ROYAL MONETARY AUTHORITY OF BHUTAN

ANNUAL REPORT 2021

Royal Monetary Authority of Bhutan

Annual Report 2021

Preface

This Report reviews Bhutan's macroeconomic developments for the fiscal year 2020/21. A summary of the medium-term outlook for Bhutan based on the quarterly updates as of October 2021 is also presented in this Report. Commentaries on domestic economic sectors are based on the information provided by various agencies.

The views expressed in this Report are those of the Royal Monetary Authority of Bhutan (RMA) and do not necessarily represent those of the data sources. We thank all those who have contributed to the information contained in this Report.

Statement from Governor

It is now exactly two years since the world's first case of Covid-19 was reported in December 2019. Ever since, the world has been grappling with the pandemic even as new variants have surfaced every now and then. The Covid-19 pandemic has affected every corner of the world, causing severe hardships and taking millions of lives. It disrupted the world economy and many countries saw deep downturns that might leave scars for many years to come.

The global economy contracted significantly leading to a historic rise in unemployment, and major disruptions were reported in transportation, service, and manufacturing sectors. The global supply chain was severely disrupted. Despite the distress, Bhutan was able to avoid the catastrophic impact on both people's lives and livelihoods, through His Majesty The King's visionary and tireless leadership. In addition to stringent Covid-19 safety protocols, the Druk Gyalpo Relief Kidu provided the much-needed succor to our people. Further, a number of fiscal and monetary interventions helped safeguard the livelihoods of our people.

In Bhutan, major economic setbacks were felt in mining, construction, transport, manufacturing, and hospitality sectors. As a result, the real GDP growth declined significantly to negative 10.1 percent in 2020 from 5.8 percent in 2019. At the same time, the unemployment rate rose to 5.0 percent in 2020 from 2.7 percent in 2019. The scenario would have been much worse had it not been for the mitigating support measures. As the pandemic continued to impact the global supply chain, the Consumer Price Index inflation spiked to 7.4 percent in June 2021 from 4.5 percent in June 2020. Both food and non-food items saw a rise in inflation in the past two years.

Despite sharp slowdown in credit flow, the domestic financial sector saw a favorable growth in money supply by 24.4 percent as of June 2021, driven largely by a stable growth in the deposit base and net foreign assets. However, the growth of credit to the private sector remained at a historic low at 6.5 percent as compared to over 15 percent during the pre-pandemic period.

This was mainly because of slackening in development in major economic growth triggers—low levels of public capital expenditure utilization and hydropower investment. However, the overall financial soundness and stability, as indicated by the level of Capital Adequacy Ratio, remained manageable, which is above the minimum requirement of 10.0 percent.

A higher level of investment is necessary to promote greater economic stability and output growth. Even as the pandemic rages unabated, the RMA together with the Government has been strategizing a speedy return to the new economic normal. We hope to do this by intensifying implementation of growth- and employment-oriented capital projects and initiating resilience measures to counter uncertainties in the future.

With this sense of optimism and new impetus from additional investment in public and private sectors and hydropower projects which are expected to expedite major capital works, the GDP growth is expected to bounce back and stabilize at an average of 5.4 percent annually in the next three years. The overall unemployment rate is also expected to reduce to 4.7 percent. Inflationary pressures are expected to remain checked this year but will gradually start picking up from 2022 as the demand conditions improve.

As the backbone of the economy, the financial sector assumes greater responsibility to support the economy during these difficult times. The RMA as the premier institution remains committed to working closely with the Government to combat the pandemic and support the economic recovery in the medium term.

To complement the ongoing economic recovery efforts, the RMA is working on several projects to help realize the country's goals of economic transformation in the 21st century. To this end, the RMA has prepared a Ten-Year (2021-2030) Strategic Plan—Druk Nguldrel-Lamtoen 2030—geared towards transforming and positioning the financial sector as the key catalyst for Bhutan's economic growth and prosperity. The Druk Nguldrel-Lamtoen is a roadmap for the RMA to respond to the changing demands of an economy that will be increasingly driven by technology and innovation.

The key thrust areas of Druk Nguldrel-Lamtoen are promoting a resilient, sustainable, and inclusive growth; reinforcing stability, resilience, and integrity in the financial sector; transforming payment system for the new digital age; and leveraging digital technology and innovation. In the first year of the implementation of the Roadmap, the RMA initiated several projects that included piloting of the Central Bank Digital Currency and establishment of a robust Data Warehouse. To promote efficiency and innovation in the financial sector, the RMA is exploring a digital alternative to the Ngultrum. This will also help drive the current payments infrastructure built on blockchain technology.

Similarly, the RMA is in the process of revamping traditional practice of data and information management by switching over to a state-of-the-art Data Warehouse and Analytics System. Technology and big data have become a new catalyst for both economic transformation as well as disruption. If carefully embraced, such initiatives will be a lynchpin to modernize the existing landscape of the financial sector and macroeconomic policy decision-making process.

As the RMA strives to embrace emerging digital technology on a calibrated mode, these flagship projects will not only strengthen the existing capabilities in undertaking the core central banking function but will also promote greater automation, thereby improving the existing policy decision-making process.

In terms of the financial sector stability, the existing stress testing affirms that the banks remain resilient to liquidity issues with a comfortable level of capital buffer to absorb anticipated credit losses post-June 2022. However, the RMA will continue to strengthen and follow risk-based approach to financial supervision to ensure that the financial system remains stable and continues to support the national economic recovery process. To further strengthen the resilience of the financial sector, the RMA is formulating a Non-performing Loans (NPLs) Management Strategy to address post Covid-19 NPLs, Guidelines on Loan Origination and Monitoring, framework on early warning system, and property valuation and crisis management framework along with strengthening of the existing corporate governance practices.

The RMA is also closely monitoring the vulnerabilities that may emerge from deteriorating credit quality on loans exposed to pandemic-affected sectors.

As we navigate through the pandemic, the RMA will continue to keep vigilance on the development in the financial sector and macroeconomic conditions and make necessary interventions in close collaboration with financial institutions and other important stakeholders.

I am confident that with the wisdom and guidance of His Majesty The Druk Gyalpo, the country will successfully overcome the current and future challenges so that we can collectively pave a way forward to build an inclusive and resilient post Covid-19 economy.

I would like to express my sincere appreciation to the Board of Directors, financial institutions, and staff of the RMA for their dedication and hard work during the pandemic. I also wish to gratefully acknowledge the Government, the private sector, and our development partners for their continued support and cooperation.

Tashi Delek!

Dasho Penjore
Governor

Contents

1

Vision, Mission, Values, and Organizational Structure

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 21st 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 **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

Reinforce an inclusive, sustainable, and dynamic economy

Maintain stability and resilience of the financial system

Advance 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 realising our mandates and in contributing towards the fulfilment of the nation's development goals.

Values

Upholding Tha-Damtshi (Integrity)

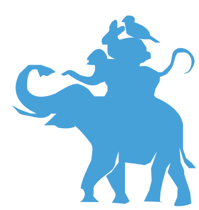
We will mindfully shoulder our responsibilities with full dedication, integrity, and sincerity.

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)

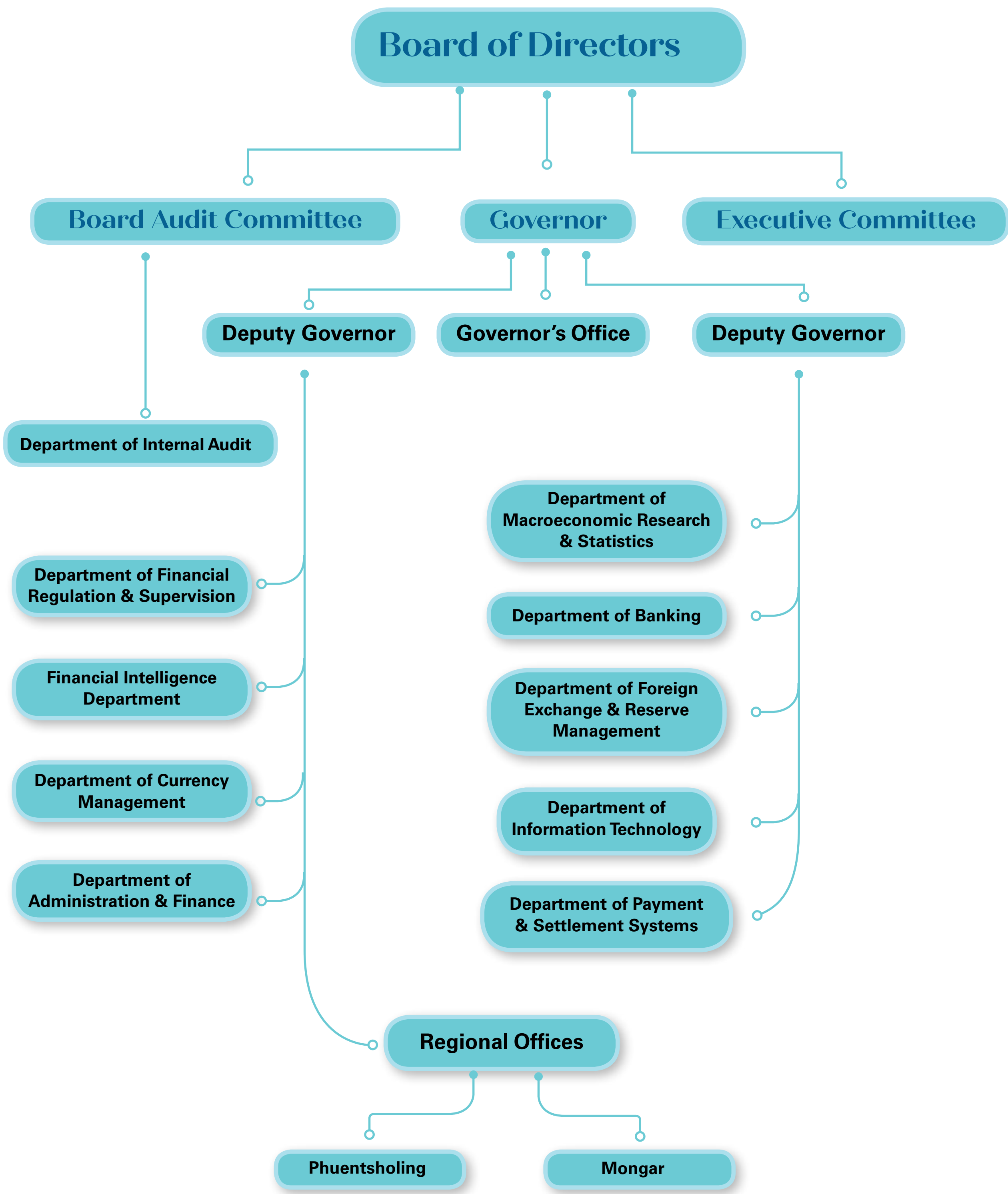
We will be alert and practical when discharging our duty, acknowledging and addressing challenges in an astute manner, perceptive to immediate exigencies and long-term sustainability.



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.

Organizational Chart



Board of Directors

Chairman

Dasho Penjore was appointed as the Governor of the Royal Monetary Authority of Bhutan in December 2015 and was reappointed for a second five-year term as the Governor of the RMA by His Majesty The Druk Gyalpo on 27 November 2020. Dasho started his career at the RMA in 1987 and served as the Deputy Managing Director from 2003 to 2006. In 2006, he was appointed as the Chief Chamberlain to His Majesty The Druk Gyalpo and was conferred Red Scarf title of "Dasho" in 2008 for his distinguished service to the nation.

Before being appointed as the Governor, he was the Chief Executive Officer of the National Pension and Provident Fund. Dasho holds a Master's degree in Economics from the Northwestern University, Boston, USA. His Majesty The Druk Gyalpo awarded the Druk Thuksey Medal to Dasho Penjore during the 110th National Day Celebration in December 2017 for his dedicated service to the nation.

Member

Ms. Kesang Deki is the Secretary of Ministry of Finance. Prior to her appointment as the Finance Secretary, she served as the Director General of Department of National Property. She holds a Master's degree in Public Finance from the University of Tokyo, Japan.

Member

Mr. Rinchen Wangdi is the Secretary of Gross National Happiness Commission. He has a Master's degree in Development Economics from the Australian National University, Canberra, Australia. Prior to his appointment as the Secretary, he served as the Director of the GNH Commission.

Member

Mr. Nim Tshering is Zimpon Wongma (Deputy Chamberlain) under His Majesty's Secretariat and heads the Queen's Project Office. He holds a Master's degree in Business and Public Relations from the University of Queensland, Australia.

Member

Mr. Sonam Tenzin is the Director General of Department of Trade, Ministry of Economic Affairs. He served as the Executive Director of the Office of the Consumer Protection from January 2014 to January 2016. He holds a Master's degree in Management Studies with specialization in Finance and Accountancy from the University of Waikato, New Zealand.

Member

Mr. Phajo Dorjee was reappointed as the Deputy Governor of RMA in June 2020. Prior to his appointment as Deputy Governor in 2015, he served as the Director of Department of Banking, and Department of Currency Management. He holds a Master's degree in Public Administration and Economic Policy Management from Columbia University, USA.

Member

Ms. Yangchen Tshogyel was reappointed as the Deputy Governor of RMA in September 2021. Prior to her appointment as the Deputy Governor, she served as the Director of the Department of Macroeconomic Research and Statistics. She has a Master's degree in Public Policy, with specialization in Economic Policy, from the Australian National University, Canberra, Australia.

