



# BHUTAN ECONOMIC UPDATE

December 2016



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## **ABBREVIATIONS AND ACRONYMS**

BoP	Balance of Payments
CIB	Credit Information Bureau
CPI	Consumer Price Index
EDP	Economic Development Policy
FDI	Foreign Direct Investment
FSDAP	Financial Sector Development Action Plan
FY	Fiscal Year
FYP	Five-Year Plan
GDP	Gross Domestic Product
MoF	Ministry of Finance
PPP	Public Private Partnership
REER	Real Effective Exchange Rate
RMA	Royal Monetary Authority

## FOREWORD

The Bhutan Economic Update reports on and synthesizes recent economic developments and places them in a medium-term, and regional and global contexts. It analyzes the implications of these developments and policies on the outlook of Bhutan's economy. It attempts to make an analytical contribution to the implementation of Bhutan's Economic Development Policy and the 11<sup>th</sup> Five-Year Plan. The report is intended for a wide audience, including policy makers, business leaders, researchers and academics, and the community of analysts monitoring Bhutan's economy.

The Macroeconomics and Fiscal Management Global Practice at the World Bank has prepared this Update. Yoichiro Ishihara (Resident Representative and Senior Economist) led the task, with contributions from Tenzin Lhaden (Operations Officer and Economist). Qimiao Fan (Country Director) and Deepak Mishra (Practice Manager) provided overall guidance. The World Bank team appreciates the valuable contributions of the Ministry of Finance and the National Statistics Bureau.

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The findings, interpretations, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the World Bank Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this report. For more information about the World Bank and its activities in Bhutan, please visit <http://www.worldbank.org/en/country/bhutan>. For questions and comments about this publication, please contact Yoichiro Ishihara ([yishihara@worldbank.org](mailto:yishihara@worldbank.org)) and Tenzin Lhaden ([tlhaden@worldbank.org](mailto:tlhaden@worldbank.org)).

## Overview

*Bhutan maintained solid macroeconomic performance in 2016. Large ongoing investments in hydropower projects, and supportive fiscal and monetary policy have contributed to the momentum in growth. Single-digit inflation, a relatively stable exchange rate, and accumulating international reserves attest to a stable macroeconomic environment. Rapid growth in a relatively calm macroeconomic context is likely to continue for the next few years, which should result in a steady reduction of poverty. Nevertheless, Bhutan's structural challenges remain: large current account deficits, high public debt, an underdeveloped private sector, and a high youth unemployment rate. To address these challenges, the Royal Government of Bhutan is in the process of revising the Economic Development Policy (EDP) commencing in 2016 and has started preparatory work on the 12<sup>th</sup> Five-Year Plan (FYP), which will commence in 2018.*

### Recent Economic Developments

Bhutan's economy has been steadily recovering from the aftermath of the shortage of the Indian rupee of 2012. Gross domestic product (GDP) growth revived from a low of 2.1 percent in 2013 to 6.5 percent in 2015 (table 0.1 and figure 0.1). A combination of accelerated investments in hydropower, good agricultural harvests, and supportive fiscal and monetary policy to boost implementation of the FYP have sustained the recovery. On the demand side, a resumption of credit (18 percent year on year as of September 2016) has supported private consumption, with services, automobiles, and personal loans showing strong growth. Investments remained robust in hydropower through construction and services.

Macroeconomic stability has accompanied the improved growth performance. Inflation has been below 5 percent, the exchange rate has depreciated marginally, and international reserves covered 9 months of next year's projected goods and services imports. Although there have been high current account deficits (more than 25 percent of GDP), these are related to hydropower projects and thus are mostly financed by loans from India.

In 2012, Bhutan reduced extreme poverty to 2 percent, measured according to the international poverty line of US\$1.90 a day (purchasing power parity) (figure 0.2). This is among the lowest rate in South Asia and is substantially lower than the regional poverty rate of 19 percent. Even by a higher international poverty line of US\$3.10 a day, Bhutan has achieved impressive poverty reduction, from 29 percent in 2007 to 13 percent in 2012. During the same period, expenditures of households in the bottom 40 percent of the income distribution grew virtually at the same rate as the overall average, and the income share of the bottom 40 percent of the population remained at 17 percent. Equally impressive improvements have been made in access to basic services and asset ownership. The Gross National Happiness Survey, Bhutan's unique measure of economic, social, and spiritual development, showed further improvements in 2015. Bhutan has achieved universal ownership of mobile phones and access to electricity. The overall unemployment rate fell from an already low 2.9 percent in 2013 to 2.5 percent in 2015, although youth unemployment exceeded 10 percent.

### Outlook

Growth is expected to accelerate during 2016 to 2018 (table 0.1). Construction will start on three hydropower projects in the next 3 years, and two hydropower projects will become operational in 2018. Macroeconomic stability would allow fiscal and monetary policy flexibility to keep supporting economic activities. Given the close economic relationship with its southern neighbor, a positive economic outlook in India will also help Bhutan's growth to accelerate. Low global commodity prices and the pegged exchange rate to the Indian rupee are expected to anchor a stable inflation rate. Although high current deficits are likely to continue because of imports associated with hydropower constructions, these are backed by secured financing sources. Projections based on GDP growth indicate steady and continuous

poverty reduction since 2012, the last year for which survey-based estimates are available. Poverty headcount is projected to fall to 10.9 percent by 2015 and 6.0 percent by 2018 at the US\$3.10 a day line.

## Risks and Challenges

Bhutan's main challenge is how to manage the hydropower projects and the effects of the projects on the economy. The construction and commissioning of hydropower projects is likely to stimulate domestic demand, which would result in additional pressure on the balance of payments (BoP). To mitigate these risks, credit growth and international reserves will have to be carefully monitored. Increasing foreign direct investment (FDI) and remittances will be more important to finance the current account deficits. The effect of the slowdown of the global economy on Bhutan's economy is expected to be modest because of the country's limited linkage with the rest of the world other than India. Nevertheless, deceleration of the global economy will be felt through its effect on the Indian economy or the tourism sector.

The latest debt sustainability analysis in mid-2016 concluded that Bhutan's external debt risk is moderate, because much of the external debt is linked to the Indian hydropower project loans. In addition to the challenges related to hydropower, a large current account deficit, an underdeveloped private sector, and high youth unemployment are major challenges. The implementation of the revised EDP is expected to improve the business climate, which in turn would be expected to create jobs, especially for youth. Bhutan remains largely rural, with an estimated 61 percent of the population living in rural areas in 2015. The urban–rural gap is evident in many areas, including poverty, food security, and access to services. Although the incidence of poverty is low, urban areas face a higher unemployment rate (6.3 percent) than rural areas (1.0 percent). Youth unemployment in urban areas is high and increasing: 21 percent in 2010, 23 percent in 2013, and 28 percent in 2015. Long lines for those seeking public sector employment and a scarcity of high-paying jobs for urban youth reflect a gap between supply and demand in the labor market. The country is therefore in urgent need of private sector development to diversify its economy, building on the foundation that the hydropower industry has created. The development of the private sector will also help address urban youth unemployment.

**Table 0.1 Bhutan: Macro Poverty Outlook Indicators** (Annual Percentage Change Unless Indicated Otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
<b>Real GDP growth at constant market prices</b>	<b>2.1</b>	<b>5.7</b>	<b>6.5</b>	<b>7.4</b>	<b>9.9</b>	<b>11.7</b>
Private consumption	58.0	-6.4	7.2	7.5	7.0	6.5
Government consumption	-10.1	2.4	10.8	5.4	1.8	0.2
Gross capital investment	-35.7	24.4	16.5	11.7	11.0	13.5
Exports, goods and services	3.9	-5.8	-4.6	-2.0	6.0	8.0
Imports, goods and services	-1.8	-3.2	10.1	5.5	3.2	3.3
<b>Real GDP growth at constant factor market prices</b>	<b>2.1</b>	<b>5.7</b>	<b>6.5</b>	<b>7.4</b>	<b>9.9</b>	<b>11.7</b>
Agriculture	2.4	2.4	4.6	3.4	3.5	3.6
Industry	3.9	3.7	8.1	8.5	14.0	17.0
Services	1.6	8.2	8.3	8.2	8.3	8.4
<b>Inflation (Consumer Price Index)</b>	<b>8.8</b>	<b>8.3</b>	<b>4.5</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>Current account balance (percentage of GDP)</b>	<b>-23.1</b>	<b>-24.6</b>	<b>-31.5</b>	<b>-29.4</b>	<b>-23.7</b>	<b>-15.7</b>
<b>Fiscal balance (percentage of GDP)</b>	<b>-0.2</b>	<b>2.7</b>	<b>-0.7</b>	<b>-4.2</b>	<b>-3.0</b>	<b>4.1</b>
<b>Debt (percentage of GDP)</b>	<b>98.1</b>	<b>96.4</b>	<b>98.2</b>	<b>102.1</b>	<b>103.2</b>	<b>97.7</b>
<b>Primary balance (percentage of GDP)</b>	<b>2.0</b>	<b>4.4</b>	<b>0.8</b>	<b>-2.8</b>	<b>-1.9</b>	<b>6.2</b>
<b>Poverty rate (\$1.90/day PPP terms)<sup>a</sup></b>	<b>2.1</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>1.3</b>	<b>1.2</b>
<b>Poverty rate (\$3.10/day PPP terms)<sup>a</sup></b>	<b>13.1</b>	<b>12.4</b>	<b>10.9</b>	<b>10.5</b>	<b>8.5</b>	<b>6.0</b>

Source: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice

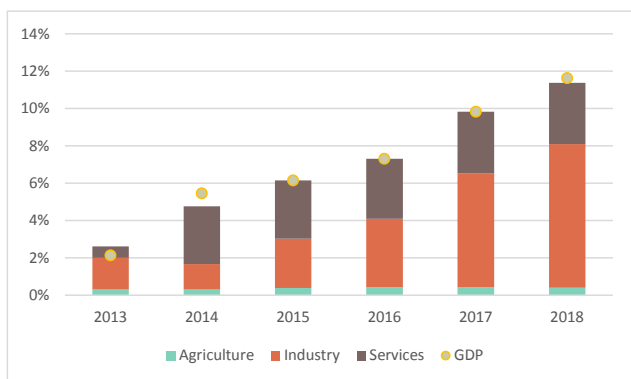
Note: e, estimate; f, forecast; PPP, purchasing power parity

a. Calculations based on SARMD harmonization, using 2012 Bhutan Living Standards Survey

b. Projection using natural distribution (2012) with pass-through =0.7 based on gross domestic product (GDP) per capita constant purchasing power parity

