	18,936.3	24,354.8	27,225.0	30,969.5	31,743.1	274.8	322.5	366.2	396.6	386.9
IFAD	2,464.5	2,731.2	2,835.2	2,889.5	3,046.6	35.8	36.2	38.1	37.0	37.1
ADB	19,869.2	26,340.0	29,831.6	33,060.4	39,157.9	288.3	348.8	401.3	423.4	477.3
Govt of Austria	3,497.2	3,108.5	2,707.7	1,914.2	1,407.1	50.7	41.2	36.4	24.5	17.2
Govt. of Denmark	-	-	-	-	-	-	-	-	-	-
JICA	2,876.3	3,189.0	3,057.0	4,632.3	8,189.3	41.7	42.2	41.1	59.3	99.8
Deutsche Investition (Hydropower)	-	-	-	-	-	-	-	-	-	-
SDF	<b>1,985.8</b>	981.9	912.8	845.8	770.3	<b>28.8</b>	13.0	12.3	10.8	9.4
<b>Private</b>	<b>138,409.4</b>	<b>2,039.6</b>	<b>2,027.2</b>	<b>2,059.8</b>	<b>1,954.0</b>	<b>2,008.3</b>	<b>27.0</b>	<b>27.3</b>	<b>26.4</b>	<b>23.8</b>
<b>2. Rupee Debt</b>	<b>124,432.8</b>	<b>154,218.0</b>	<b>169,546.9</b>	<b>170,576.4</b>	<b>176,421.2</b>	<b>1,805.5</b>	<b>2,041.9</b>	<b>2,280.5</b>	<b>2,184.7</b>	<b>2,150.4</b>
Hydropower debt	46,673.7	132,940.7	148,004.9	148,397.7	153,154.1	677.2	1,760.2	1,990.8	1,900.6	1,866.8
Punatsangchhu-I	41,804.5	48,274.5	48,274.5	49,452.3	51,018.8	606.6	639.2	649.3	633.4	621.9
Punatsangchhu-II	34,397.0	46,732.2	50,632.2	52,532.1	58,510.6	499.1	618.7	681.0	672.8	713.2
Mangdechhu	1,557.6	35,088.4	45,952.6	43,167.6	40,382.6	22.6	464.6	618.1	552.9	492.2
Nikachhu Project	-	2,845.7	3,145.7	3,245.7	3,242.1	101.6	37.7	42.3	41.6	39.5
Other	-	-	-	-	-	-	-	-	-	-
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0	101.2	92.7	94.2	89.7	85.3
RBI Swap	6,976.6	14,277.3	14,541.9	15,178.7	16,267.1	189.0	189.0	195.6	194.4	198.3
<b>Total (CC + Rupee)</b>	<b>188,038.7</b>	<b>216,963.0</b>	<b>238,143.30</b>	<b>246,947.93</b>	<b>263,603.46</b>	<b>2,728.4</b>	<b>2,872.7</b>	<b>3,203.2</b>	<b>3,162.8</b>	<b>3,213.0</b>
Convertible Currency Debt	-	-	-	-	-	-	-	-	-	-
<b>As a % of Total Debt</b>	-	-	-	-	-	<b>26.4</b>	<b>28.9</b>	<b>28.8</b>	<b>30.9</b>	<b>32.7</b>
Rupee Debt	-	-	-	-	-	-	-	-	-	-
<b>As a % of Total Debt</b>	<b>73.6</b>	<b>71.1</b>	<b>71.2</b>	<b>69.1</b>	<b>66.9</b>	<b>73.6</b>	<b>71.1</b>	<b>71.2</b>	<b>69.1</b>	<b>66.9</b>
<b>Total Loans in % of GDP</b>	<b>101.8</b>	<b>115.8</b>	<b>123.1</b>	<b>114.2</b>	<b>108.9</b>	<b>101.8</b>	<b>115.8</b>	<b>123.1</b>	<b>114.2</b>	<b>108.9</b>
Nominal GDP (Calendar Year)	184,660.4	187,377.6	193,385.9	216,239.1	242,158.1	-	-	-	-	-
<b>Exchange Rate</b>	-	-	-	-	-	-	-	-	-	-
Ngultrum/USD exchange rate	68.9	75.5	74.3	78.1	82.0	-	-	-	-	-

Note: Debt data published by the RMA include the total external debt of the country (public + private) and are therefore not comparable to data published by the Ministry of Finance which covers only public debt. Furthermore, the RMA uses fiscal year GDP figures for all ratios to the GDP. Hydropower debt excludes accrued interest.