Executive Directors and Directors

Mr. Dophu Dorji
Executive Director
Department of Currency Management

Ms. Dechen Pelzom
Executive Director
Department of Foreign Exchange & Reserve Management

Ms. Tshering Dema
Executive Director
Department of Banking

Ms. Ugyen Choden
Director
Financial Intelligence Department

Mr. Gopal Giri
Director
Department of Macroeconomic Research & Statistics

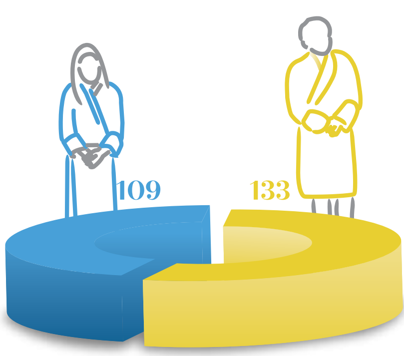
Mr. Sonam Tobgay
Director
Regional Office Phuentsholing

Ms. Tshering Wangmo
Director
Department of Payment & Settlement Systems

Ms. Gopi Nepal
Director
Department of Financial Regulation & Supervision

Mr. Sherab Jamtsho
Director
Department of Information Technology

Ms. Dechen Yangzom
Director
Department of Internal Audit



Staff Strength

As of June 2021, RMA's total staff strength was 242 (Male:133, Female:109). Of the total, 224 employees were stationed at the Head Office, 11 employees at the Phuentsholing Regional Office, five employees at the Mongar Regional Office, and two at Paro Extension Office.

Recipients of Service Medals

During the year 2021, three staff of the RMA received Service Award Medals from Honorable Governor Dasho Penjore. Ms. Denchu, Senior Receptionist, was awarded the life-time service award, Ms. Rinchen Om, Senior Supervisor, was awarded the Gold Medal for her 30 years of dedicated service, and Ms. Deki Yangzom, Chief Internal Auditor, was awarded the Silver Medal for her 20 years of dedicated service.

From left to right (Mr. Phajo Dorjee, Ms. Rinchen Om, Dasho Penjore, Ms. Deki Yangzom, Ms. Denchu, Ms. Yangchen Tshogyel)

RMA in the Service of TSA-WA-SUM

Recognizing the fundamental responsibility delegated to the RMA to promote financial stability to support the overall macroeconomic objectives of the Government, it is of national importance for the Institution to ensure a high level of leadership and credibility in executing its core mandates. As a recipient of the Druk Thuksey medal, the RMA aspires to become an exemplary public institution. In recognition to RMA's dedicated service in bringing about several reforms in the financial sector, this prestigious title was awarded by His Majesty The Druk Gyalpo during the 110th National Day celebration in Haa in 2017.

Coinciding with the auspicious occasion of the 114th National Day celebration, the RMA distributed the commemorative Druk Thuksey badges to its employees on 15 December 2021.

In recognition to RMA's dedicated service in bringing several reforms in the financial sector, this prestigious title was awarded by His Majesty The Druk Gyalpo during the 110th National Day celebration held in Haa in 2017. This event was also marked by hoisting of the National Flag at the RMA on 17th December 2021.

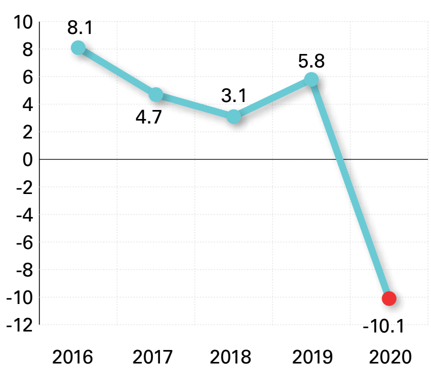
2
Macroeconomic Highlights

2.1 Key Highlights - FY 2020/21

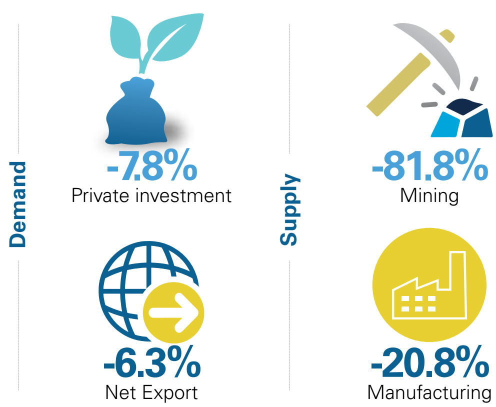
The GDP growth contracted to an all-time low at -10.1 percent in 2020. The pandemic has impacted almost all sectors except the agriculture and hydropower sectors. The CPI inflation remained elevated at 7.4 percent in June 2021, chiefly contributed by food inflation. Money supply eased due to increase in deposits and net foreign assets. The fiscal deficit widened with a fall in domestic revenue and external grants and subsequent increase in government expenditure. The current account deficit narrowed due to improvement in trade balance. As a result, the Gross International Reserves remained comfortable at USD 1.6 billion, more than adequate to cover 12 months of essential imports.

The economy slumped to an all-time low due to COVID-19 pandemic

Real GDP (Growth, %)

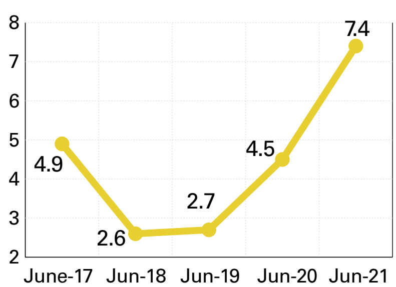


Key drivers of GDP in 2020 (Growth, %)



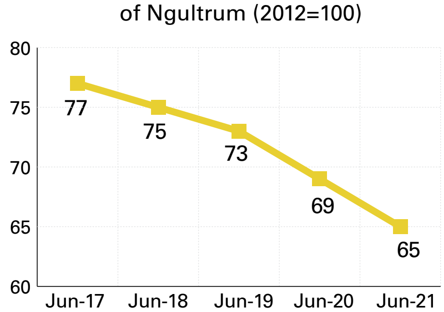
Headline inflation surged to 7.4 percent driven by rise in food prices

Headline inflation (Growth, %)



The weight distribution in CPI basket
Food items: 46.0%
Non-food items: 54.1%

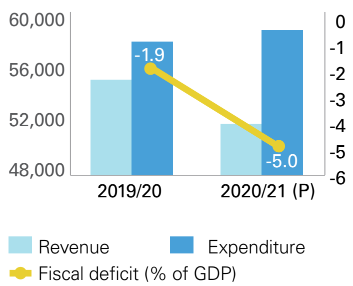
Purchasing power of Ngultrum (2012=100)



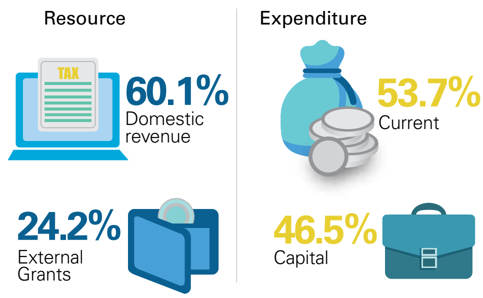
Nu 100 in December 2012 is worth Nu 65 in June 2021

Fiscal deficit widens with fall in external grants and increase in capital expenditure

Budgetary operation (Nu in million)

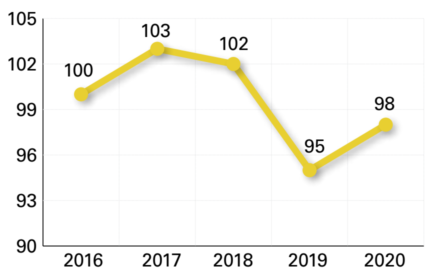


Budgetary operation (Nu in million)

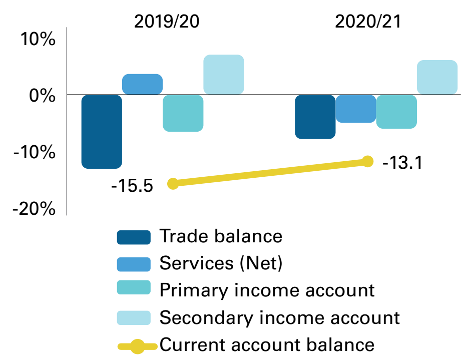


Current account deficit narrowed with an improvement in trade balance

Terms of Trade (ToT)

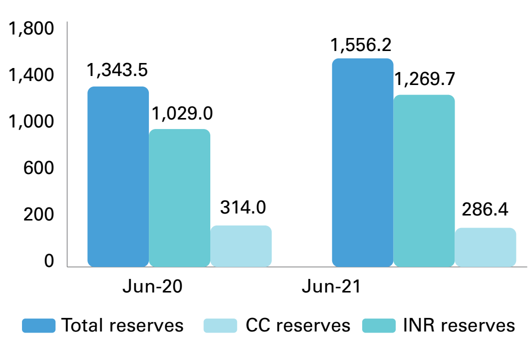


Current account components (% of GDP)

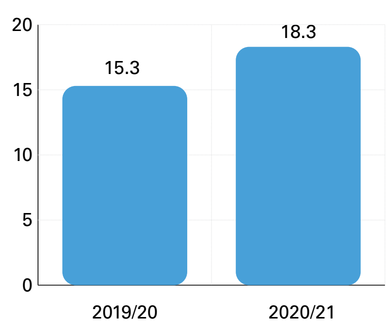


Gross international reserves is adequate to cover more than 12 months of essential imports

Gross international reserves
(USD in million)

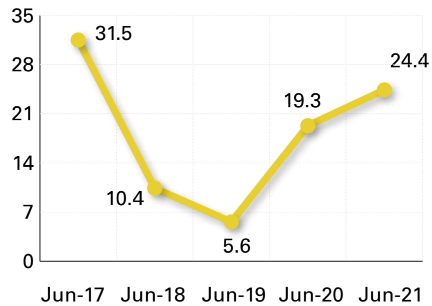


Months of essential import coverage

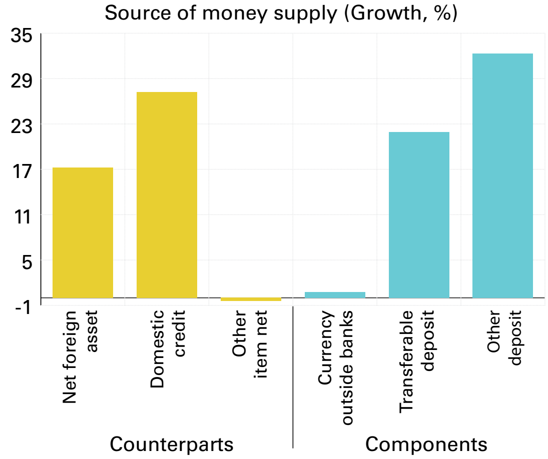


Money supply picked up due to increase in Net Foreign Assets & Deposits

Money supply (M2) (Growth, %)

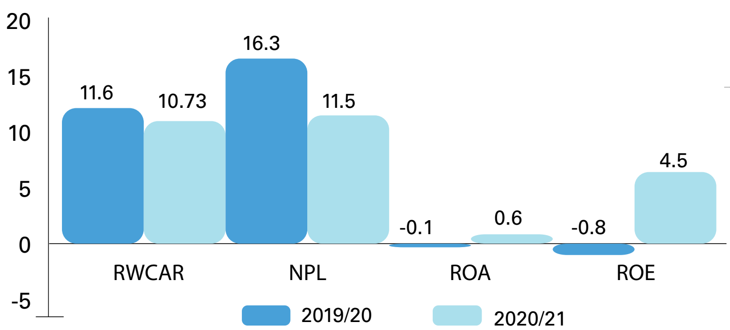


Source of money supply (Growth, %)



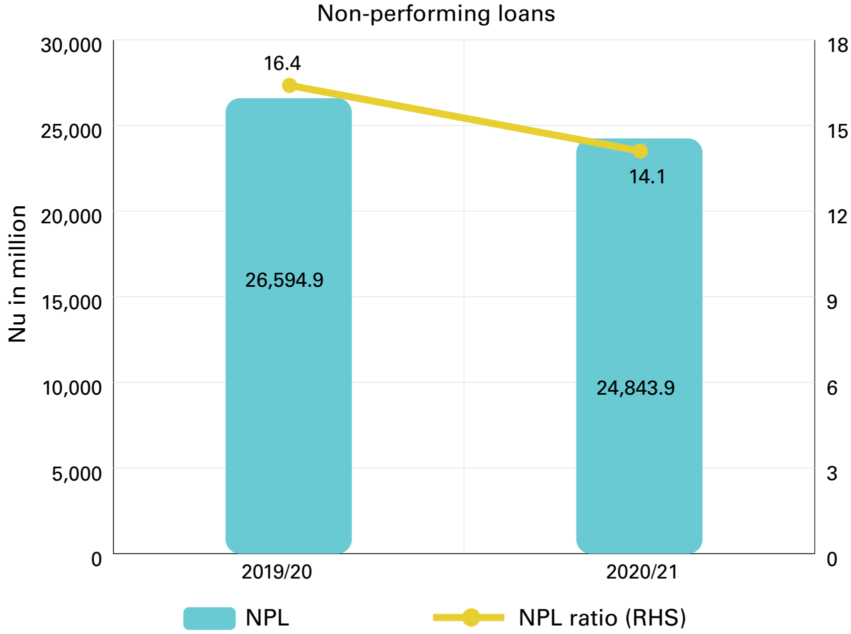
Financial soundness and stability remained manageable

Financial soundness indicators of the FIs (in % share)



RWCAR: Risk Weighted Capital Adequacy Ratio
NPL : Non-Performing Loan
ROA : Return on Asset
ROE : Return on equity

Non-performing loans



2.2 RMA's New Initiatives During FY 2020/21

2.2.1 Druk Nguldrel-Lamtoen 2030

To complement the ongoing national economic recovery effort, the RMA is working on several projects to support the realization of the higher goals of economic transformation in the 21st century. To this end, the RMA has prepared a 10-Year (2021-2030) Strategic Plan titled 'Druk Nguldrel-Lamtoen 2030', geared towards transforming the financial sector and serving as the key enabler in achieving higher economic growth and prosperity.

In collaboration with financial institutions, the RMA launched the 'Druk Nguldrel-Lamtoen 2030' on 25th August 2021. The 'Druk Nguldrel-Lamtoen 2030' is inspired by His Majesty The Druk Gyalpo's command to the Government to develop a National Economic Roadmap for the 21st Century.

In consonance with His Majesty's vision, the 'Druk Nguldrel-Lamtoen 2030' sets out the roadmap for the RMA to respond to the changing needs aligned to a dynamic technological innovation environment and needs of the future generation. The 'Druk Nguldrel-Lamtoen 2030' is formulated based on the RMA's past successes and recognizing the challenges that we could face in the coming decades. The key thrust areas of 'Druk Nguldrel-Lamtoen 2030' are promoting a resilient, sustainable, and inclusive growth; reinforcing stability, resilience, and integrity in the financial sector; transforming payment system for the new digital age; and leveraging digital technology and innovation.