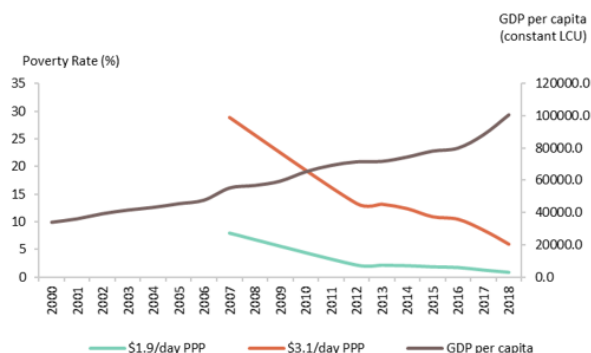
c. Projections are from 2013 to 2018

**Figure 0.1 Composition of GDP Growth – Supply Side**



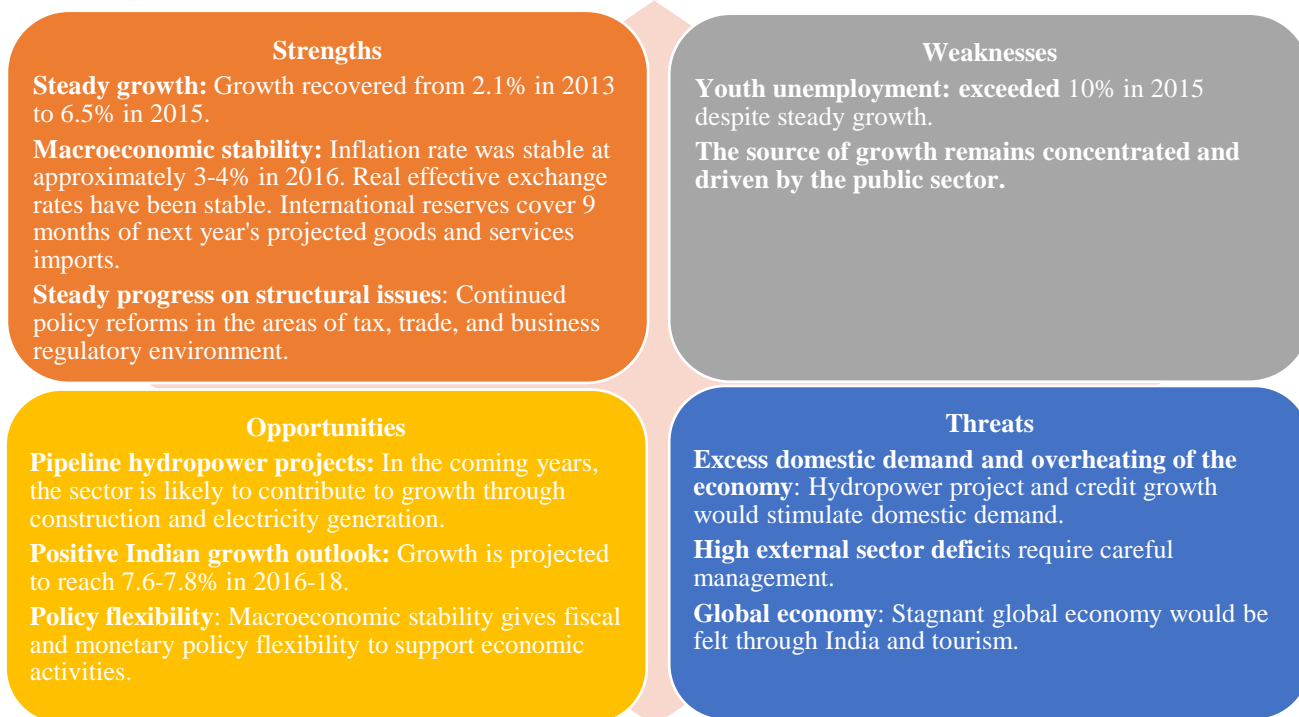
Source: National Statistics Bureau, World Bank

**Figure 0.2 Actual and Estimated Poverty Rates and Gross Domestic Product per Capita (Purchasing Power Parity)**



Source: World Bank

**Figure 0.3 Snapshot of Bhutan’s Macroeconomic Development**





## Recent Economic Development and Prospects

### 1. Introduction

**Bhutan’s economy in the world.** Bhutan is one of the smallest but fastest-growing economies in the world (table 1.1). Annual average growth between 2006 and 2015 reached 7.5 percent, which places the country 13<sup>th</sup> of 118 countries, far exceeding average global growth of 4.4 percent. The investment rate of 56.8 percent of GDP is the highest in the world and has supported the growth rate, yet FDI remained at 1.7 percent of GDP—less than half of the average of low- and middle-income countries. In the external sector, both exports and imports as a share of GDP are higher than the average. However, imports are much larger than exports, which has led to the current account deficit of 29.5 percent, one of the highest in the world. Net official development assistance relative to the size of the economy is similar to the global average, which is not enough to finance the current account deficit. The extent of financial deepening measured according to domestic credit to the private sector as a share of GDP is close to global average.

**Table 1.1 Bhutan’s Economy in the World (Low- and Middle-Income Countries)**

Topic	Indicator	Year <sup>a</sup>	Bhutan	Average of sample countries	Median of sample countries	Rank / total number of countries
Size of economy	GDP (current US\$, billion)	2015	2.0	194.1	14.0	109 / 131
Income level	GDI per capita (current US\$)	2015	2,532	3,738	3,131	73 / 131
Growth rate	Annual GDP growth rate in 10 years	2015	7.5	4.4	4.3	13 / 118
Investment	Gross fixed capital formation % of GDP	2015	56.8	24.1	22.9	1 / 109
FDI	FDI net inflows (% GDP)	2015	1.7	4.2	2.9	96 / 131
Exports	Exports (goods and services) % of GDP	2015	44.5	33.8	29.5	31 / 117
Imports	Imports (goods and services) % of GDP	2015	71.5	47.5	45.8	15 / 117
Current account	Current account deficit (% GDP)	2015	29.5	6.0	4.5	96 / 99
Aid	Net official development assistance % of gross national income	2014	7.1	6.2	2.8	37 / 127
Financial sector	Domestic credit to the private sector (% GDP)	2015	47.4	41.6	35.3	40 / 119

*Source:* World Development Indicators, National Statistics Bureau, Royal Monetary Authority, and Ministry of Finance.

*Note:* For international comparison, data from world development indicators is used, which is not exactly the same as the data from Bhutan’s authorities.

a. Years are different because of availability of data.

**Bhutan in South Asia<sup>1</sup>.** Bhutan is the smallest economy among eight South Asian countries, but its GDP per capita is US\$2,532, almost the same as the South Asian average (table 1.2). South Asia is one of the fastest-growing regions in the world, and Bhutan’s performance is better than the average, partly led by high investment. As in other South Asian countries, domestic investment has driven high investment (FDI is low). In the external sector, Bhutan’s high current account deficits stand out among those of South Asian countries.

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<sup>1</sup> In the World Bank definition, South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

**Table 1.2 Bhutan's Economy in South Asia**

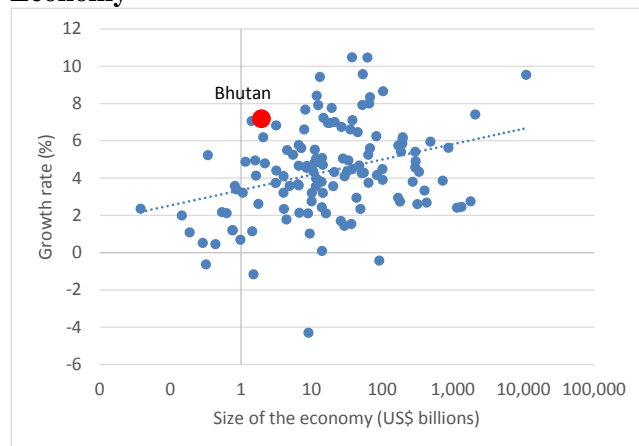
Indicator	Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Average
GDP (current US\$, billion)	2015	19.2	195.1	<b>2.0</b>	2,073.5	3.1	20.9	270.0	82.3	<b>333.3</b>
Gross domestic income per capita (current US\$)	2015	590	1,212	<b>2,532</b>	1,582	7,681	732	1,429	3,926	<b>2,460</b>
Annual GDP growth rate in 10 years	2015	7.8	6.2	<b>7.5</b>	7.4	6.8	4.3	3.8	6.3	<b>6.2</b>
Gross fixed capital formation % of GDP	2015	21.2	28.9	<b>56.8</b>	30.8	..	23.0	13.5	26.5	<b>28.7</b>
Foreign direct investment net inflows (% GDP)	2015	0.3	1.7	<b>1.7</b>	2.1	10.3	0.1	0.4	0.8	<b>2.2</b>
Exports (goods and services) % of GDP	2015	7.3	17.3	<b>44.5</b>	22.9	104.9	11.7	10.9	20.5	<b>30.0</b>
Imports (goods and services) % of GDP	2015	45.9	24.7	<b>71.5</b>	25.9	95.8	41.6	17.1	28.0	<b>43.8</b>
Current account balance (% GDP)	2015	5.0	1.4	<b>-29.5</b>	-1.3	-9.4	11.7	-0.6	-2.4	<b>-1.6</b>
Net official development assistance % of gross national income	2014	23.3	1.3	<b>7.1</b>	0.1	0.9	4.4	1.4	0.6	<b>4.9</b>
Domestic credit to the private sector (% GDP)	2015	4.0	43.9	<b>47.4</b>	52.7	38.2	64.9	15.4	30.8	<b>37.2</b>

Source: World Development Indicators

**Stylized facts about Bhutan's economy.** By positioning Bhutan's economy in the global and regional contexts, three stylized facts have emerged (figures 1.1 and 1.2).