**Table 21** External debt indicators

External Debt Indicators	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Total Outstanding (USD millions)</b>	<b>2,728.4</b>	<b>2,872.7</b>	<b>3,203.2</b>	<b>3,162.8</b>	<b>3,213</b>
Convertible Currency (USD millions)	720.1	830.8	922.7	978.1	1,051.5
Indian Rupee (in millions)	138,409.4	154,218	169,546.9	170,576.4	176,421.2
Debt/GDP Ratio *					
<b>Total</b>	<b>101.8</b>	<b>115.8</b>	<b>123.1</b>	<b>114.2</b>	<b>108.5</b>
Convertible Currency loan	26.9	33.5	35.5	35.3	35.6
Indian Rupee loan	75	82.3	87.7	78.9	72.9
Debt Service Ratio					
<b>Total</b>	<b>34.8</b>	<b>29.5</b>	<b>38.1</b>	<b>39.2</b>	<b>37.9</b>
Convertible Currency loan	18.8	21.7	47.6	42	23.4
Indian Rupee loan	42.2	31.5	36.7	38.8	43.3
<b>GDP (Nu in Millions)</b>	<b>184,660.4</b>	<b>187,377.6</b>	<b>193,385.9</b>	<b>216,239.1</b>	<b>242,158.1</b>

\* Based on fiscal year GDP figures.

**Table 22** Rupee debt indicators

	INR in Millions				
	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>Total INR Debt Outstanding</b>	<b>138,409.4</b>	<b>154,218</b>	<b>169,546.9</b>	<b>170,576.4</b>	<b>176,421.2</b>
<b>Hydropower Debt</b>	<b>124,432.8</b>	<b>132,940.7</b>	<b>148,004.9</b>	<b>148,397.7</b>	<b>153,154.1</b>
Punatsangchhu - I	46,673.7	48,274.5	48,274.5	49,452.3	51,018.8
Punatsangchhu - II	41,804.5	46,732.2	50,632.2	52,532.1	58,510.6
Mangdechhu	34,397	35,088.4	45,952.6	43,167.6	40,382.6
Nikachhu Project	1,557.6	2,845.7	3,145.7	3,245.7	3,242.1
<b>Non-hydropower Debt</b>	<b>13,976.6</b>	<b>21,277.3</b>	<b>21,541.9</b>	<b>22,178.7</b>	<b>23,267.1</b>
GOI Line of Credit	7,000	7,000	7,000	7,000	7,000
RBI Swap	6,976.6	14,277.3	14,541.9	15,178.7	16,267.1
<b>Debt Service Payments</b>	<b>15,858.1</b>	<b>14,937.2</b>	<b>17,613.9</b>	<b>20,275.5</b>	<b>20,275.5</b>
Principal	14,522.6	14,049.4	15,669.8	17,326.9	17,326.9
Interest	1,335.5	887.8	1,944.1	2,948.5	2,948.5
<b>Debt Service Ratio (%)</b>	<b>42.2</b>	<b>33.7</b>	<b>36.7</b>	<b>38.8</b>	<b>38.8</b>
Interest Payments / Export of Goods & Services (INR)	3.6	2	4.1	5.6	5.6
Principal Repayments/Exports of Goods & Services (INR)	38.7	31.7	32.7	33.2	33.2
<b>Debt Outstanding/GDP (%)</b>	<b>84.1</b>	<b>82.3</b>	<b>87.7</b>	<b>78.9</b>	<b>72.9</b>

Source: Department of Macro-Fiscal & Development Finance and RMA

**Table 23** Foreign exchange reserves

Items (USD in Million)	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
<b>1. Total External Reserves</b>	<b>1,063.18</b>	<b>1,343.53</b>	<b>1,332.39</b>	<b>832.94</b>	<b>573.61</b>
1.1 Foreign Currency Reserves*	1,047.49	1,328.23	1,316.15	792.40	532.23
1.2 Special Drawing Right Holdings	8.52	8.34	8.86	33.82	34.55
1.3 Reserve Tranche Position in IMF	7.16	6.96	7.37	6.72	6.83
*Foreign Currency reserves includes convertible, Indian Rupee reserve and monetary gold.					

## Acknowledgements

### A. Content Analysts

#### A.1 Economic Review

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Inflation

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External Sector

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Sonam Tobgye

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& Sonam Yangki

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\*Since July 2023, served as the Director of the Department of Macroeconomic Research & Statistics, overseeing the preparation of this report. \*\* As of writing this report, she has assumed the role of Deputy Governor.





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# Annual Report

Royal Monetary Authority of Bhutan



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