Amongst several initiatives planned for the next decade, some of the key initiatives are highlighted below:

Central Bank Digital Currency (CBDC): To harness the benefits of evolving technology, the RMA has initiated piloting of CBDC to complement the institution's efforts in moving towards a digital economy.

Digital Assets: The RMA will study the governance ecosystem and potential for inclusion of digital assets in the country's foreign asset management.

Green Finance: To further consolidate Bhutan's reputation as a global leader in environmental conservation and sustainable development, the RMA and the financial sector will promote sustainable and green finance with focus on stimulating savings and investments in green projects.

Building future-proof talent in the financial sector: The RMA will collaborate with financial service providers in building skills for the future workforce of the financial sector, especially in digital banking, emerging technologies, data analytics, cyber security, and evolving business models.

National Digital Identity: The National Digital Identity is the key anchor to transform the financial sector through FinTech services, data analytics and research, and strengthening of International Payments Gateway.

In order to ensure the relevancy of the document with the changing times, the 'Druk Nguldrel-Lamtoen 2030' will be a living document with subsequent versions incorporating better forecasting and data-driven targets through application of data analytics and quantitative tools. The realization of the strategic goals spelled out in the document will hinge on the three critical elements of governance, planning, and execution.

2.2.2 Cross Border QR Code Payment

In continuation to the announcement made during the launch of RuPay in 2019, the RMA in collaboration with the National Payment Corporation of India launched the Bharat Interface for Money (BHIM) mobile app which will enable the cross-border transaction between banks in Bhutan and India using Quick Response (QR) code. The Cross-Border interoperable QR code payment linkages between Bhutan and India was digitally launched by Her Excellency Smt. Nirmala Sitharaman, the Hon'ble Finance Minister of India, and His Excellency Mr. Namgay Tshering, the Hon'ble Finance Minister of Bhutan, on 13th July 2021.

The linkage will henceforth allow Indian citizens to make instant and secure QR code payment using their mobile phones to pay for goods and services at any retail and major service provider outlets in Bhutan. The BHIM represents another key milestone between Bhutan and India in the digital payment space to connect and provide payment services using innovative financial technologies. This will deepen the financial integration of the two countries and enhance capital flow through affordable provisioning of payment infrastructure both within and outside the two countries.

2.2.3 Cash Incentive Scheme on Remittances

The RMA launched a cash incentive scheme of one percent per remit for Bhutanese living overseas to support the transaction costs while remitting money for a period of one year from 1st June 2021. The scheme is being introduced in recognition of the significant role that remittance inflows play towards building foreign currency reserves and promoting savings and investment in the country.

In addition, the Authority is developing an easy remittance corridor with 'Visa Direct' and other innovative remittance platform for a faster and cost-effective solution to meet the needs of Bhutanese living abroad.

2.2.4 KUEN-Phen Financing

The RMA has launched KUEN-Phen Financing to enable innovative access to inclusive finance for greater socio-economic benefits. KUEN-Phen is a non-profit undertaking, spearheaded by the RMA in collaboration with the Royal Securities Exchange of Bhutan Limited (RSEBL) and Bhutan Care Credit Limited. This initiative is geared towards providing an inclusive financing platform and opportunities for the vulnerable and marginalized segments of population to engage in meaningful economic activities for livelihood.

KUEN-Phen provides grants and loans that are collateral free. The funds sourced through the crowd funding will be used through a re-lending framework to help more beneficiaries. The initial funds for the bridge financing will be provided through a Revolving Fund set up by the RMA. To create this opportunity and transform numerous lives, KUEN-Phen Financing also provides micro-business facilitation packages, offering both pre- and post-mentoring and monitoring support.

2.2.5 Central Bank Digital Currency

The RMA is piloting a project on the Central Bank Digital Currency (CBDC). The CBDC is a digital central bank money, denominated in the sovereign unit of account which basically carries the functions of fiat currency. The CBDC is a digital alternative to promote efficiency and innovation. The RMA is currently exploring new opportunities to pilot a wholesale payment for a digital Ngultrum using a sustainable blockchain technology, which will be tested in trial phases with the banks, different payment service providers, and other relevant stakeholders.

2.2.6 Formulation and Implementation of NPL Resolution Framework

With bleak prospects for a quick turnaround to the pre-Covid-19 scenario, Non-Performing Loans (NPLs) may further worsen and added risks are foreseen in the form of new and increased NPL. Considering the urgency of addressing the NPLs, a National High Level NPL Committee was established under the chairmanship of Hon'ble Finance Minister. Under the guidance of the Committee, a comprehensive NPL Resolution Framework has been put in place to provide relief to both borrowers and the financial institutions while providing opportunity for new credit supply in the economy. Some important features of the Framework include:

(a) The institution of the NPL Asset Transfer Framework where eligible NPLs will be temporarily parked for three years by the financial institutions with subsequent freezing of interest to provide relief to borrowers and decongest the books of the financial institutions for new credit flow in the economy and

(b) Segregation of NPLs into viable and non-viable loans based on broad principles for identifying viable loans where borrower may be facing temporary financial difficulties from loss or reduction in income which can however be revived/rehabilitated. The process of rehabilitation will involve bilateral engagements between the borrower and the financial institution to jointly explore and implement corrective actions to revive the borrower's business or earning capacity.

2.2.7 Data Warehousing and Analytics

In line with 'Druk Nguldrel-Lamtoen 2030' and to leverage digital technology and innovation, the RMA has initiated developing the state-of-the -art centralized macroeconomic Data Warehouse (DW) and Analytics System to improve overall data management and information for the purpose of developing accurate and reliable evidence-based polices, and to pave way towards strengthening the institutional research and analytical capabilities of the RMA.

The main objectives of developing the DW and Analytics System are to:

- ✔ Simplify, standardize, and harmonize data in terms of data collection, processing, and dissemination;

- Achieve data automation by leveraging IT platform, and;
- Provide protection, security, and privacy of those confidential and sensitive personal information that are with financial services providers.

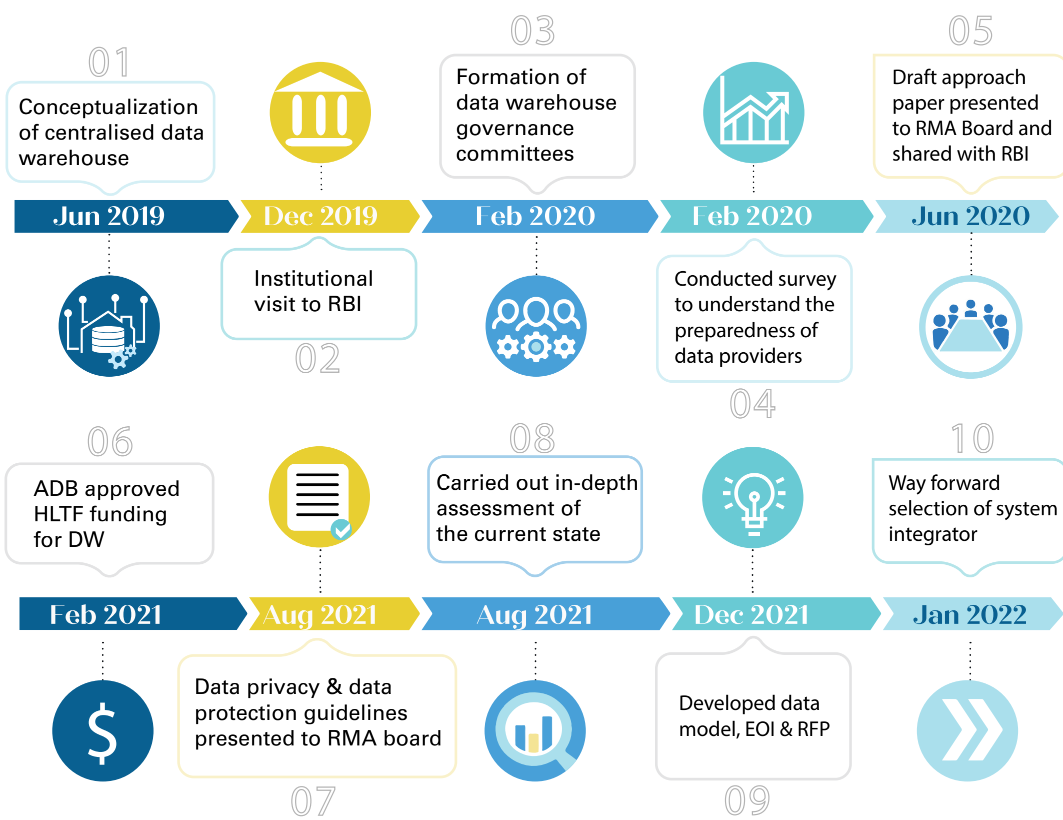
The DW and Analytics System covers a set of principles, guidelines, and standards to be followed by the RMA and Financial Service Providers (FSPs) so as to ensure consistency in the management of data across the organization. The DW and Analytics System is built on the following five broad components:

i. Data Governance Structure;
ii. Data Model (metadata, data field, and master data management);
iii. Data Privacy and Data Protection Guidelines;
iv. DW Technology Design and implementation, and;
v. Open Data.

The main activities achieved so far includes:

i. Data Privacy and Data Protection Guidelines for FSPs and RMA;
ii. Assessment of the current state ("As-Is") of RMA's data collection, usage, reporting, and dissemination;
iii. Interim Report ("To-Be"), covering both business and technical requirements such as logical and physical data models and end-to-end technology solution; and
iv. Expression of Interest (EoI) and Request for Proposal (RFP), including budget estimation, and recommend suitable technology and infrastructure that best suits RMA's data warehouse requirements.

The key milestones of the project are as follows:



2.3 KEY MACROECONOMIC INDICATORS

Indicator	2016/17	2017/18	2018/19	2019/20	2020/21
GDP Growth and Prices (percent change)					
GDP at Constant (2000) Price (a), (b)	8.1	4.7	3.1	5.8	-10.1
Inflation- June end (b)	4.9	2.5	2.7	4.5	7.4
Government Budget (Nu in Million) (c)					
Total Revenue and Grants	42,673.1	52,113.2	42,033.3	54,603.9	59,696.1
of which: Foreign Grants	12,986.8	14,847.1	8,262.9	16,425.8	14,418.0
Total Expenditure*	48,018.0	56,331.4	46,724.9	57,572.3	70,835.9
of which: Current Expenditure	24,129.6	27,494.7	29,105.5	33,023.3	31,889.9
Overall Balance	-7,348.0	-2,623.4	-2,743.4	-3,385.4	-11,139.8
(in percent of GDP)	-4.8	-1.6	-1.6	-1.9	-6.3
Money and Credit (percent change, end of period)					
Broad Money, M2	31.5	10.4	5.6	19.3	24.4
Credit to Private Sector	15.4	15.7	20.5	13.3	6.5
Interest Rates (end of period)					
One Year Deposits**	3.0-7.0	3.0-7.0	3.0-6.0	3.0-6.0	3.0-6.0
Lending Rate	8.0-14.0	9.9-13.0	7.9-14.0	7.9-14.0	7.9-14.0
91-day RMA Bills/ Treasury Bills	0.7	2.5	4.3	2.8	0.4
Balance of Payments (Nu in Million)					
Trade Balance (Goods)	-31,149.2	-27,200.7	-28,338.6	-22,726.4	-12,429.5
With India	-24,303.8	-25,478.9	-26,322.6	-15,895.5	-9,117.1
Current Account Balance	-35,926.1	-30,087.5	-35,430.2	-27,712.5	-21,777.6
(In percent of GDP)	-24.8	-18.9	-21.2	-15.5	-12.7
With India	-34,006.5	-34,034.3	-38,643.1	-25,996.5	-21,904.0
(In percent of GDP)	-23.4	-21.3	-23.1	-14.6	-12.8
RGoB Loans	24,406.1	20,100.2	16,356.9	26,708.4	15,078.9
Of which: India (including accrued interest on Hydro)	20,585.2	18,156.4	14,660.6	17,689.8	10,486.7
Errors and Omissions	12,594.2	-16,652.9	19,260.0	10,179.2	3,441.0
Overall Balance	-47.5	4,933.4	2,310.2	20,092.2	-6,265.5
(In percent of GDP)	0.0	3.1	1.4	11.3	-3.7
External Indicators (end of period)					
Gross Official Reserves in millions of USD	1,103.8	1,111.3	1,064.8	1,343.5	1,556.2
Reseves in months of merchandise imports	12.6	13.8	12.4	18.9	21.1
External Debt outstanding (USD millions)	2,505.4	2,642.1	2,728.4	2,872.7	3,203.2
External Debt (percent of GDP)	114.7	107.8	115.1	117.1	1.9
CC debt outstanding (USD millions)	663.2	699.8	720.1	830.8	922.7
CC debt (percent of GDP)	30.4	28.5	30.4	33.9	40.0
Rupee debt outstanding (INR millions)	118,770.1	133,190.7	138,409.4	154,218.0	169,546.9
Rupee debt (percent of GDP)	81.9	83.5	82.7	86.5	98.8
Debt-Service Ratio (d)	27.4	26.4	44.0	33.5	38.1
Memorandum Items					
(Nu in Million unless otherwise indicated)					
Nominal GDP (a), (b)	145,072.9	159,571.7	167,340.0	178,201.9	171,572.9
Ngultrum per USD (fiscal year average)	66.4	65.1	70.6	72.5	73.7
Money Supply, M2 (end of period)	104,113.6	114,973.7	121,416.7	144,890.5	180,314.2
Money Supply, M1 (end of period)	60,723.3	66,295.0	69,203.4	85,575.6	101,825.9
Counterparts (Nu in Million)					
Foreign Assets (Net)	68,186.7	66,006.3	63,920.6	84,090.6	98,552.0
Domestic Credit	85,084.8	100,320.5	113,488.2	122,112.9	142,821.3
Claims on Private Sector	75,185.1	86,985.1	104,850.5	118,812.5	126,242.5
Components (Nu in Million)					
Currency Outside Banks	8,787.7	9,234.0	9,744.1	11,782.9	11,874.7
Transferable Deposits	51,935.6	57,061.0	59,459.3	73,792.8	89,951.2
Other Deposits	43,390.3	48,678.6	52,213.4	59,314.8	78,488.3
Reserve Money, M0 (end of period)					
of which: Banks' Deposits	34,327.9	33,469.8	31,973.9	45,049.7	62,278.0
Money Multiplier (M2/M0)	22,798.9	21,201.5	19,427.9	30,414.0	46,954.7
Income Velocity (GDP/M2)	3.0	3.4	3.8	3.2	2.9
Population Growth Rate (a) (b)	1.4	1.4	1.4	1.2	1.0
Unemployment Rate (a)	2.1	2.4	3.4	2.7	5.0

a) GDP and unemployment figures are on a calendar year basis (eg: entry under FY 2020/21 is for 2020).
b) Source: National Statistics Bureau.
c) Data for FY 2020/21 are revised estimates.
d) Debt service payments in percent of exports of goods and services.
* Total expenditure in FY 2020/21 includes NRF expenditure.
** Refers to time depotist rate for 3 months to 1 year.