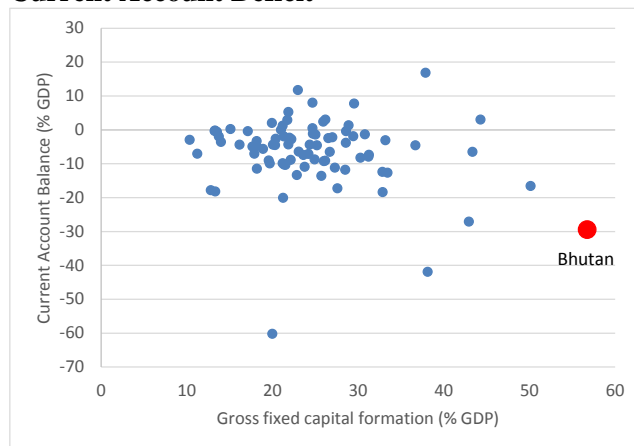
- (1) **Small but high-growth economy.** Bhutan is one of the smallest economies in the world (US\$2.0 billion, 1/100 of the average and 1/7 of the median), but its annual average GDP growth (7.5 percent) is 13<sup>th</sup> fastest of 118 countries.
- (2) **High investment.** Investment of 57 percent of GDP has driven high growth in Bhutan, which has been financed by domestic savings and secured official foreign loans, with a modest level of FDI (1.7 percent of GDP).
- (3) **High current account deficit.** Gross domestic saving has not been enough to finance high investment. As a result, Bhutan runs a large current account deficit of 29.5 percent of GDP.

**Figure 1.1 Small but Fast-Growing Bhutan Economy**



Source: World Development Indicators

**Figure 1.2 High Investment Is Associated with Current Account Deficit**



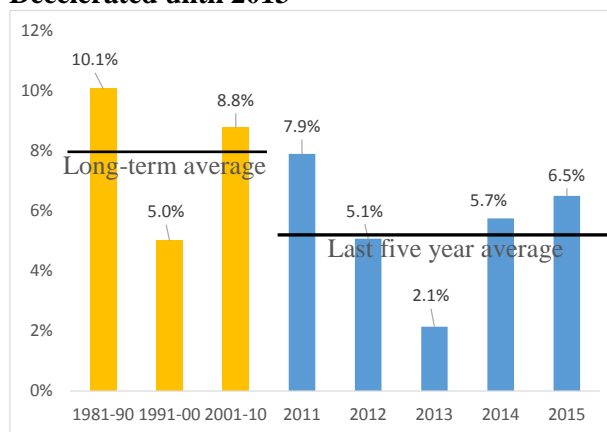
## 2. Real Sector

**Why focus on GDP growth?**<sup>2</sup> GDP measures the total value added of all goods and services that residents and nonresidents produce over a specific period in an economy. GDP growth indicates an increase in economic activity over the previous period and thus measures the strength or weakness of an economy. GDP can be measured using the production approach or the expenditure approach. The production approach sums the value added at each stage of production, with value added defined as total sales minus the value of intermediate inputs. The expenditure approach sums the final value of household consumption, government consumption, investment, and exports and imports. In Bhutan, the National Statistics Bureau relies on the production approach to estimate GDP and then calculates items in the expenditure account based on available data.

**Medium- to long-term performance.** In the past 5 years, from 2011 to 2015, the economy grew by 5.5 percent on average. The 5-year average annual growth rate was lower than in the 2000s (8.8 percent) and the long-term average growth of 7.6 percent since 1981 (figure 1.3). In the past few years, GDP growth decelerated from 11.7 percent in 2010 to 2.1 percent in 2013 in the aftermath of the Indian rupee shortage and then recovered to 6.5 percent in 2015.

**Regional context.** South Asia is one of the best-performing regions in the world. Four of eight countries, including Bhutan, had an annual average growth rate over the past 5 years of greater than 6 percent. Bhutan's growth rate fluctuated significantly, the highest being 11.7 percent in 2010 and the lowest 2.1 percent in 2013. This volatility indicates that Bhutan is susceptible to external shocks as well as the progress of hydropower projects because of its small size of its economy.

**Figure 1.3 Real Gross Domestic Product Growth Decelerated until 2013**



Source: National Statistics Bureau

<sup>2</sup> <http://www.imf.org/external/pubs/ft/fandd/basics/gdp.htm>

**Table 1.3 Real Gross Domestic Product Growth of South Asian Countries**

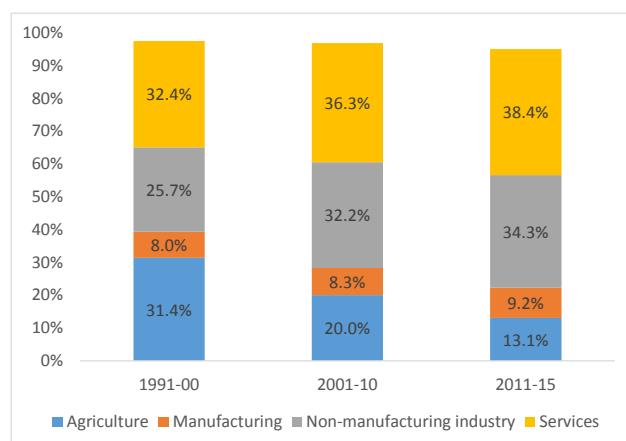
Country	2011	2012	2013	2014	2015	Average <sup>a</sup>
Afghanistan	14.4	2.0	1.3	1.5	6.1	5.1
Bangladesh	6.5	6.0	6.1	6.6	6.5	6.3
<b>Bhutan</b>	<b>7.9</b>	<b>5.1</b>	<b>2.1</b>	<b>5.7</b>	<b>6.5</b>	<b>6.5</b>
India	5.6	6.6	7.2	7.6	6.6	6.7
Maldives	2.5	4.7	6.5	1.5	8.7	4.8
Nepal	4.8	4.1	5.4	3.4	3.4	4.2
Pakistan	3.5	4.4	4.7	5.5	2.7	4.2
Sri Lanka	9.1	3.4	4.9	4.8	8.4	6.1

Source: World Development Indicators and National Statistics Bureau

a. Average of 5 years

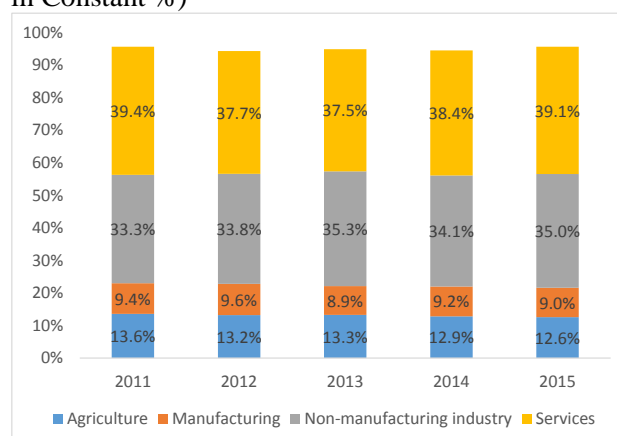
**Production account.** The development of the production account over the long term demonstrates three structural changes (figure 1.4). First, the share of agriculture fell significantly, from 31 percent in the 1990s to 13 percent in the early 2010s. Second, the share of services increased from 32 percent in the 1990s to 38 percent in the early 2010s. Third, the share of non-manufacturing industry increased from 26 percent in the 1990s to 34 percent in the early 2010s. The electricity subsector mainly drove the increase, with a smaller contribution from the construction subsector. In the services sector, the transportation, storage, communication, and finance and insurance subsectors were the main contributors to the increase. Despite the significant change in the economic structure over the long term, the structure has remained almost unchanged in the past 5 years (figure 1.5).

**Figure 1.4 Declining Agricultural Share Over Long Term (Share in Constant %)**



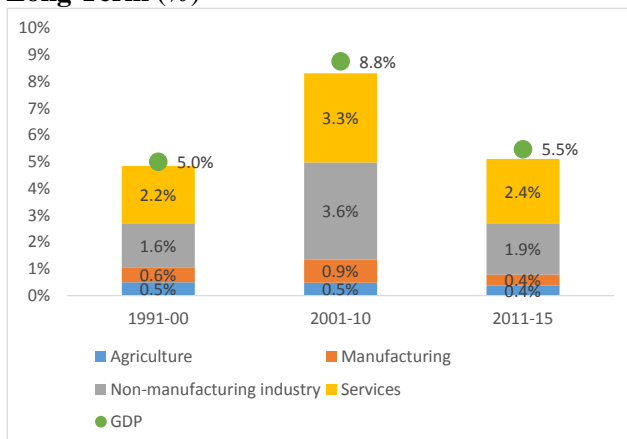
Source: National Statistics Bureau

**Figure 1.5 Economic Structure Has Remained Almost Unchanged in the Past Several Years (Share in Constant %)**



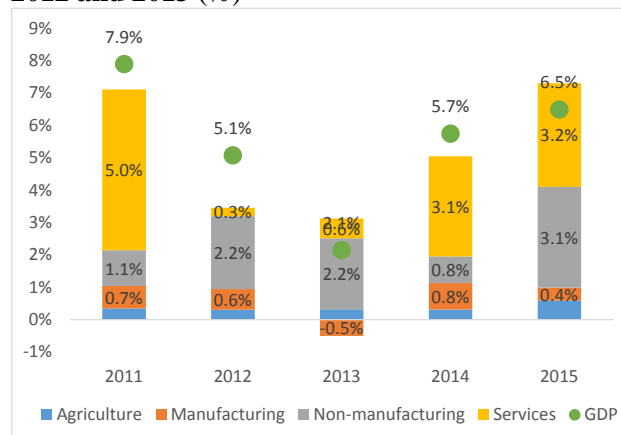
Agriculture was one of the major drivers of growth in the 1980s, but its contribution has fallen to approximately 0.5 percentage points of the overall growth since the 1990s. On the other hand, industry and services have become the main growth drivers. At the same time, fluctuations in their performance have affected overall growth performance (figure 1.6). In the past 5 years, non-manufacturing industry led the slowdown of growth in 2011, and services led the slowdown in 2012 and 2013. In 2011, the contribution of the electricity subsector turned negative at -1.1 percent, from 1.2 percent in 2010. In 2012, the biggest turnaround came from the financial subsector. Its contribution turned negative at -0.7 percent, from 1.8 percent in the previous year. The Indian rupee shortage and resulting cash-flow crunch in the financial sector also adversely affected the performance of the financial subsector. In 2014 and 2015, when the effect of the rupee crunch subsided, services (trade and transportation) led the recovery.