3
Economic Review

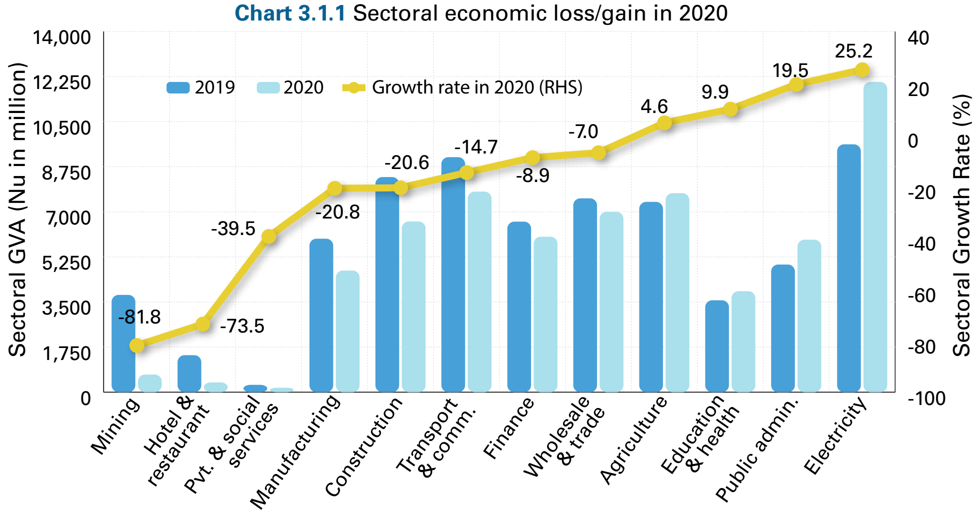
3.1 Real Sector

Economic growth slumps to all-time low at -10.1 percent in 2020 due to decline in mining and quarrying, and construction activities. The agriculture and electricity sectors remained resilient to the COVID-19 pandemic.

Triggered by the impact of the Covid-19 pandemic, the GDP recorded all-time low growth of -10.1 percent in 2020 as compared to a growth of 5.8 percent in the previous year. With the onset of the pandemic and subsequent adoption of containment measures, including the implementation of national and district lockdowns, closure of borders, control on entry of foreigners, social distancing norms, business closure, among others, major economic activities were impacted.

The severity of the impact was felt more on the mining and quarrying sector which experienced a record low growth of-81.8 percent in 2020 from 33.1 percent in 2019. The decline of the mining and quarrying sector was induced by the dip in exports. In terms of products, coal mines, limestone, dolomite mines, and stone quarries were among the main contributors to the decline. The construction sector also witnessed a significant fall in growth at-20.6 percent in 2020 from-14.7 percent in the previous year. The construction activities which depend largely on expatriate workers came to a grinding halt. In 2020, government construction comprised 38.1 percent of the Gross Value Added (GVA) in the construction sector, while the remaining was that of the private sector and public corporations.

Chart 3.1.1 Sectoral economic loss/gain in 2020



The manufacturing sector also contracted by-20.8 percent in 2020 from -0.01 percent in 2019, mainly on account of deterioration in the performance of cement, food, and other industries (including chemicals and metals industries).

The service sector continues to lead the total sectoral share of GDP (46.4%) and concurrently the agriculture and electricity sectors showed improvement in their performance as compared to the previous year.

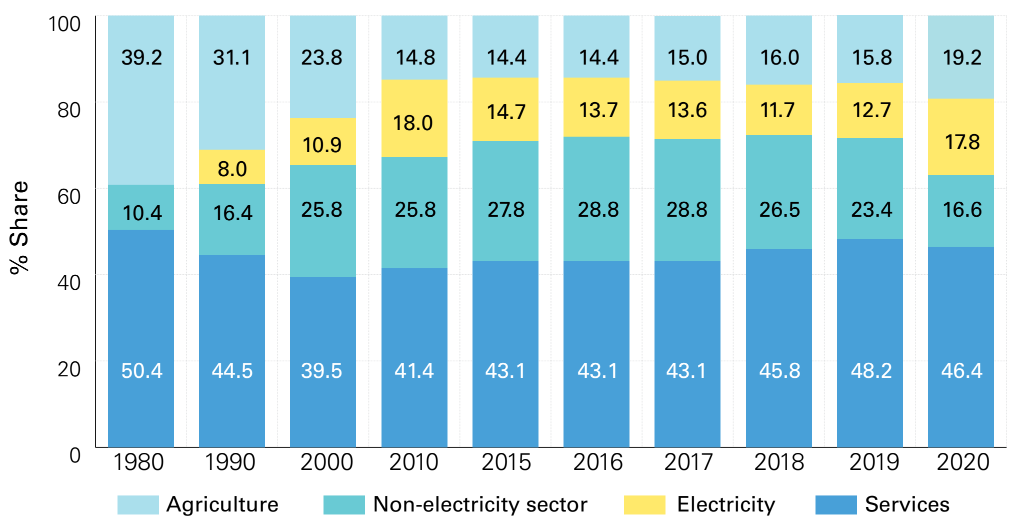
The performance of the private, social, and recreational services sectors deteriorated to-39.5 percent in 2020 from 1.5 percent in 2019. Furthermore, given the interdependency between the various sectors of the economy, the restriction on entry of tourists also contributed to deterioration in the performance of hotels and restaurants by-73.5 percent in 2020 from 11.7 percent in 2019. Likewise, given the slowdown in the performance of air transport and travel agencies, the growth in the transport, storage, and communication sector also deteriorated by-14.7 percent in 2020 from 13.2 percent in the previous year.

On the contrary, a notable performance was witnessed in the electricity sector, with a growth of 25.2 percent, the highest growth experienced in the sector over a decade. This positively contributed towards mitigating the severity of the pandemic on the economy. With the full commissioning of the Mangdechhu Hydropower Project in 2019, the export earnings from electricity increased significantly.

Despite the challenges posed by the pandemic, the agriculture sector also witnessed a notable growth of 4.6 percent in 2020 compared to 1.3 percent in 2019. Its contribution to the overall GDP improved to 19.2 percent in 2020 in comparison to 15.8 percent in 2019. The disruptions in external supply positively benefited the domestic production. Additionally, the renewed interest in farming activities combined with the priority accorded by the government to boost this sector has helped in substituting agricultural imports.

In terms of broad sectoral development, in line with the previous trends, the service sector (tertiary) continued to hold the highest share of the GDP at 46.4 percent in 2020 despite a slight decline from 48.2 percent in 2019. The performance of the non-electricity sector, the erstwhile second highest contributor to GDP, was overtaken by the agriculture sector with a share of 19.2 percent, followed by electricity at 17.8 percent[1]. The share of the non-electricity sector deteriorated to 16.6 percent in 2020 from 23.4 percent in 2019.

Chart 3.1.2 Sectoral share of GDP: Economic transformation

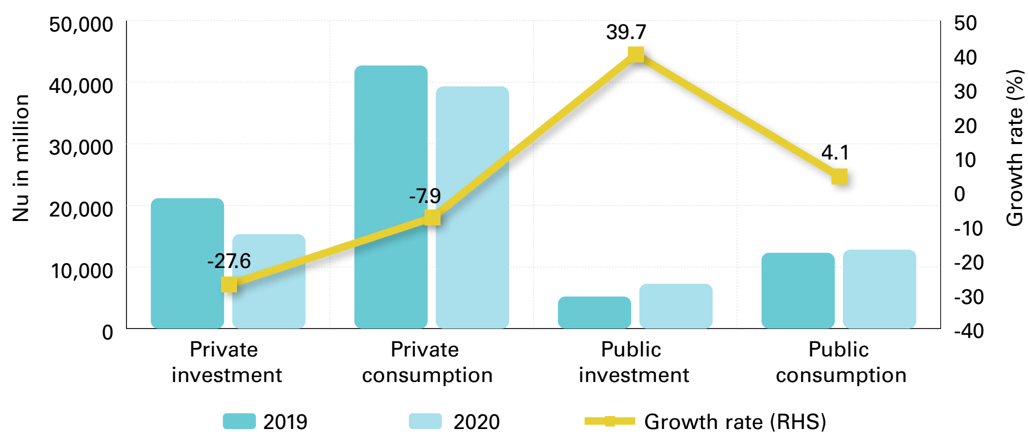


[1] Non-electricity industry includes mining and quarrying, manufacturing, and construction sectors.

Growth in domestic demand experienced a downward trajectory by -8.2 percent in 2020 on account of fall in private consumption and investment.

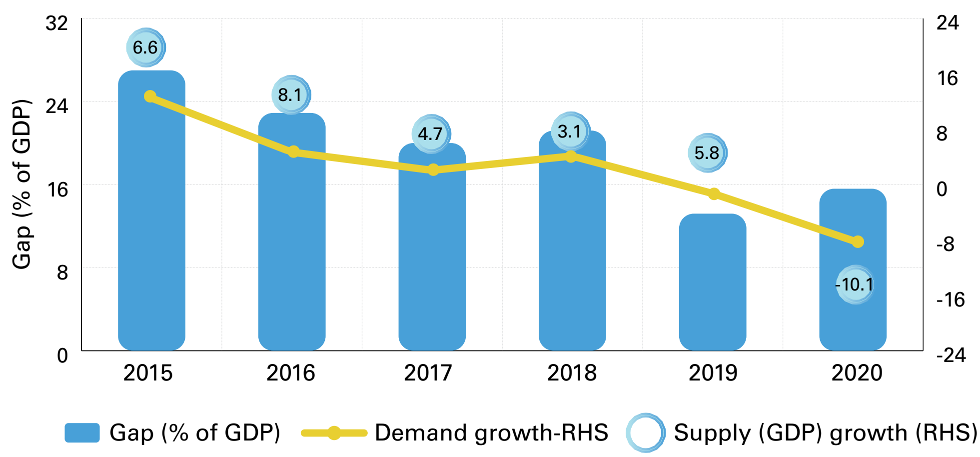
On the expenditure front, the aggregate demand remains subdued at -8.2 percent in 2020 on account of the slowdown in economic activities resulting from the implementation of various containment measures and repeated lockdowns. While the private expenditure experienced a deterioration of -14.4 percent, government expenditure increased modestly by 14.7 percent in 2020. The private investment and private consumption dropped by -27.6 and -7.9 percent, respectively.

Chart 3.1.3 Change in sectoral domestic demand in 2020



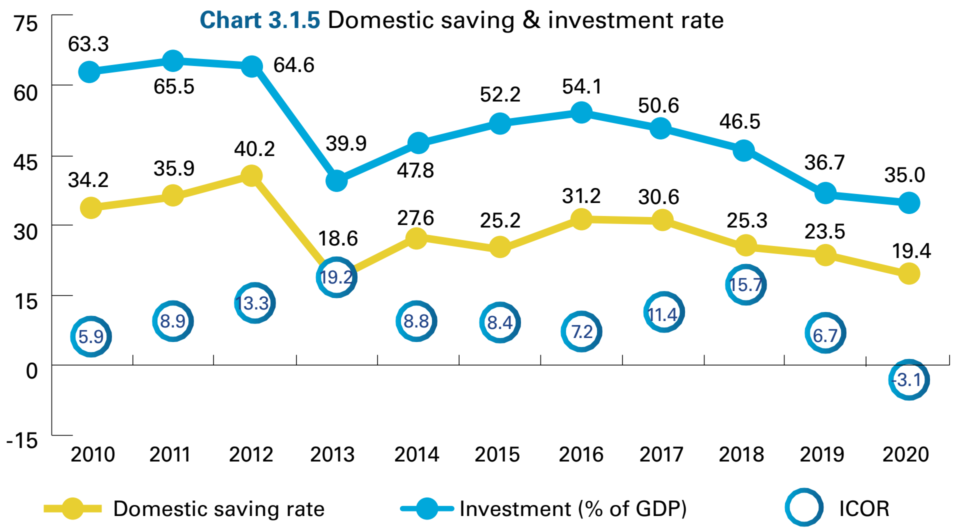
Notwithstanding an increase in the electricity exports (67.2%) and fall in the overall imports (-3.6%), contraction in non-electricity export (-33.7%) has deteriorated the trade balance at -15.6 percent of GDP in 2020 from -13.2 percent of GDP in 2019. The drop in non-electricity exports was caused by detoriation in minerals, industrial products, agriculture products, and service exports.

Chart 3.1.4 Supply & demand gap: trade deficit



Trend analysis on domestic saving and investment rate indicate a continuous negative growth in investment after 2016 with -14.3 percent in 2020. Similarly, the growth in domestic investment rate have also experienced a slowdown since 2016. The investment rate in 2020 dropped at 35.0 percent of GDP against 36.7 percent in 2019. The Investment Capital Output Ratio (ICOR) for the year 2020 worsened compared to 6.7 in 2019[2]. This first-time negative ICOR over the decade was on account of negative growth in the GDP.

Chart 3.1.5 Domestic saving & investment rate



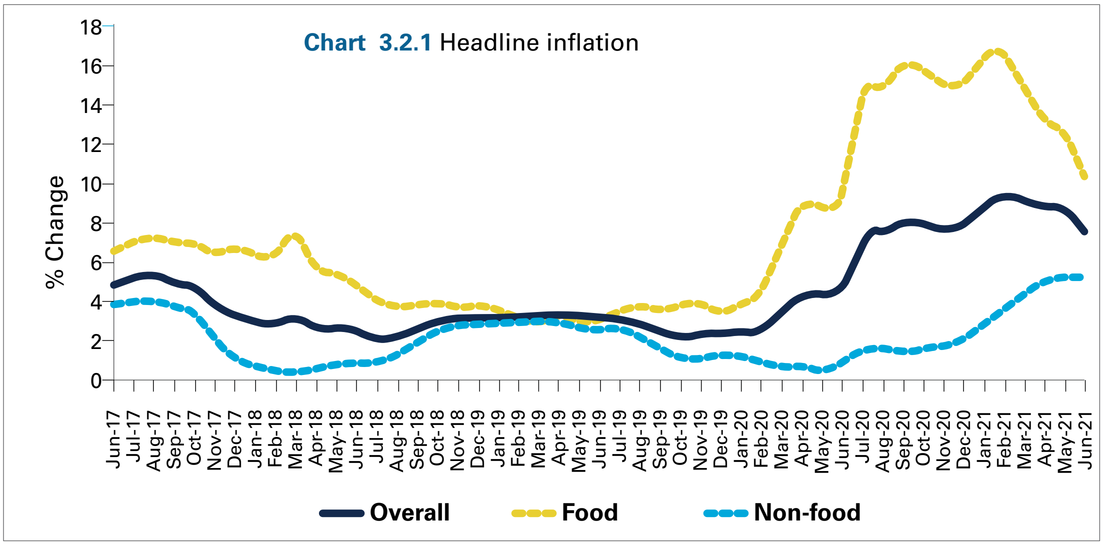
Overall, the Gross National Income (GNI) per capita in nominal terms decreased from Nu 218,960.5 (USD 3,109.3) in 2019 to Nu 214,956.3 (USD 2,936.8) in 2020, reflecting weakening position in the national income level.

[2] ICOR is the ratio of investment to growth. Higher the ICOR, lesser the productivity of capital and vice versa.

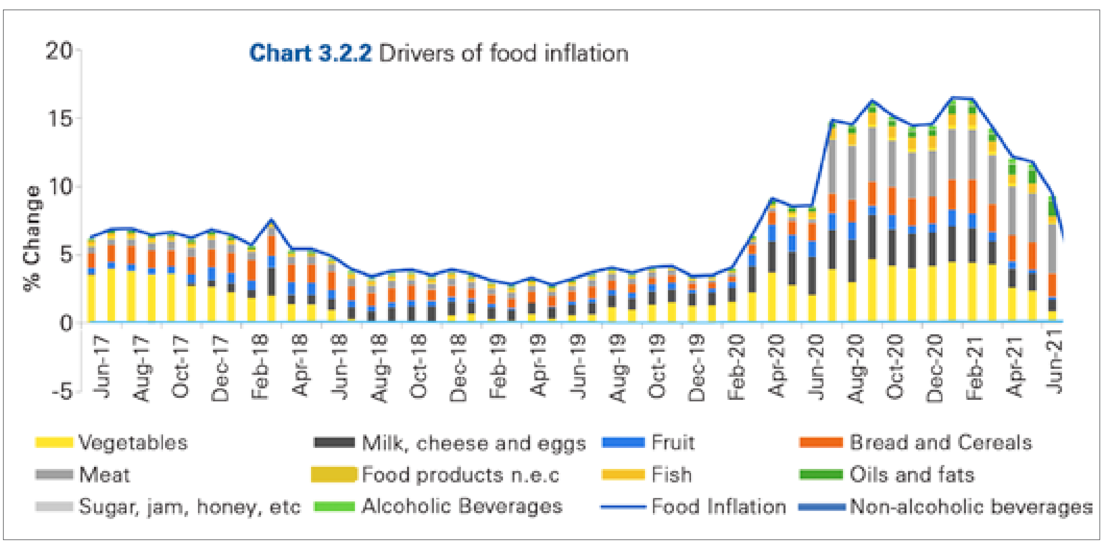
3.2 Inflation

Annual headline inflation almost doubled in June 2021, largely due to rise in food prices.

The annual headline inflation stood at 7.4 percent in June 2021 compared to 4.5 percent in June 2020, an increase by 2.9 percentage point, largely on account of rising food inflation. With the prolonged Covid-19 pandemic, food inflation rose to 10.1 percent in June 2021. During the period, the non-food prices increased to 5.2 percent against 0.9 percent increase in the previous year.

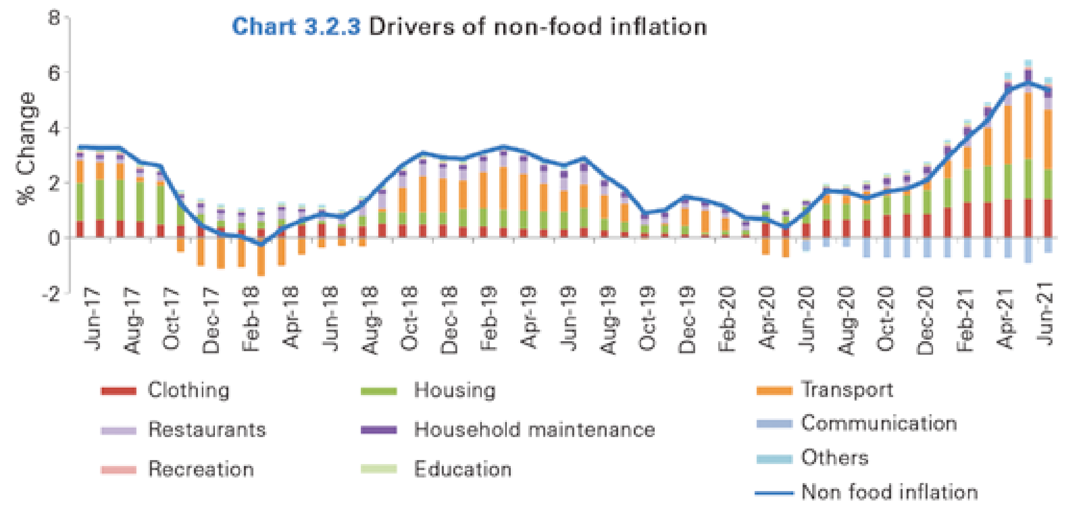


Since a large portion of domestic demand is met through imports, constituting over 52.0 percent of the consumer goods, and with the emergence of new delta variant in the neighboring countries, further pressure has been added on the supply network, worsening the inflationary pressure during the period.



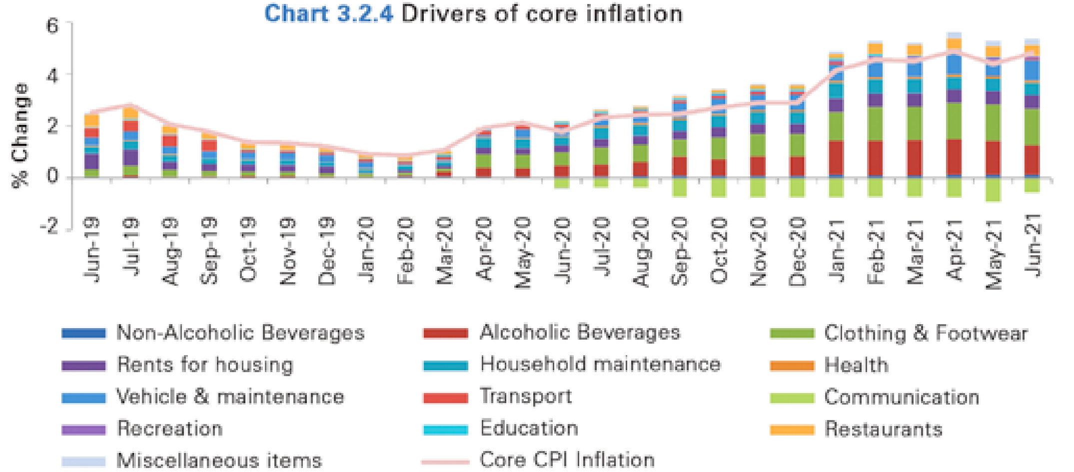
Inflationary pressure in the food items remained elevated despite witnessing a drop in prices of vegetables and fruit items. Food inflation increased to 10.1 percent in June 2021 from 8.9 percent in June 2020. Inflation in meat items, one of the biggest contributors to food inflation, increased to 37.2 percent in June 2021 from 3.0 percent in the previous year due to shortage of supply as a result of import ban of meat items during the pandemic. Similarly, the prices of oils and fats also remained elevated at 21.6 percent, as compared to 5.2 percent in the previous year.

Chart 3.2.3 Drivers of non-food inflation



In June 2021, the non-food inflation, except the communication prices, also increased to 5.2 percent from 0.9 percent in June 2020. The increase in non-food price was also a result of increase in the cost of transportation by 7.2 percent, followed by clothing with 8.6 percent, and housing with 5.2 percent. The recent spike in the transportation inflation was on account of a significant rise in the fuel prices (by 21.6 %) accompanied by depreciation of exchange rate.

Chart 3.2.4 Drivers of core inflation



The core inflation which excludes volatile items such as food and fuel reflected an upward surge in prices to 4.8 percent in June 2021 from 1.8 percent in June 2020. This upward surge in core inflation was contributed by increase in the prices of clothing and footwear and alcoholic beverages. Following the past trend, the prices for communication went down due to increase in demand and fall in data charges.

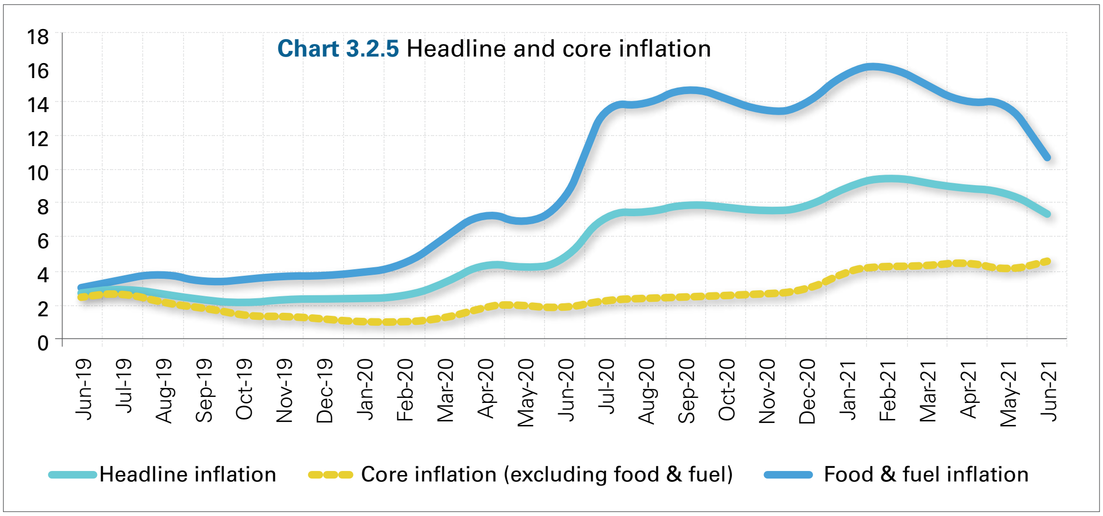


Chart 3.2.5 Headline and core inflation

Overall, the headline and core inflations remain elevated since the onset of pandemic and are expected to pick up in the near-term due to rising global commodity prices, continued supply chain disruptions, and pressure for rise in consumer demand.

Box 3.2.1

Estimating impact of Fuel Prices on Inflation in Bhutan using ARDL Model

Inflation is an important macroeconomic variable that affects all aspects of human life including the economy, individual spending, interest rates, business investment, tax policies, and employment. Inflation is mainly influenced by two factors—demand side (demand pull) and supply side (cost push). On the demand front, change in policies related to monetary, fiscal, wage, and seasonal factors are the main drivers of inflation. On the other hand, changes in input cost, variation in weather condition, and revision in administered prices influence the domestic inflation through supply side. Domestically, change in policy measures, internal supply chain disruptions, changes in cost of production of consumer goods are also drivers of inflation.

On external front, changes in the global commodities prices, including fuel prices through change in production capacity and market demand, added by the change in exchange rate of domestic currency against foreign currencies also influence the domestic inflation. In the recent years, high volatility and rising fuel prices in the global market have impacted the domestic inflation directly and indirectly. A rapid depreciation of Ngultrum/Indian Rupee has further increased the level of inflation as import prices of fuel spiked considerably.

Bhutan do not produce fossil fuel; therefore, the country's fuel import demand is met from India, where it is either produced domestically or imported and refined in India[3]. Because of this, fuel price in Bhutan is not only influenced by the production price in India, but also by the change in global prices and change in INR exchange rate against the US dollar[4]. Despite increasing electricity production, Bhutan's dependence on fossil fuels has been increasing over the years. Among others, import of diesel and petrol has persistently remained within top 10 imports, often surpassing the hydroelectricity exports. In 2019, diesel and petrol alone constituted 14.9 percent of total imports; and including other fossil products like kerosene, gasoline, LPG etc. raises the figure to 16.7 percent. Therefore, diesel and petrol are the main types of fossil fuel consumed in the country, followed by the LPG and gasoline.

This study is conducted to examine the impact of fuel price on overall CPI inflation. In the recent years, the global fuel increased with higher volatility. In order to capture the current impact of fuel prices on the inflation, the monthly CPI inflation and fuel price inflation from

[3] According to petroleum statistics, India imports more than 80% of total fuel consumption, largely from the Middle East.