**Figure 1.6 Low Contribution of Agriculture Over Long Term (%)**



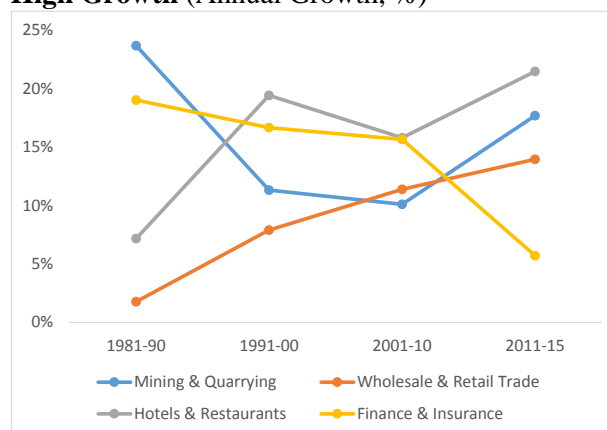
Source: National Statistics Bureau

**Figure 1.7 Services Drove Growth Slowdown in 2012 and 2013 (%)**



Although the analysis of the contribution of sectors and subsectors to GDP growth is useful, the size of each sector affects the contribution. In other words, the analysis does not show growth over the previous year. The mining, wholesale and retail trade, hotels and restaurants, and financial and insurance subsectors have maintained high growth rate over the long term (figure 1.8).

**Figure 1.8 Four Subsectors Had Long-Term High Growth (Annual Growth, %)**

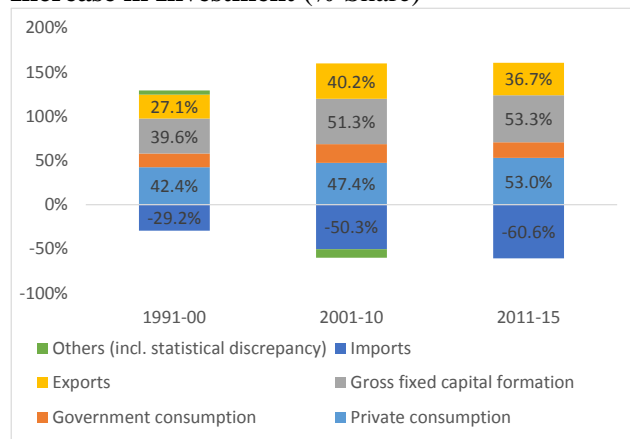


Source: National Statistics Bureau

**Expenditure account.** The analysis of the expenditure account demonstrates three changes in the economic structure between the 1990s and 2000s (figure 1.9). First, the share of gross fixed capital formation (investment) in GDP kept increasing, from 40 percent in the 1990s to 53 percent in the 2010s, driven by hydropower investment. Second, the increase in investment led to the increase in imports. Imports increased from 29 percent of GDP in the 1990s to 61 percent in the 2010s. Third, the increase in exports from 27 percent to 37 percent did not keep up with the increase in imports. In other words, the trade deficit increased.

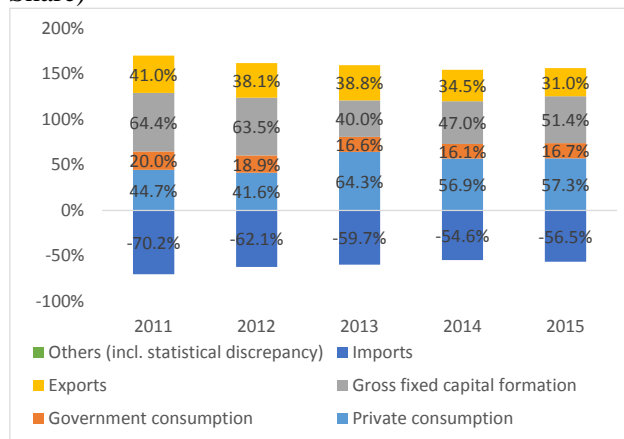
These structural changes did not hold in the 2010s (figure 1.10). The share of investment in the economy fell from 64 percent in 2011 to 40 percent in 2013 before recovering to 51 percent in 2015. Similarly, the share of imports fell from 70 percent in 2011 to 57 percent in 2015, and the share of exports fell from 41 percent in 2011 to 31 percent in 2015.

**Figure 1.9 Increase in Imports Accompanied Increase in Investment (% Share)**



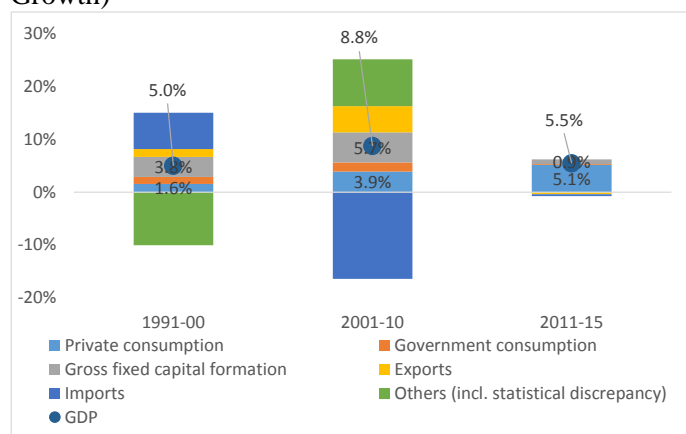
Source: National Statistics Bureau

**Figure 1.10 Shrinking Investment and Imports (% Share)**



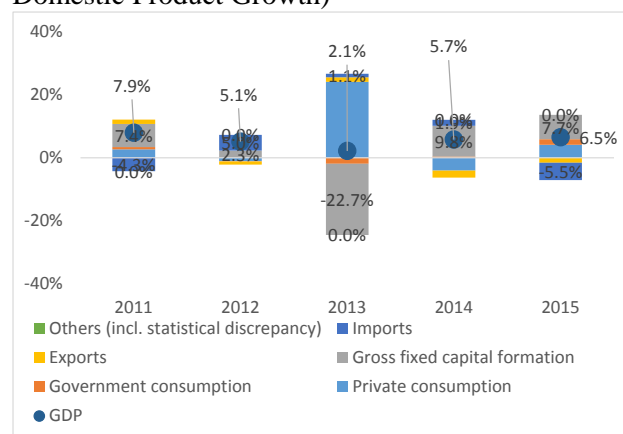
Unlike in the production account, it is challenging to measure contributions of different categories to the expenditure account, mainly because other items (including statistical discrepancy and the gap from the production account) are significant. Nevertheless, the contribution of the private sector has been increasing over the long term (figure 1.11). In the past 5 years, gross fixed capital formation was the main source of fluctuations.

**Figure 1.11 Contribution of Private Consumption Increased (% Contribution to Gross Domestic Product Growth)**



Source: National Statistics Bureau

**Figure 1.12 Gross Fixed Capital Formation Led to Growth Fluctuations (% Contribution to Gross Domestic Product Growth)**



### 3. External Sector

**Importance of the BoP:** The BoP summarizes an economy's transactions with the rest of the world for a specific period. The BoP is more comprehensive than international trade statistics because international trade statistics usually cover goods only. The BoP consists of the current, capital, and financial accounts. The current account broadly measures an economy's saving and spending behaviors—a current account deficit means that an economy spends more than it saves. For this reason, the current account balance as a share of GDP is one of the most important indicators of macroeconomic stability. The sum of the current, capital, and financial accounts is the overall balance, which shows the change in international reserves.

**Regional context.** The average current account deficits of South Asian countries other than Afghanistan for the past 5 years were less than 10 percent (table 1.4). Bhutan's current account deficits have been much higher than those of other South Asian countries, indicating that this is a key economic challenge. Therefore, it is essential to comprehend features of the BoP in Bhutan.

**Table 1.4 Current Account Balance of South Asian Countries** (Percentage of Gross Domestic Product)

	2011	2012	2013	2014	2015	Average <sup>a</sup>
Afghanistan	6.4	6.2	7.4	8.0	5.0	6.6
Bangladesh	-0.1	1.9	1.4	0.4	1.4	1.0
<b>Bhutan</b>	<b>-25.7</b>	<b>-31.0</b>	<b>-23.1</b>	<b>-24.6</b>	<b>-31.5</b>	<b>-27.2</b>
India	-3.8	-5.6	-6.0	-2.8	-2.3	-4.1
Maldives	-15.7	-7.3	-4.6	-3.8	-9.4	-8.2
Nepal	1.5	3.1	6.0	2.5	11.7	5.0
Pakistan	-1.0	-1.0	-1.9	-1.5	-0.6	-1.2
Sri Lanka	-7.1	-5.9	-3.4	-2.5	-2.4	-4.3

Source: World Development Indicators, Royal Monetary Authority

a. Average of past 5 years

**BoP.** The development of the BoP over the medium term shows that Bhutan's current account deficit started to increase in fiscal year (FY) 2009/10. Between FY05/06 and FY08/09, the annual average current account deficit was 3 percent of GDP. Between FY09/10 and FY14/15, it increased to 26 percent (table 1.5). The decline in goods exports accounted for more than half of the increase in the current account deficit, followed by the increase in imports and income (debit).

The current account deficit increased further in 2015, reaching 31 percent of GDP, 6 percentage points more than the previous year (25 percent). More than 90 percent of the increase in the current account deficits was due to the combination of the increase in imports and the decline in exports (table 1.6).

Despite the large and increasing current account deficit, the overall balance (calculated as the sum of the current, capital, and financial accounts) has been mostly positive over the long term (figure 1.13), as inflows in the capital and financial accounts have fully financed imports related to the hydropower sector. Therefore, the level of international reserves has been increasing. In FY14/15, the overall balance of payments reached -0.4 percent of GDP.

**International reserves.** Article 14-7 of the Constitution requires that "A minimum foreign currency reserve that is adequate to meet the cost of not less than one year's essential import must be

**Table 1.5 Increase in Current Account Deficit Mainly Due to Goods Trade** (Percentage of Gross Domestic Product, Annual Average)

	FY05-08	FY09-14	Gap	Share
<b>Current Account</b>	<b>-3</b>	<b>-26</b>	<b>-23</b>	<b>100</b>
<b>Credit</b>	<b>64</b>	<b>49</b>	<b>-15</b>	<b>65</b>
Goods exports	45	33	-13	55
Services exports	5	6	1	-3
Income	13	10	-3	12
<b>Debit</b>	<b>-66</b>	<b>-74</b>	<b>-8</b>	<b>35</b>
Goods imports	-49	-54	-5	22
Services imports	-8	-10	-2	7
Income	-9	-10	-2	7

Source: Author's calculation based on Royal Monetary Authority

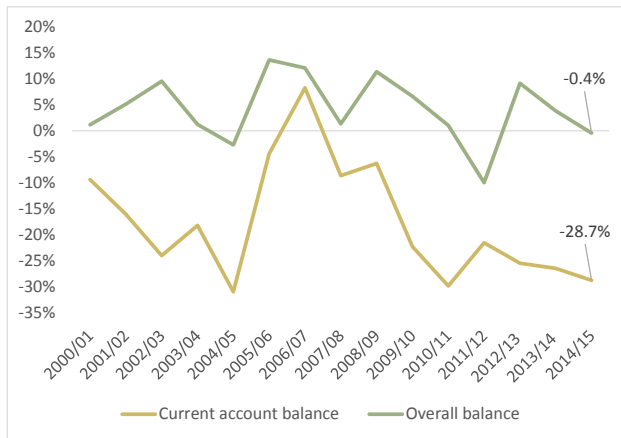
**Table 1.6 Increase in Current Account Deficit in 2015 Mainly Due to Goods Imports** (Percentage of Gross Domestic Product)

	2014	2015	Gap	Share
<b>Current Account</b>	<b>-25</b>	<b>-31</b>	<b>-7</b>	<b>100</b>
<b>1. Credit</b>	<b>44</b>	<b>40</b>	<b>-4</b>	<b>57</b>
Goods exports	30	26	-3	47
Services exports	6	7	0	-5
Income	8	7	-1	15
<b>2. Debit</b>	<b>68</b>	<b>71</b>	<b>3</b>	<b>43</b>
Goods imports	48	51	3	50
Services imports	10	9	-1	-13
Income	11	11	0	6

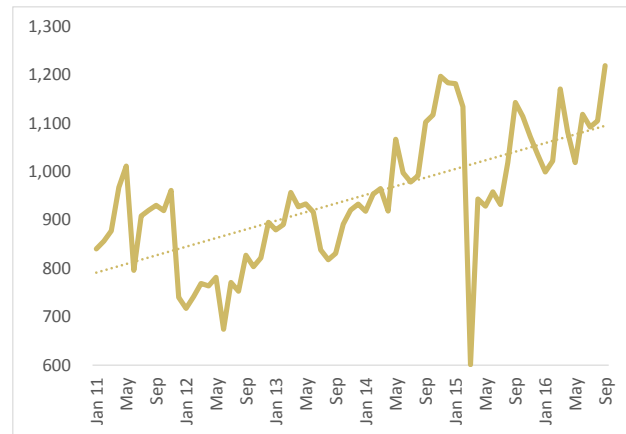
Source: Author's calculation based on Royal Monetary Authority

maintained.” Although information on the BoP is available on a quarterly basis, the Royal Monetary Authority (RMA)—the central bank—publishes international reserves on a monthly basis. The development of international reserves in the past several years shows that they have been increasing since 2012, when the country experienced an Indian rupee shortage (figure 1.14). As of September 2016, international reserves were US\$1.2 billion, equivalent to 12 months of imports of goods and services and more than 25 months of essential imports. A critical reserve management challenge for Bhutan was convertibility between the Indian rupee and the U.S. dollar, because India accounted for 84 percent of total goods imports in 2014, which caused the shortage of the Indian rupee, whereas there were enough hard currencies. To address the challenge, the RMA ensured convertibility between the Indian rupee and the convertible currencies such as the U.S. dollar in mid-2015.

**Figure 1.13 Positive Overall Balance** (Percentage of Gross Domestic Product)



**Figure 1.14 International Reserves Kept Increasing** (US\$ million)



Source: Royal Monetary Authority

#### 4. Monetary Sector

The RMA Act of Bhutan 2010 describes the basic functions of the RMA as “to formulate and implement necessary monetary policy with a view to achieving and maintaining price stability and developing, regulating, and supervising the banking and financial system, including the payments system, to support the macro-economic objectives of the Royal government, bring in international best practices and protect it against systemic risks, thereby enhancing its credibility at the national and international levels.”

**Regional context.** There is not much difference in inflation rates between South Asian countries (table 1.6). Because of the exchange rate peg between Bhutan and India and India’s large share of Bhutan’s international trade, long-term inflation rates between the two countries are highly correlated (figure 1.15).

**Table 1.7 Inflation Rates of South Asian Countries** (Consumer Price Index)

	2011	2012	2013	2014	2015	Average <sup>a</sup>
Afghanistan	10.2	7.2	7.7	4.6	-1.5	5.6
Bangladesh	10.7	6.2	7.5	7.0	6.2	7.5
<b>Bhutan</b>	<b>8.8</b>	<b>10.9</b>	<b>7.0</b>	<b>8.2</b>	<b>4.5</b>	<b>7.9</b>
India	8.9	9.3	10.9	6.4	5.9	8.3
Maldives	12.8	12.1	2.3	2.1	1.0	6.1
Nepal	9.3	9.5	9.0	8.4	7.9	8.8
Pakistan	11.9	9.7	7.7	7.2	2.5	7.8
Sri Lanka	6.7	7.5	6.9	3.3	0.9	5.1

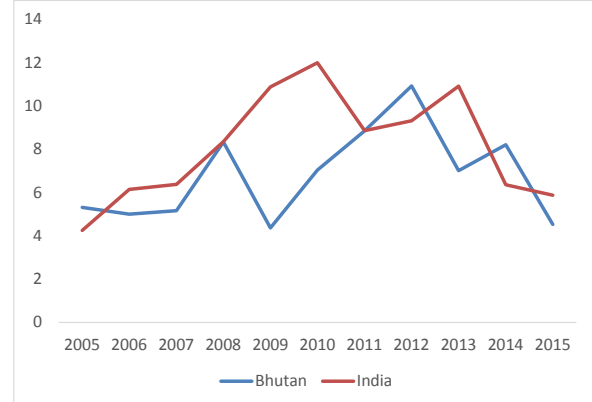
Source: World Development Indicators

a. Average of past 5 years



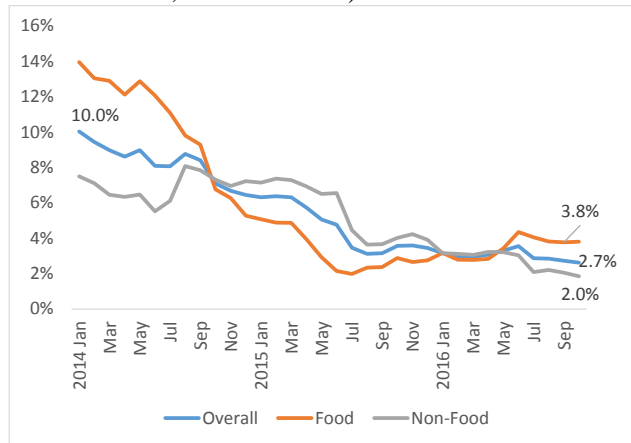
**Consumer price index.** The inflation rate measured by consumer price index (CPI) decelerated in 2015 and 2016. The CPI (period average) slowed from 8.3 percent in 2014 to 4.5 percent in 2015. In the first 10 months of 2016, CPI inflation rates further eased to 3.0 percent. The disaggregation between food and nonfood shows that the inflation rates of both categories decelerated (figure 1.16). Comparison of domestically produced and imported goods shows that imported goods have driven the decrease (figure 1.17). Among the major categories, housing and utility prices and transport prices started to fall in mid-2015. Transport prices reflect fuel prices. The decline in global commodity prices may have had a positive effect.<sup>3</sup>

**Figure 1.15 Bhutan’s and India’s Inflation Rates Are Highly Correlated** (Percentage of Consumer Price Index Inflation Rate)



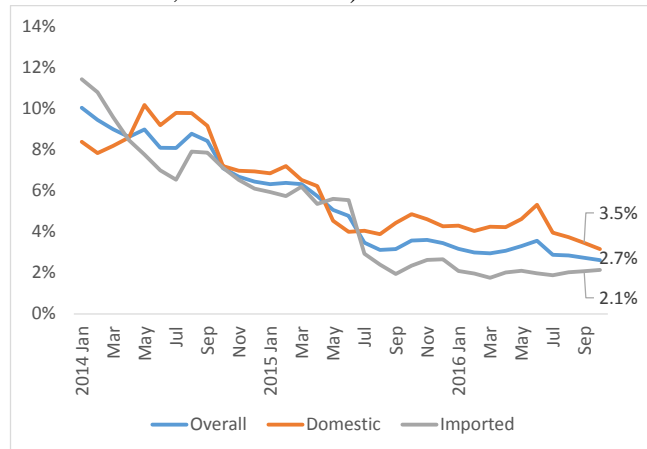
Source: National Statistics Bureau

**Figure 1.16 Inflation Rates Have Fallen in Food and Nonfood** (Percentage of Consumer Price Index Inflation Rate, Year-on-Year)



Source: National Statistics Bureau

**Figure 1.17 Imported Goods Have Brought Price Stability** (Percentage of Consumer Price Index Inflation Rate, Year-on-Year)



**Exchange rate.** The Bhutanese ngultrum is 100 percent convertible to the Indian rupee. “The stability of the exchange rate peg of the ngultrum to the Indian rupee remains one of the cornerstones of RMA’s monetary and reserve management policy.”<sup>4</sup> After having depreciated by 4.2 percent against the U.S. dollar in 2014, the ngultrum depreciated by 5.1 percent in 2015 (figure 1.18). In 2016, the ngultrum has been stable, depreciating by 0.2 percent in the first 9 months of 2016.