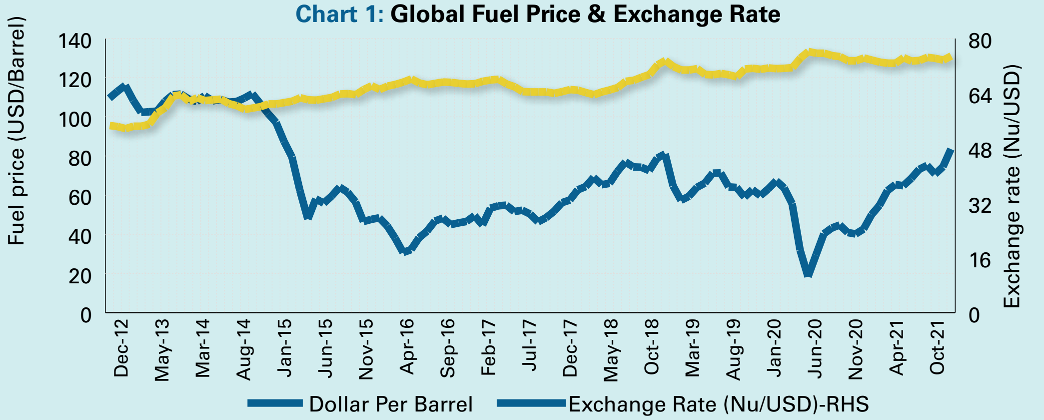
[4] The global fuel price is based on US dollar. Any depreciation of INR against US dollar has direct impact on fuel price in Bhutan, in addition to development of fuel production price in the global market and in India.

December 2012 till September 2021 is used for this analysis[5]. With an increasing application of CPI inflation in policy formulation such as determining minimum wage, revision of pay and allowances, and adjustment of cost-of-living allowances, understanding the drivers of inflation is important not only to keep track of the variable but also to guide future policy actions.

Driven by both supply and demand factors, global fuel prices have been rising in the recent years despite the slowdown between 2012 until the beginning of 2016. There has been a steady increase from a low of USD 32.1 per barrel in February 2016 to a high of USD 81.0 per barrel in October 2018. Since then, there has been a gradual drop until hitting to a record low at USD 18.4 per barrel in May 2020 and then witnessing a rapid rise thereafter, spiking at USD 83.5 per barrel in September 2021. Concurrently, in the recent years, there has been a rapid depreciation of Ngultrum against the US dollar, further impacting the price of fuel in Bhutan.

As evidenced by several studies, the changes in fuel price has a strong impact on the overall inflation. For example, the fuel price shock in the 1970s resulted in adverse macroeconomic

Chart 1: Global Fuel Price & Exchange Rate

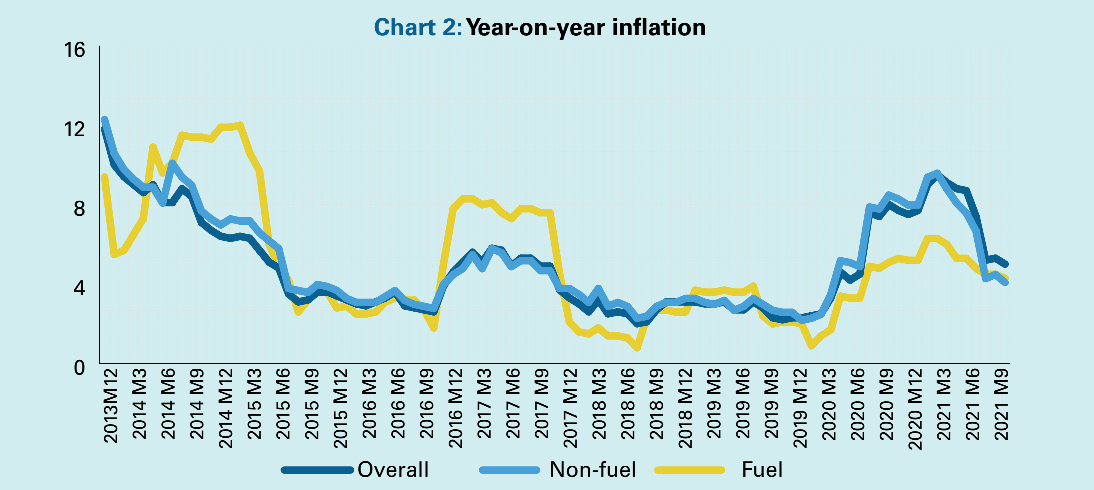


impact through overall price spiral. Blanc and Chinn (2004) found that excluding indirect effects, every 10.0 percentage points increase in fuel price resulted in 0.1 to 0.8 percentage points increase in inflation in the US and in selected European countries. Similarly, De Gregorio et al. (2007) took a sample of 23 countries for the period 1980-2005 and found that when oil price falls by 10.0 percent, inflation drops by 0.2 percent. Perera W.T.K. (2009) concluded that the direct effect of rise in diesel prices by 10.0 percent increased inflation by 0.2 percent in Sri Lanka. At the same time, oil price shock acted as a friction in achieving the monetary policy objectives, making it less accommodative due to higher volatility.

For this analysis, monthly CPI data from December 2012 to September 2021 is separated into fuel and non-fuel CPI by removing fuel items such as kerosene and LPG from household utility, and diesel, petrol, and lubricant (engine oil) from transportation component. Further, it has been deseasonalised to remove seasonal factors for the regression analysis.

To measure the direct effects of the fuel prices, the weights of fuels are used to estimate the impact. Total weights of fuel, comprising LPG, kerosene, petrol, diesel, and engine oil in

[5] National Statistics Bureau (NSB) of Bhutan started compiling monthly CPI inflation only from the end of 2012.



the CPI basket constitutes about 4.4 percent. This indicates that 10.0 percent increase in fuel prices translates to 0.4 percent increase in CPI inflation, meaning the direct effect of fuel price shock on inflation is minimal.

Table 1: Weights in the CPI basket

Sl. No	CPI April=2019	Weight	
		Overall	Fuel
1	Food	45.95	
2	Clothing & footwear	9.17	
3	Actual rentals for housing LPG Kerosene	11.57	 0.84 0.09
4	Household furnishing, equipment, and maintenance	4.44	
5	Health	0.81	
6	Purchase of vehicles Petrol & diesel Engine oil	15.63	 3.31 0.17
8	Communication	3.25	
9	Recreation & culture	2.30	
10	Education	1.35	
11	Restaurants & hotels	3.62	
12	Miscellaneous goods & services	1.92	
Total		**100.00**	**4.41**

Since fuel prices have chain effect on other consumer items, it is important to measure the indirect effects of fuel prices on inflation. To test whether non-fuel and fuel prices are stationary or not, after log transformation, the Dickey Fuller test was conducted. Both the variables are stationary only at first difference, which means that the variables order of integration is one I(1). Therefore, the variables are first differenced for regression analysis. The optimum lag values are also determined using the lag selection criteria.

Generally, prices are autoregressive in nature and affected by past values, thus, an Autoregressive Distributed Lag (ARDL) model is used to examine the indirect effects of fuel prices on the CPI inflation. The following ARDL (3,1) model specification is used for determining the result.

$$D(NFP)=\beta_0+\beta_1 FP+\beta_2 FP_{t-1}+\beta_3 FP_{t-2}+\beta_4 FP_{t-3}+\beta_5 NFP_{t-1}+e_t$$

(NFP is non-fuel price, dependent variable with lag length at 1; FP is fuel price, explanatory variable with a lag length at 3; e_t is error term.)

The regression result in Table 2 below shows that fuel has a significant contemporaneous effect and a lag effect of 3-month period. The result indicates that an increase in fuel prices by 10.0 percent would increase monthly inflation by 3.6 percent within a month, and further pushes inflation by 1.3 percent after three months. The total indirect effects of fuel prices on inflation is about 4.9 percent. If fuel prices increase by 10.0 percent, other factors remaining constant, the total increase in inflation will be 4.9 percent after three months from now. This indicates that fuel prices have huge impact on inflation. The higher volatility in fuel prices and the difficult geographical terrain for the transportation of both food and non-food consumer items in Bhutan are largely influenced by changes in fuel prices.

Table 2: Result of ARDL (3,1) Model

D(NFP)	Coefficient	Standard Error	T-test
Constant	0.002	0.001	3.470
D(FP)	0.362***	0.069	5.260
D(FP(-1))	-0.046	0.080	-0.570
D(FP(-2))	0.078	0.070	1.120
D(FP(-3))	0.133 **	0.064	2.100
D(NFP (-1))	-0.088	0.100	-0.880

*** Indicates significant at 1% level and ** significant at 5% level

Thus, the empirical results imply that change in fuel prices has a significant effect on the overall price level. As indicated by the direct and indirect effect measurement, while 4.4 percent of consumer expenditure are incurred on fuels, the study found that an increase in fuel prices by 10.0 percent translates to 0.4 percent increase in inflation. Moreover, as household and population settlements in Bhutan are scattered, the price of transportation for consumer goods becomes expensive. The transportation cost, which is largely dependent on price of diesel, directly affects the logistic cost, resulting into indirect effect of 4.9 percent increase in inflation as the fuel prices increase by 10.0 percent.

As an alternative, in order to minimize the impact of fuel price shocks on inflation, households must switch to clean and domestically produced energy such as electricity. Electricity is cheaper than imported fossil fuel, and tariff for electricity is stable and more predictable and will prevent households from experiencing a frequent price adjustment driven by changes in global fuel prices. In terms of transportation, dependence on diesel for transport of goods and services will continue; however, there is still a scope to minimize the transport cost by using fuel-efficient transportation infrastructure such as expanding high quality public transportation system and distribution network.

Similarly, in order to incentivize households to use electric vehicles, existing fiscal incentives such as import duty and green tax exemptions, reasonable access to transport loan from banks, and monetizing vehicle quota system for the public servants must be encouraged. Such a policy will not only help minimize the fuel price impact on inflation, but will also help protect our natural environment and reduce import dependency.

Unlike the conventional ideology, the study also implies that taxation or imposition of additional fees and charges on fuel consumption as a policy measure to discourage its usage in context to safeguarding environment or promoting revenue collection must not be overlooked from the dynamics of inflation perspective[6]. Such policy measures would rather result into unexpected macroeconomic consequences such as rising commodities prices for households and investment cost for businesses. Energy is a critical component for economic activities. Therefore, it is imperative that the Government strives to institute a prudent and sustainable mechanism supported by sustainable policy options in managing different sources of energy optimally and efficiently using modern technological innovations to support human livelihood, economy, and our environment.

[6] Taxation on fuel to curb import of vehicles or fuel will not result in intended outcome unless import of vehicles are strongly discouraged at source.

3.3 Employment and Labor Market

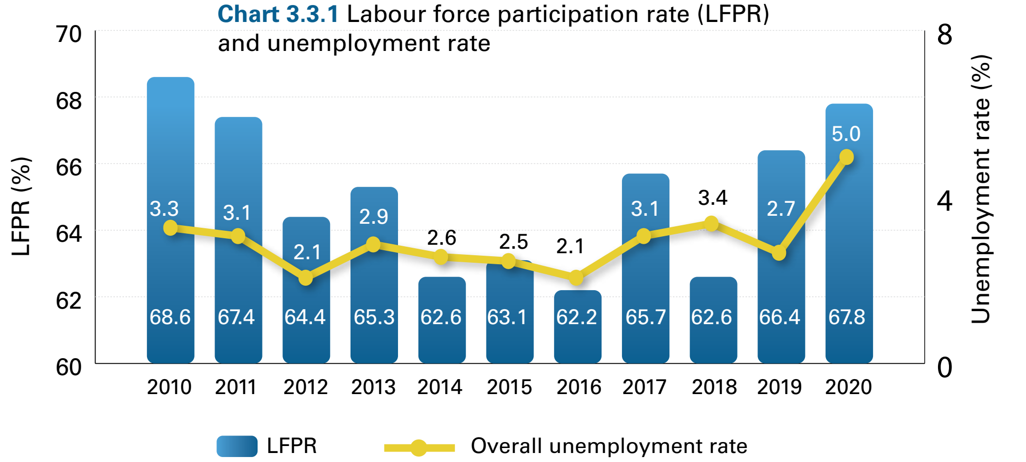
Unemployment rate remained higher at 5.0 percent in 2020 as compared to 2.7 percent in 2019.

In 2020, the pandemic situation further tightened the labor market conditions following the containment measures. As a result, the overall unemployment rate stood at 5.0 percent. Based on the Population and Housing Census of Bhutan 2017, the estimated population for 2020 is 748,931. During the period, as per the Labor Force Survey (LFS) 2020, Working Age Population (WAP), 15 years and above, is 488,336. The WAP to total population ratio is 65, indicating a higher economic support ratio, where every 10 persons are supported by seven potential workers in the economy.

As usual, not everyone within the WAP bracket are actively engaged in economic activities for various reasons; they are either not available for work or are not seeking employment. This inactive population constitutes 32.0 percent (157,114 persons) of WAP, largely composed of students (51.1%), those attending family duties (19.9%), and elderly citizens (16.4%)[7].

In terms of inactive population by age, more than half comprises youth between 15-24 years of age and about one-fifth are elderly citizens at 65 years and above. As compared to 47.7 percent and 17.8 percent in 2018, the share of youth and elderly citizens in the inactive population remains high in 2020. Overall, economically inactive population constantly dropped from 37.4 percent of WAP in 2018 to 33.6 percent in 2019, then to 32.2 percent in 2020.

Chart 3.3.1 Labour force participation rate (LFPR) and unemployment rate



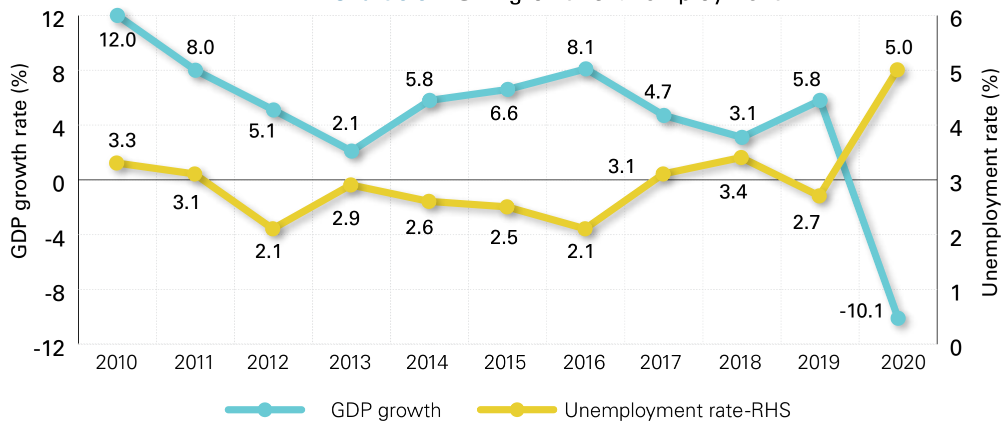
Despite weaker labor demand following the economic contraction, an increase in the number of furloughed workers, those waiting to return to jobs, and upsurge in pending numbers of persons planning for working abroad led to improved labor force participation rate (LFPR) at 67.8 percent in 2020 compared to 66.4 percent in 2019. This is largely contributed by continuous influx of labor supply as indicated by the drop in number of inactive population of students (-3.3%) and persons attending family duty (-15.6%) in 2020.