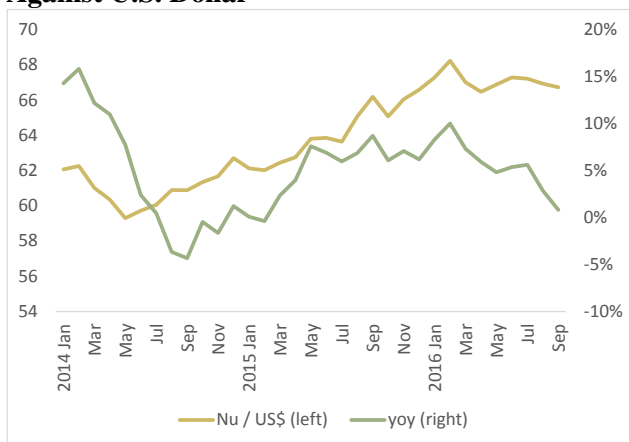
Most people are familiar with nominal exchange rates—the number of units of domestic currency that can purchase a unit of foreign currency—but nominal exchange rates do not accurately indicate the purchasing power of the domestic currency, which depends on the relative importance of foreign currencies and domestic and foreign inflation rates. The real effective exchange rate (REER) adjusts the nominal exchange rate with the shares of international trade and the inflation rates.

<sup>3</sup> <http://www.worldbank.org/en/research/commodity-markets>

<sup>4</sup> Monetary Policy Statement (p. iii)

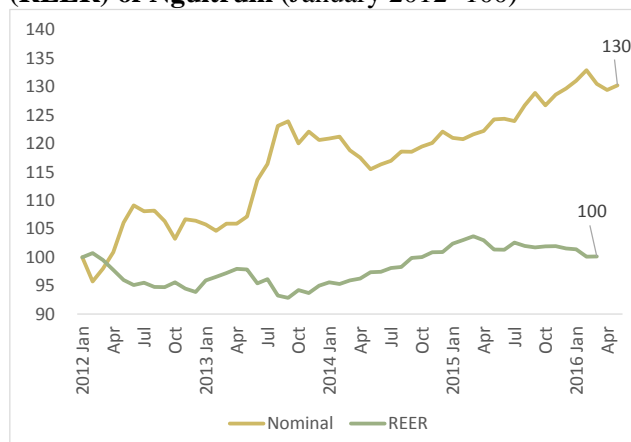
The REER of the Bhutanese ngultrum has been stable in the past few years (figure 1.19), which is consistent with Bhutan’s exchange policy of pegging to the Indian rupee, India’s large share in Bhutan’s international trade, and convergence of inflation rates.

**Figure 1.18 Gradual Depreciation of Ngultrum Against U.S. Dollar**



Source: Royal Monetary Authority. Bruegel website

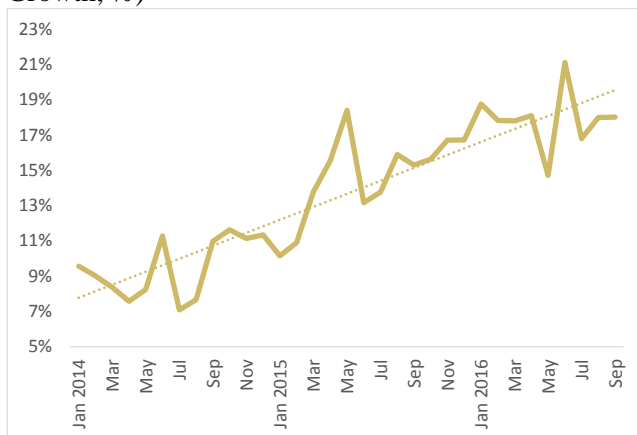
**Figure 1.19 Stable Real Effective Exchange Rate (REER) of Ngultrum (January 2012=100)**



Higher values indicate depreciation.

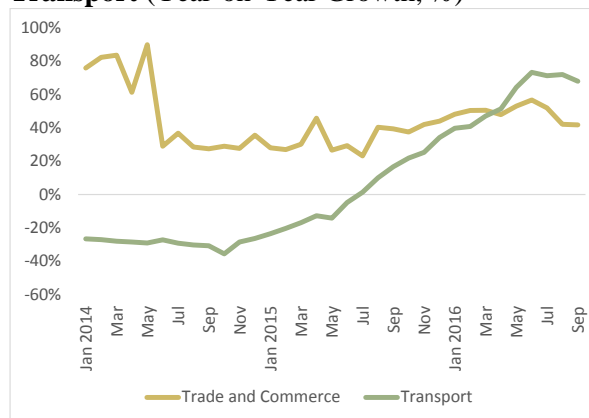
**Credit to the economy.** Strong credit growth has been supporting economic activity in the past few years. Year-on-year credit growth increased from less than 10 percent in 2014 to close to 20 percent in 2016 (figure 1.20). Of the major sectors, trade and commerce (42 percent increase in September 2016) and transport (68 percent) have been experiencing especially high growth (figure 1.21). The increase in transport reflects pent-up demand for vehicles associated with the ban on bank lending to the sector that was lifted in September 2014. In addition, the volume of credit card loans increased more than 20 percent. The strong growth of these sectors indicates that domestic demand has been strong.

**Figure 1.20 Credit Growth (Year-on-Year Growth, %)**



Source: Royal Monetary Authority

**Figure 1.21 Led by Trade and Commerce and Transport (Year-on-Year Growth, %)**



**Demonetization in India.** The Government of India implemented demonetization of 500 and 1,000 banknotes in early November 2016. Few indicators covering November have been published. Thus, the effect of the demonetization has yet to be seen. Nevertheless, given the close economic relationship between the two countries, Bhutan’s economy is likely to be affected through different channels. If

India’s growth decelerates, Bhutan’s growth would be negatively affected. A shortage of the Indian rupee would also negatively affect trade between the two countries. On the other hand, anecdotal evidence shows that the Bhutanese ngultrum has appreciated against the Indian rupee, which would have positive effect on inflation.

## 5. Fiscal Sector

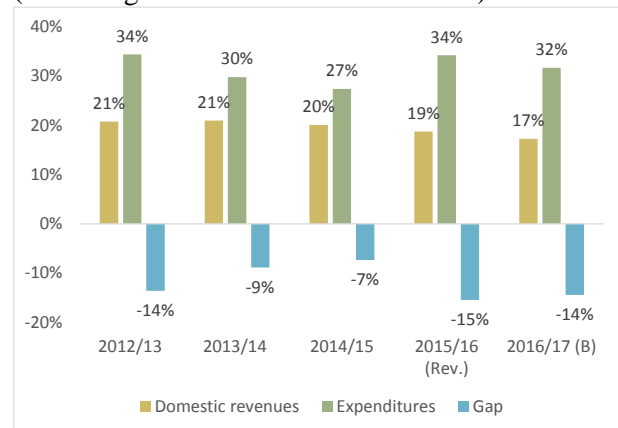
**Importance of fiscal policy in Bhutan.** Given the importance of the public sector in the economy, measured according to the size of government expenditures relative to GDP, fiscal developments have a significant effect on Bhutan’s economy. Key indicators to measure the development of the fiscal sector are domestic revenue mobilization (e.g., tax to GDP ratio), the overall deficit, and progress on expenditures.

The 11th FYP (July 2013-June 2018) sets fiscal targets, such as increasing the coverage of public expenditures by domestic revenues to 85 percent by the end of June 2018 and limiting the fiscal deficit to an average of 3 percent or less. In addition, the Constitution specifies that recurrent spending should be funded from domestic revenues. The Public Finance Act, section 7, also stipulates that recurrent expenditures should be kept within revenues.

**Fiscal policy has become more expansionary in recent years.** The degree of tight or loose fiscal policy—called fiscal stance—is broadly measured according to the gap between domestic revenues and expenditures as a share of GDP.<sup>5</sup> In FY15/16 and FY16/17, fiscal policy has been more expansionary than in previous years (figure 1.22), mainly because of the increase in expenditures. Although domestic revenues (total revenues minus grants) have been increasing in nominal terms, revenues as a share of GDP have been decreasing.

**FY16/17 budget.** On July 7, 2016, Parliament approved the budget for FY16/17, which shows that the fiscal balance as a share of GDP is expected to deteriorate from 1.5 percent in FY14/15 to –5.3 percent in FY16/17 (table 1.8). The main sources of the gap are the projected decline in domestic revenues as a share of GDP and the projected increase in capital expenditures<sup>6</sup>. Regarding domestic revenues, although tax revenue is projected to increase by 6.6 percent in nominal terms, the increase falls short of the increase in GDP. Although capital expenditures were lower than the revised FY15/16 budget, they were high as a share of GDP in FY15/16. Roads accounted for 18 percent of total capital expenditures.

**Figure 1.22 Expansionary Fiscal Stance**  
(Percentage of Gross Domestic Product)



Source: Author’s calculation based on Ministry of Finance data

<sup>5</sup> “The domestic fiscal balance includes only those components of the conventional deficit that arise from transactions with the domestic economy and omits those transactions directly affecting the balance of payments. The measure is used to identify the direct expansionary impact of government on the domestic economy. This has proved a particularly useful indicator for some oil producing economies, where government revenues from exports do not reduce domestic absorption” (IMF, 1995, p.10).

<sup>6</sup> Hydropower projects are not part of the state budget.

**Table 1.8 Budget Summary** (Percentage of Gross Domestic Product)

	2014/15 (Actual)	2015/16 (Revised Budget)	2016/17 (Budgeted)	2017/18 (Projected)	2018/19 (Projected)
<b>A. Revenues and grants</b>	<b>28.9</b>	<b>31.2</b>	<b>26.4</b>	<b>23.9</b>	<b>22.7</b>
I. Domestic revenue	20.1	18.8	17.3	15.4	17.9
II. Other receipts (net)	0.9	0.3	0.0	0.0	0.0
III. Grants	8.0	12.1	9.1	8.5	4.7
<b>B. Expenditures</b>	<b>27.4</b>	<b>34.3</b>	<b>31.7</b>	<b>24.7</b>	<b>20.6</b>
I. Total expenditure	29.1	35.5	32.9	25.8	23.8
i. Current	16.8	17.1	16.1	14.6	15.5
ii. Capital	12.3	18.4	16.8	11.2	8.2
II. Net lending	-2.0	-1.3	-1.2	-1.1	-3.2
<b>C. Fiscal balance</b>	<b>1.5</b>	<b>-3.0</b>	<b>-5.3</b>	<b>-0.8</b>	<b>2.1</b>

Source: Ministry of Finance

## 6. Employment Situation

According to the 2015 labor survey, the estimated unemployment rate was 2.5 percent, a decline from the recent peak of 2.9 percent in 2013. In addition, the number of unemployed fell to 8,700 in 2015 from 9,200 the previous year. Despite overall improvement, the youth unemployment rate increased from 9.4 percent in 2014 to 10.7 percent in 2015 and is considered one of the most important development challenges in Bhutan.

## 7. Macroeconomic Policy Direction

**Economic Development Policy.** The government has been finalizing the revised EDP, which is currently awaiting cabinet approval. The revised EDP provides a strategic direction for private sector-led growth. In this context, the EDP is expected to include measures that provide for an enabling environment for investment.

### Fiscal Policy

- **Establishment of the Department of Macroeconomic Affairs.** The government has operationalized the Department of Macroeconomic Affairs in the Ministry of Finance (MoF). The department is responsible for the coordination of macroeconomic policies of different ministries and agencies of the government. Thus, it is expected that coordination of fiscal and monetary policies is expected to be strengthened.
- **Debt Policy.** Donor resources fund Bhutan's large fiscal gap, which calls for fiscal consolidation and prudent debt management. To this end, the Cabinet approved a debt policy in August 2016 that aims to ensure that financing decisions are prudent and that public debt is maintained at a sustainable level. Inter alia, the policy provides for external debt thresholds and clarification of institutional arrangements, giving the MoF the mandate to serve as the nodal agency for implementing the policy and establishing a high-level Public Debt Advisory Committee. It strengthens the Debt Management Division by upgrading it to the Department of Public Debt Management, which will consolidate all functions related to public debt management. The policy proposes the formulation of a medium-term debt management strategy and regular debt sustainability analyses.
- **Revised rules and regulations on fiscal incentive.** In 2016, tax incentives (exemptions and holidays) were reexamined, with a focus on their efficiency in achieving stated objectives. Many tax measures, such as tax incentives, are found to be ad hoc and inconsistent, which has caused confusion and inefficiency. Hence, there is substantial scope for tax rationalization measures to improve the efficiency of tax measures and collections. The conduct of this exercise was closely aligned with the formulation of the revised EDP, which includes several tax measures for private-sector development.

After ministerial approval, the Cabinet will approve the Revised Rules and Regulations on Fiscal Incentives 2016. Recent efforts such as the launch of the online tax filing system of the Revenue Administration Management Information System and the computerization of the sales tax administration are also expected to help ease the cost of compliance for taxpayers.

- **Public Private Partnership (PPP) Policy.** The government has developed a clear policy framework to enable PPPs in infrastructure projects. Infrastructure contributes significantly to a country's social development. PPP policy and associated rules and regulations (concrete legal framework) are essential for promoting more private-sector participation in critical infrastructure projects by way of outlining the responsibilities and duties of the contracting government agency or office. To provide the framework for future PPP operations for sustainable infrastructure development, a PPP policy ensures adequate security for private-sector investment. It provides for the maintenance of adequate checks and balances through transparency, competition, and regulation. The Cabinet approved the PPP policy on March 1, 2016. The MoF approved the PPP rules and regulations at the end of September 2016. The PPP policy states that PPP projects will be subject to existing laws and regulations, including those related to the environment, and outlines qualitative project selection criteria based on Gross National Happiness goals, such as employment, the environment, and social equity.

### Monetary Policy

- **Monetary policy instrument.** To achieve its objectives, the RMA uses the cash reserve ratio, the statutory liquidity ratio, and prudential measures and guidelines, including the base rate, as key monetary policy instruments. In replacing the base rate, the RMA has introduced the minimum lending rate, effective August 1, 2016.
- **Financial Sector Development Action Plan (FSDAP):** The RMA Board of Directors approved the FSDAP in June 2016, and the Cabinet approved it September 26, 2016. It includes many actions that are beyond the jurisdiction of the RMA but affect the financial sector. Approval by the Cabinet ensures better coordination between the RMA and other relevant regulatory bodies and authorities in the implementation of the FSDAP. The FSDAP identifies several high priorities, including strengthening the regulatory framework of nonbank financial institutions (such as pensions and provident funds) to enhance supervision; strengthening the regulatory and supervisory structure of the insurance sector to protect policy holders, raise confidence, and improve access to insurance; developing suitable regulation to encourage small- and medium-enterprise finance through banks that would help increase access to financial services; and designing a national payments system strategy and policy to bring about greater use of electronic payments, including to underbanked segments of the population.
- **Minimum Lending Rate.** In July, the RMA issued a circular to the financial institutions to replace the existing base rate system with the minimum lending rate from August 1, 2016.<sup>7</sup> Under the current base rate system, which was introduced in 2012, the cost of funds of each bank determines the minimum rate below which it is not viable for the bank to lend, but because of rigidities in the current system, a new lending rate is being introduced that is expected to encourage competition and professionalism in the financial sector. Under the new system, the minimum lending rate of an institution would be derived taking into account the marginal cost of funds, the negative carrying charges on the cash reserve ratio, and the operating costs of the institution. Once the banks determine their individual minimum lending rate, the average of all banks would be the *national minimum lending rate*, below which it would not be viable for the banks to lend, although the final lending rate that a bank would charge its clients would still need to take into consideration its credit risk premium,

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<sup>7</sup> <http://www.rma.org.bt/news/mlr.pdf>

thereby giving banks the freedom to charge different rates on their products. The new system is therefore designed to provide attractive rates to productive sectors that promote economic growth, generate employment, and help limit credit to unproductive sectors. It is also expected that savings will be encouraged under this system because depositors would be ensured the best returns. The RMA will review the policy every 6 months.

- **Credit information bureau.** Increased credit information reduces the risk of lending and the cost of giving loans by providing accurate information about borrowers. The Bhutan Credit Information Bureau (CIB) was established in 2010 and collects and distributes information from financial institutions. The current database coverage is 23 percent of the adult population. Since the CIB collects credit information only from banks, the data are limited to borrowers that already have some access to the formal financial system, and hence, its usefulness in promoting greater access to finance is limited. Five years after starting operations, the CIB has yet to collect and make available to subscribing financial institutions the credit information from utility companies. To improve the availability of the credit information, utility regulators (Bhutan InfoComm and Media Authority, Bhutan Electricity Authority) have issued a joint directive enabling utility companies to share credit information with the CIB, which upgraded its system to enable sharing of credit information from utility companies. The CIB is also in the process of including microfinance information.
- **Reserve management.** The RMA introduced a new policy on reserve management in June 2015 that allows it to convert convertible currency in the reserves into Indian rupees.
- **Remittances and foreign direct investment.** Remittances (under the current account) and FDI (under the financial account) are some of the most-stable financing sources in the BoP, although remittances and FDI remain small in Bhutan. For example, in 2015, remittance inflows were US\$20 million (1.0 percent of GDP). Thus, the RMA will formulate a regulatory framework to attract remittances and establish a monitoring system to review the effects of exports and FDI on the economy, which will be translated into a formulation of targeted policies.<sup>8</sup>

## 8. Economic Prospects

**Economic growth is likely to accelerate in 2018.** Growth is projected to accelerate in 2018, mainly for three reasons: effects of hydropower projects, macroeconomic stability and resulting policy flexibility, and India’s positive economic outlook.

- **Effects of hydropower projects.** Three hydropower projects are scheduled to come on line in 2016 and 2017 (table 1.9). During construction, hydropower projects contribute to growth through the construction subsector. Two projects (Punatsangchhu II and Mangdechhu) are also scheduled to come on line in 2018. After completion, hydropower projects contribute to growth

**Table 1.9 Hydropower Projects: Planned and Under Construction**

	Project	MW	Year of start of construction	Year of completion
1	Punatsangchhu-I	1,200	2008	2019
2	Punatsangchhu-II	1,020	2010	2018
3	Mangdechhu	720	2010	2018
4	Kholongchhu	600	2015	2022
5	Nikachhu	118	2015	2020
6	Chamkharchhu-I	770	2016	2025
7	Bunakha Storage	180	2017	2023
8	Wangchhu	570	2017	2025
		<b>5,178</b>		

*Source:* Department of Hydropower and Power Systems, Ministry of Economic Affairs

<sup>8</sup> Monetary Policy Statement (July 2016)

through the electricity and water supply subsector.

- **Macroeconomic stability and resulting policy flexibility.** The recent trends of inflation and exchange rates indicate that there will be little inflationary pressure or exchange rate depreciation (especially REER) in the near future. Macroeconomic stability contributes to greater fiscal space and scope for supportive monetary policy.
- **India's positive economic outlook.** The latest India Macro-Poverty Outlook, in October 2016, has predicted that real GDP growth between 2016 and 2018 will be approximately 7.6 percent to 7.8 percent, almost the same growth performance as in 2014 and 2015. Given the strong economic relationship between Bhutan and India, the positive economic outlook is beneficial for Bhutan.

**The outlook for continued poverty reduction is positive.** With the projected acceleration of growth, the poverty headcount rate is projected to be 1.9 percent by 2015 and 0.9 percent by 2018, measured at the US\$1.90-a-day line and 10.9 percent by 2015 and 6.0 percent by 2018 at the US\$3.10-a-day line.

#### **A number of factors pose risks to this favorable outlook.**

- **Current account deficits.** Bhutan's current account deficits are mainly due to hydropower projects. In other words, the current account deficits indicate the progress of hydropower development. The inflows in the capital and financial accounts fully finance the current account deficits. As a result, Bhutan has maintained an adequate level of gross international reserves. Nevertheless, it is important to observe carefully development of hydropower projects and the implications for BoP in the future. In addition, monitoring the BoP of the non-hydropower sector closely is essential.
- **Excess domestic demand.** Bhutan experienced an Indian rupee shortage in 2012, mainly because of excess domestic demand that resulted in imports of consumption goods such as automobiles. During that time, the RMA was not allowed to convert hard-currency reserves into Indian rupees, which led to lower liquidity. Although macroeconomic stability has been maintained, and the new reserve management was introduced, available statistics (e.g., credit growth) suggest that private consumption has been accelerating. The development of credit growth (especially related to private consumption such as transport, personal loans, credit) and the effect of consumer goods imports on the BoP will have to be monitored. In the medium term, when large amounts of revenues from the hydropower sector start coming into the economy, there might be risks of appreciation of the real exchange rate through higher domestic inflation.
- **Development of the global economy.** Bhutan's linkage with the rest of the world other than India is limited, but a deceleration of the global economy might affect Bhutan through India, and a decrease in tourism would affect the BoP.