[7] The remaining includes recall from previous jobs or those waiting for academic/interview results.

Notwithstanding the impact of the pandemic on employment prospects, there has been an increase in female labor force (11,009 persons: 7.3%), resulting in 63.5 percent of female LFPR in 2020 compared to 61.2 percent in 2019. However, there has been only a marginal increase in male LFPR at around 71.8 percent.

In terms of LFPR by area, the labor participation is highly dominant in rural areas where two-third of WAP are rural-based. Dominance of rural LFPR is driven by higher rural female labor participation (67.5%) against 55.7 percent in the urban areas, indicating a higher gender disproportion in the LFPR. This also shows that 44.3 percent of potential female workforce is economically inactive in urban areas compared to only 32.5 percent in the rural areas. Unlike female workforce in urban areas who are largely engaged in family duties, rural female labor force is actively engaged in farming activities.

Chart 3.3.2 GDP growth & unemployment



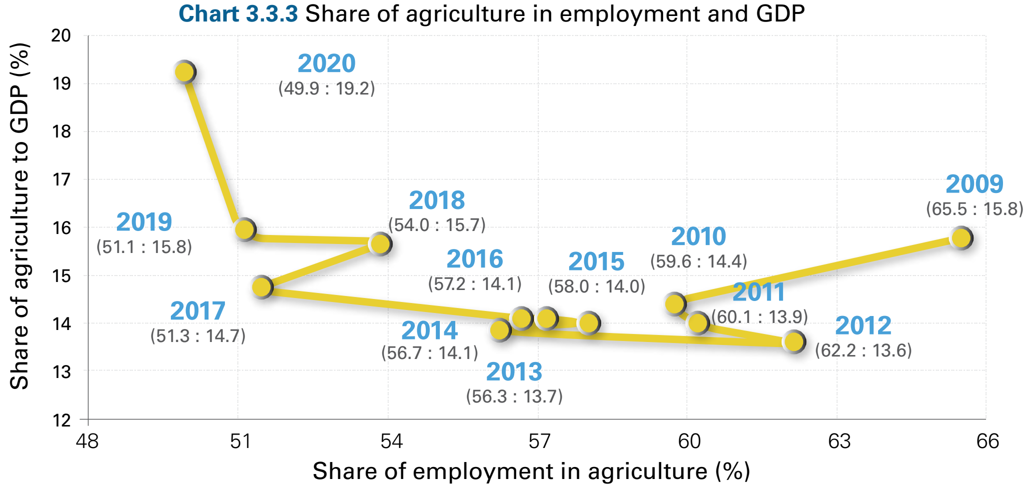
With the unfolding of the Covid-19 pandemic since the second quarter of 2020, the government undertook several containment measures. These measures included closure of the border, suspension of tourist arrival, limiting full operation of business activities, and implementation of mandatory 14 to 21 days of quarantine for travelers. Additionally, national lockdowns and repeated localized lockdowns, especially in the southern belt, with strict Covid-19 protocols brought a significant economic impact for both households and businesses, leading to economic and employment loses.

With deep GDP contraction by-10.1 percent in 2020, the overall unemployment rate almost doubled to 5.0 percent and youth unemployment rose to a record high level at 22.6 percent. During the pandemic, the challenges of unemployment have further aggravated due to business closures and prolonged halt in major economic activities. In terms of numbers, the total number of unemployed population was recorded at 16,660 persons in 2020, compared to 8,699 persons in 2019. The increasing number of new entrants in the labor market after completion of schools, colleges, and training centers in addition to the past unemployed resulted in mounting unemployment, especially amongst the youth.

In terms of sectors, agriculture (crops, livestock, and forestry) continued to absorb about half of the total labor force while its contribution to GDP remained almost one-fifth. Of 157,015 persons employed in the agriculture sector in 2020, about 97.3 percent were engaged in rural farming, comprising mostly females.

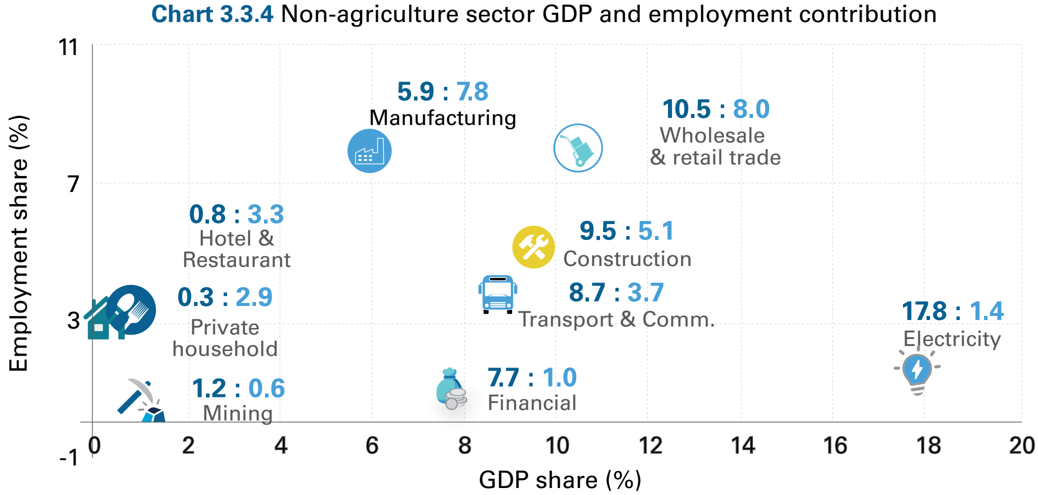
Despite the increasing GVA of the agriculture sector in the recent years (14.4 percent in 2015 compared to 19.2 percent in 2020), sectoral employment share steadily declined from 58.0 percent in 2019 to 49.9 percent in 2020. Amidst the pandemic, the sector witnessed 4.6 percent increase in GVA, proving to be one of the resilient economic sectors, next to

Chart 3.3.3 Share of agriculture in employment and GDP



electricity. Like in the past, there was a slight drop in employment in the agriculture sector by 1.3 percent (2,017 employees) due to natural displacement of employment with a narrowing productivity gap aided by a rapid growth in other two sectors, the industry and services[8]. The agriculture sector continued to retain a larger chunk of employment during the pandemic. If the agriculture sector was impacted indifferently by the pandemic, the unemployment rate would have worsened significantly.

Chart 3.3.4 Non-agriculture sector GDP and employment contribution

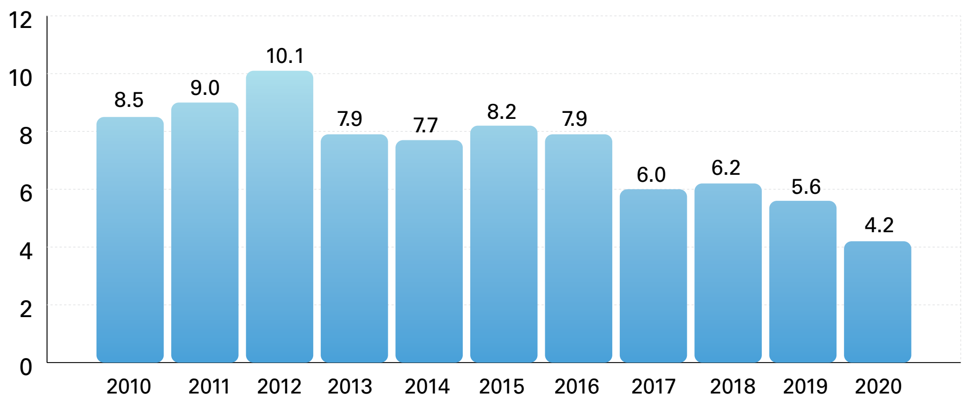


[8] Natural displacement refers to normal displacement of employment in the agriculture sector due to economic transformation, i.e. the structural change in the employment pattern from agriculture to industry and services sectors.

On the contrary, except in electricity and public administration, a deep sectoral GDP contraction would have resulted into either displacement of employees or reduction in the working hours, thereby impacting the labor productivity. Further, containment measures such as remote working practices would have also impacted labor efficiency in selected sectors. For instance, sharp contraction in construction sector by 20.6 percent in 2020 resulted in -17.9 percent displacement of employees. As the size of public administration is larger, the dependence on employment in the public sector is also sizeable, constituting about one-fifth of the total workforce. There are sectors like electricity, construction, wholesale, and retail trade where generation of employment relative to its GDP contribution is smaller. Contrary to the agriculture sector, these are growth intensifying sectors that have greater potential to generate employment during the post-pandemic economic recovery.

On the other hand, in recent years, there has been a continuous improvement in the productivity gap of the agriculture sector relative to other sectors[9]. The improvement in productivity gap is the outcome of the renewed interest in farming activities and continued government support.

Chart 3.3.5 Agriculture productivity gap (Ratio)

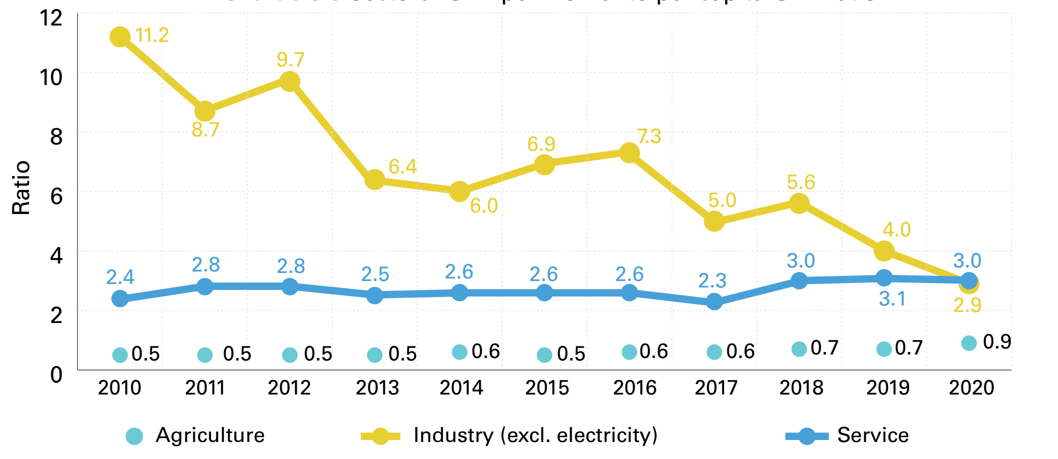


As indicated in chart 3.3.5, a rapid improvement in labor productivity in the agriculture sector has not only retained employment but also contributed to the larger interest of the economy in terms of being a sole producer in the system. Compared to 2019, the agriculture productivity gap ratio improved from 5.6 to 4.2 in 2020; however, the labor earnings in the sector remains below its marginal product, compared to other two sectors.

While measuring the sectoral per capita income earnings relative to the GDP per capita, although there was an increase in agriculture output in 2020, the GVA per capita in the agriculture sector (Nu 210,155) is about 10.0 percent below the per capita GDP (Nu 229,090). On the other hand, despite the impact of the pandemic, the GVA per capita of non-electricity industry and service sectors record about 3 times higher than the per capita GDP.

[9] The gap value close to one indicates workers are paid equivalent to their marginal product and higher value shows lower productivity relative to other sectors.

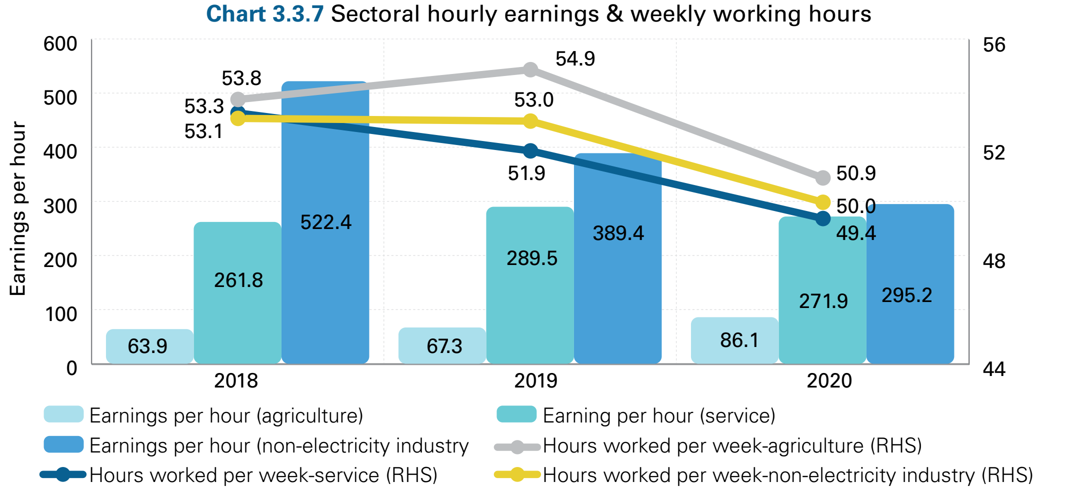
Chart 3.3.6 Sectoral GVA per worker to per capita GDP ratio



The higher productivity gap, especially in the agriculture sector, has resulted into higher sectoral earnings gap. For instance, the estimated earning of an employee in the agriculture sector is Nu 86 per hour with an average 51 workings hours per week in 2020. As reflected by the improvement in sectoral labor productivity, the number of working hours has reduced from 54 hours and earnings has improved from Nu 67 per hour in 2019. However, the labor productivity in non-electricity industry and service sectors dropped in 2020 with hourly earnings of Nu 295 and Nu 272 from Nu 390 and Nu 290 in 2019, respectively. The pandemic severely impacted both the weekly working hours as well as the earnings in these two sectors. Despite improvement in labor productivity in the agriculture sector, there is still a significant sectoral disparity.