## Statistical Appendixes

### Appendix A Gross Domestic Product (GDP)

	2009	2010	2011	2012	2013	2014	2015
<b>GDP (Nu millions, constant)</b>	<b>40,662</b>	<b>45,432</b>	<b>49,017</b>	<b>51,503</b>	<b>52,606</b>	<b>55,629</b>	<b>59,240</b>
<b>1. Production account</b>							
Agriculture	6,458	6,513	6,670	6,820	6,984	7,149	7,475
Industry	17,883	20,115	20,931	22,348	3,220	24,082	26,039
- Manufacturing	3,580	4,302	4,616	4,930	4,671	5,099	5,324
- Non-manufacturing	14,303	15,813	16,315	17,418	18,549	18,983	20,715
Services	15,200	17,044	19,303	19,432	19,747	21,374	23,154
<b>2. Expenditure account</b>							
Private consumption	18,028	19,924	20,006	21,404	24,212	31,675	33,967
Government consumption	8,795	9,459	9,798	9,724	8,741	8,948	9,914
Gross fixed capital formation	19,331	28,238	31,581	32,695	21,025	26,158	30,468
Exports	18,128	19,492	20,116	19,633	20,393	19,220	18,343
Imports	25,226	32,475	34,411	31,959	31,389	30,372	33,452
<b>GDP growth rate (percent)</b>	<b>6.7</b>	<b>11.7</b>	<b>7.9</b>	<b>5.1</b>	<b>2.1</b>	<b>5.7</b>	<b>6.5</b>
<b>1. Production account</b>							
Agriculture	2.7	0.9	2.4	2.3	2.4	2.4	4.6
Industry	3.5	12.5	4.1	6.8	3.9	3.7	8.1
- Manufacturing	6.9	20.2	7.3	6.8	-5.3	9.2	4.4
- Non-manufacturing	2.6	10.6	3.2	6.8	6.5	2.3	9.1
Services	13.3	12.1	13.3	0.7	1.6	8.2	8.3
<b>2. Expenditure account</b>							
Private consumption	19.9	10.5	0.4	7.0	13.1	-6.4	7.2
Government consumption	20.9	7.5	3.6	-0.8	-10.1	2.4	10.8
Gross fixed capital formation	16.5	46.1	11.8	3.5	-35.7	24.4	16.5
Exports	-2.4	7.5	3.2	-2.4	3.9	-5.8	-4.6
Imports	14.3	28.7	6.0	-7.1	-1.8	-3.2	10.1

Source: National Statistics Bureau



**Appendix B Balance of Payments**

	2011	2012	2013	2014	2015
<b>Nu millions</b>					
<b>A. Current account</b>	-21,858	-30,170	-24,363	- 29,446	- 41,540
Goods: net (trade balance)	- 20,587	- 23,661	- 21,730	- 21,551	- 32,634
Exports (fob)	30,870	29,009	31,490	35,372	34,783
Imports (fob)	51,456	52,670	53,220	56,923	67,417
Services	- 4,824	- 4,186	- 3,058	- 4,346	- 3,123
Primary Income	- 5,187	- 9,349	- 7,243	- 9,943	- 11,700
Secondary Income	8,740	7,025	7,668	6,394	5,917
<b>B. Capital account</b>	6,545	5,253	17,787	19,853	9,379
<b>C. Financial account</b>	- 12,554	- 35,575	- 3,784	- 29,627	- 21,485
<b>D. Net errors and omissions</b>	- 7,099	- 9,718	5,372	- 3,138	245
<b>E. Overall balance</b>	- 9,858	939	2,580	16,896	- 8,865
<b>Percentage of GDP</b>					
<b>A. Current account</b>	-25.7	-31.0	-23.1	-24.6	-31.5
Goods: net trade balance	-24.2	-24.3	-20.6	-18.0	-24.7
Exports (fob)	36.3	29.8	29.9	29.6	26.3
Imports (fob)	60.6	54.0	50.5	47.6	51.1
Services	-5.7	-4.3	-2.9	-3.6	-2.4
Primary income	-6.1	-9.6	-6.9	-8.3	-8.9
Secondary income	10.3	7.2	7.3	5.3	4.5
<b>B. Capital account</b>	7.7	5.4	16.9	16.6	7.1
<b>C. Financial account</b>	-14.8	-36.5	-3.6	-24.8	-16.3
<b>D. Net Errors and omissions</b>	-8.4	-10.0	5.1	-2.6	0.2
<b>E. Overall balance</b>	-11.6	1.0	2.4	14.1	-6.7

Source: National Statistics Bureau

**Appendix C Inflation (Consumer Price Index, Year-on-Year Percentage Change)**

Month	Overall	Food	Nonfood	Domestically Produced	Imported
<b>2014</b>					
January	10.0	13.9	7.5	8.4	11.4
February	9.4	13.0	7.1	7.8	10.8
March	9.0	12.9	6.5	8.2	9.6
April	8.6	12.1	6.3	8.6	8.5
May	9.0	12.9	6.5	10.2	7.8
June	8.1	12.1	5.5	9.2	7.0
July	8.1	11.1	6.1	9.8	6.5
August	8.8	9.8	8.1	9.8	7.9
September	8.4	9.3	7.8	9.2	7.8
October	7.1	6.8	7.3	7.2	7.1
November	6.7	6.3	7.0	7.0	6.5
December	6.4	5.3	7.2	6.9	6.1
<b>2015</b>					
January	6.3	5.1	7.1	6.8	5.9
February	6.4	4.9	7.4	7.2	5.7
March	6.3	4.9	7.3	6.5	6.2
April	5.7	4.0	6.9	6.2	5.3
May	5.1	2.9	6.5	4.5	5.6
June	4.8	2.1	6.6	4.0	5.5
July	3.5	2.0	4.5	4.0	2.9
August	3.1	2.3	3.6	3.9	2.4
September	3.2	2.4	3.7	4.4	1.9
October	3.6	2.9	4.0	4.9	2.3
November	3.6	2.7	4.2	4.6	2.6
December	3.4	2.8	3.9	4.3	2.7
<b>2016</b>					
January	3.2	3.2	3.2	4.3	2.1
February	3.0	2.8	3.1	4.0	2.0
March	2.9	2.8	3.1	4.2	1.8
April	3.1	2.8	3.2	4.2	2.0
May	3.3	3.4	3.2	4.6	2.1
June	3.6	4.4	3.0	5.3	2.0
July	2.9	4.1	2.1	4.0	1.9
August	2.8	3.8	2.2	3.7	2.0
September	2.7	3.8	2.0	3.5	2.1
October	2.6	3.8	1.9	3.2	2.1

Source: National Statistics Bureau

#### Appendix D Gross International Reserves and Exchange Rates

Month	US\$ Million	Months of Goods and Services Imports	Exchange Rate (Nu/US\$)
<b>2013</b>			
January	880	9.3	53.3
February	891	9.5	53.8
March	957	10.3	54.4
April	928	10.0	54.2
May	934	10.5	56.5
June	917	10.9	59.7
July	839	9.0	61.1
August	818	9.5	66.6
September	831	9.1	62.8
October	892	9.6	61.4
November	921	10.0	62.4
December	933	10.1	62.0
<b>2014</b>			
January	918	10.0	62.5
February	954	10.3	62.1
March	965	10.1	60.1
April	919	9.7	60.3
May	1,067	11.0	59.0
June	998	10.5	60.1
July	979	9.7	60.2
August	992	9.8	60.5
September	1,103	11.1	61.6
October	1,118	11.2	61.4
November	1,197	12.1	61.9
December	1,184	12.3	63.3
<b>2015</b>			
January	1,182	11.8	61.8
February	1,135	11.3	61.8
March	601	6.1	62.6
April	944	9.7	63.6
May	929	9.6	63.8
June	958	9.9	63.8
July	932	8.9	64.0
August	1,019	10.1	66.3
September	1,143	11.2	65.7
October	1,115	10.9	65.2
November	1,072	10.7	66.8
December	1,040	10.3	66.3
<b>2016</b>			
January	1,000	10.1	67.3
February	1,022	10.5	68.2
March	1,171	11.6	67.0
April	1,082	10.8	66.5
May	1,019	10.2	66.9
June	1,119	11.3	67.3
July	1,093	11.0	67.0
August	1,105	11.1	67.0
September	1,219	12.2	66.7

Source: Royal Monetary Authority

**Appendix E Tourists and Revenues**

<b>Month</b>	<b>Number of Tourists <sup>a</sup></b>	<b>Revenues (US\$ Million)</b>
<b>2014</b>	<b>58,022</b>	<b>73.2</b>
January	1,316	1.3
February	2,515	2.5
March	4,240	6.5
April	7,030	11.5
May	3,243	4.6
June	3,720	2.6
July	3,790	2.4
August	7,465	4.0
September	4,989	8.2
October	9,382	15.7
November	5,952	9.7
December	4,380	4.3
<b>2015</b>	<b>51,447</b>	<b>71.2</b>
January	1,781	1.7
February	3,923	4.3
March	6,195	9.4
April	6,749	10.3
May	2,988	4.3
June	2,133	2.3
July	1,553	1.7
August	2,302	2.4
September	4,880	8.6
October	8,035	14.5
November	5,185	8.3
December	3,208	3.4
<b>2016</b>		
January	1,349	1.5
February	3,075	3.5
March	5,834	9.1
April	5,349	8.2
May	3,403	4.7
June	3,779	3.5
July	3,461	2.8
August	4,928	3.8
September	4,372	6.9
October	9,023	15.6

Source: Tourism Council of Bhutan

a. Convertible currency-paying tourists