In Bhutan's case, the weekly working hours are higher than the international standard of 40 hours per week. More than 90 percent of employees work beyond 40 hours per week and three-fourth works more than 50 hours per week. Longer working hours is impacted by both demand and supply side factors. It is reported that 53.7 percent of employees worked more than 48 hours per week as demanded by job itself and 45.4 percent were putting up additional

Chart 3.3.7 Sectoral hourly earnings & weekly working hours



working hours to earn extra income. This shows that labor productivity doesn't directly result in adequate income for workers, and at the same time, it contributes acceptable output for the employers without adequate compensation to the employees.

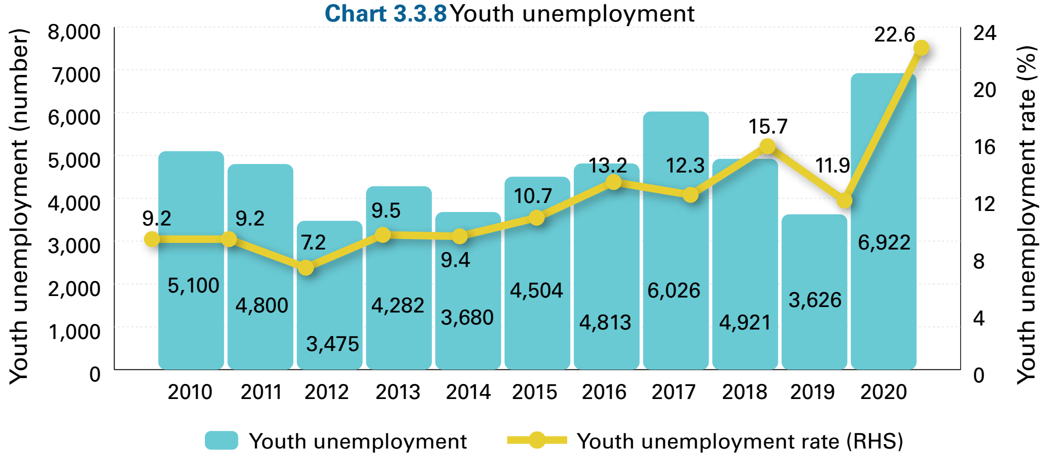
With reduced working hours and income from normal work time, the underemployment rate continues to remain elevated above 5.0 percent, higher than the overall unemployment rate[10]. The key factor for underemployment is the financial need where an individual is compelled to work in low-paying jobs or on a part-time basis where earnings are inadequate to meet the economic needs. For example, the high level of unemployment during difficult times such as during the pandemic indicates that it has not only impacted the prospects of finding a job for the unemployed, but has also affected the underemployed with reduced income at times of soaring prices. Therefore, the economic fallout of such crisis will continue to hit the lower income population, mostly working in the informal sectors.

A majority of those employed thrive in the informal sector (70.0%). For every 10 workers, 7 work in the informal sector, which is highly vulnerable to economic shocks. Informality in rural areas is highly characterized by own-account (self-employed) and family workers in the agriculture sector. The casual and piece paid workers are other types of informal workers contributing about 10.0 percent to the informal sector employment.

Formal employment is concentrated largely in public administration, manufacturing, and electricity sectors where prospects of formal employability increase with education level and skills. This shows that disparity in the level of education has a strong impact on the quality or finding decent employment opportunities and earnings in the labor market.

Triggered by the pandemic, large labor market disruptions have unequivocal impact on youth employment. Even before the pandemic, finding a decent job for a majority of youth had been challenging. Since 2015, the youth unemployment rate has been rising continuously at double digits. About 90,000 of youth are not in employment, meaning they either remain

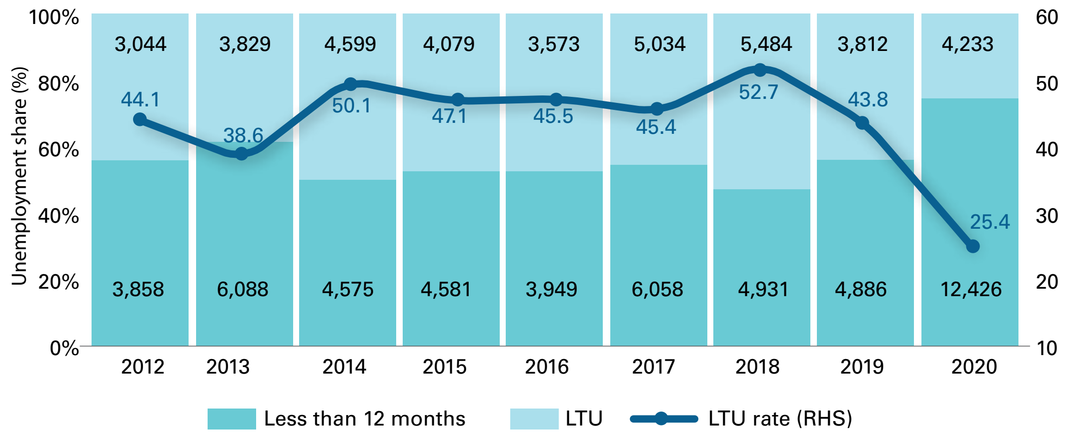
Chart 3.3.8 Youth unemployment



[10] Underemployment refers to all employed persons who want to work more and are available for additional hours of work given an opportunity. It is mainly to meet the economic needs due to mismatch in jobs and skills or working less than full time on regular jobs.

unemployed or are undergoing studies or training (estimated at 75,600 persons). Major factors that constrain youth from getting a decent job include lack of adequate qualification, working experience or required skills. On the demand side, continuous economic disruptions plummeted the domestic demand, causing youth unemployment to rise from 11.9 percent (3,626) in 2019 to 22.6 percent (6,922 persons) in 2020. Therefore, the impact of the pandemic on young people has been immediate, severe, and chronic.

Chart 3.3.9 Long term unemployment (LTU)

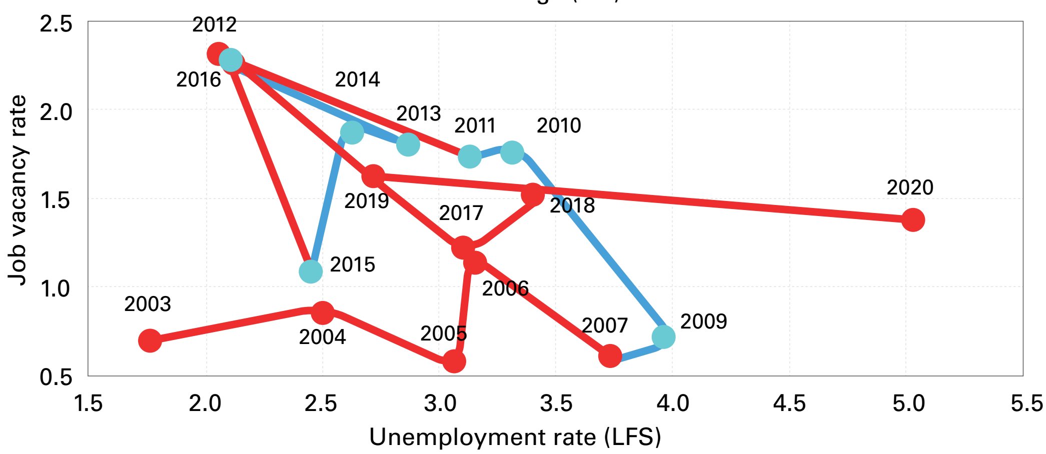


The level of overall and youth unemployment in 2020 could have been much higher than the estimates had there been no deferment of completion in education and trainings due to disruptions by the pandemic. It is estimated that the pandemic has disrupted timely completion of studies for thousands of students which has further pushed unemployment to the future. Moreover, a majority of jobseekers preferred employment in the civil service or in government-owned corporations despite the limited openings and greater competition in the market.

As the number of school leavers and graduates from training centers and university increases annually in the job market, youth unemployment will continue to expand. In addition, due to limited scope for full employment generation in the past years, there is an increasing accumulation of those unemployed in a longer term. In 2020, the long term unemployment (LTU, those who have been unemployed for more than one year) increased to 4,233, equivalent to 25.3 percent of the total unemployed. Despite the increase in absolute number, a drop in share of LTU relative to the total unemployment in 2020 could be due to higher increase in new entrants or momentary engagement of past unemployed in various programs initiated through employment policy interventions during the pandemic.

As reflected in the Beveridge (UV) curve, with massive labor market disruptions, the number of job openings dropped drastically in 2020 compared to 2019[11]. As a result, the overall unemployment rate shifted towards right side by manifold. Against 2018, after experiencing a sharp economic slowdown, the UV curve witnessed an upward shift towards the left indicating an increased job vacancy and decline in unemployment rate. However, due to the pandemic, a deep economic contraction forced a shift in UV curve towards the right at an unprecedented level, although there has been a marginal fall in the vacancy rate. This indicates how the pandemic further tightened the labor market with declining job opportunities.

Chart 3.3.10 Beveridge (UV) curve



[11] The Beveridge curve describes the negative relationship between the unemployment rate and the vacancy rate.

BOX3.3.1

Impact of Foreign Workers on Labor Market

Since the start of the first five-year plan in 1961, foreign workers have played a key role in development activities in Bhutan, particularly in the construction industry. The demand for both skilled and non-skilled workers has grown on an average of more than 80 percent, with total of 54,822 foreign workers imported annually in various occupational fields[12]. At this annual rate, foreign workers account for 11.2 percent of total national working population, which exceeds the government ceiling of 45,000.

As of 2020, the youth unemployment rate stood at 22.6%. The cheap and easy accessibility of both skilled and non-skilled workers from India is the main factor for higher import of foreign workers (Work Bank Report, 2020). Continued preference for foreign workers has limited the opportunity to enhance productivity, efficiency, and skills of domestic workers.

A continuous import of foreign workers, if not regulated, has long-term effects on the labor market. It also affects the sustainability of the country's economic growth. While downward risks continue over the period, it is important for the agencies concerned to initiate appropriate measures to enhance skills and creativity of domestic workers. This should be supported by strong regulation and financial safety nets such as unemployment insurance and pension.

Total foreign workers by economic sector and major occupation

As of December 2019, a total of 82,271 foreign workers were employed in various economic sectors at different professional levels. However, the number drastically dropped to 16,417 in 2020 due to the pandemic. Of the total foreign workers in 2019 (Chart 2), the construction sector (including hydropower projects) recorded the highest (96.2 percent), followed by the mining and manufacturing sector (2.2 percent), and the agriculture sector (0.01 percent).

The import of foreign workers jumped significantly from 7,701 in 2012 to 77,097 in 2014, and peaked at 90,375 in 2016. Thereafter, it declined by 1.3 percent (82,271) in 2019 to 80.0 percent (16,417) in 2020, mainly because of the restriction of mobility of workers in the wake of the ongoing pandemic. A huge jump in the import of foreign workers from 2014 onwards is largely because of new hydropower projects and the boom in the construction industry, mainly triggered by easy access to credit for housing.

As of 2019, India remains the largest source of foreign workers, accounting for 99.4 percent (81,943), followed by the USA at 0.07 percent, and Japan at 0.06 percent. The close proximity and easy accessibility, cheap and affordable labor, and easy monitoring and regulatory environment are the main factors for higher foreign workers import from India.

[12] Source: Department of Immigration, Ministry of Home and Cultural Affairs.

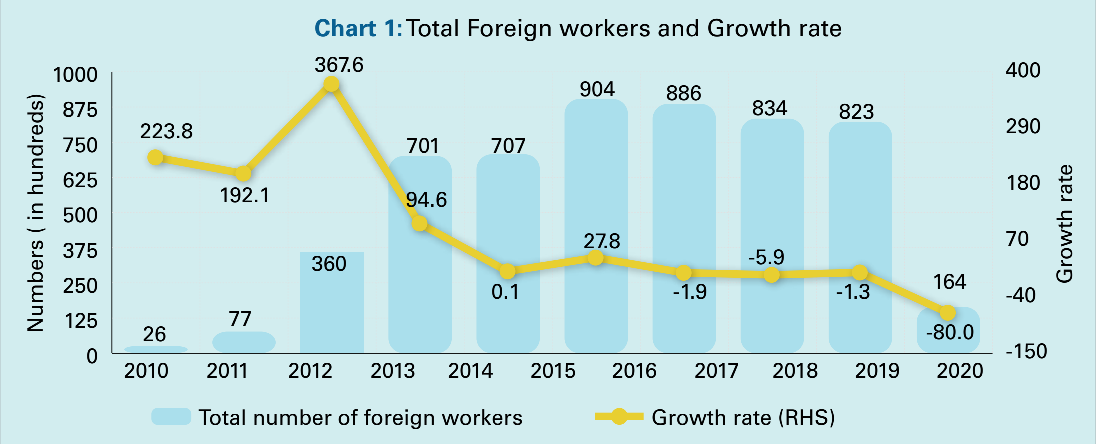
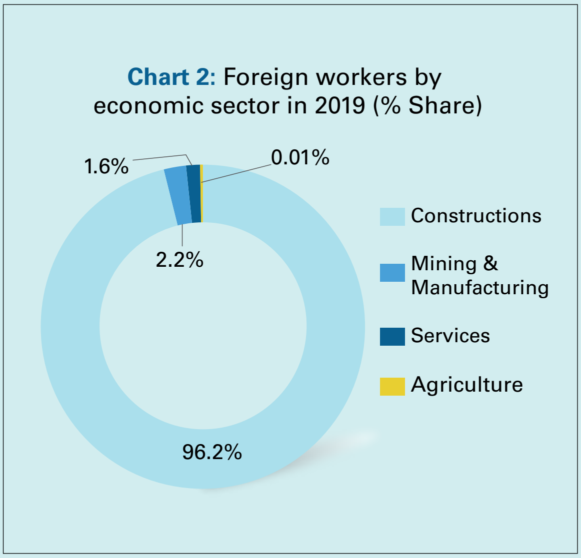


Chart 3 shows the occupational distribution of foreign workers based on International Standard Classification Occupation (ISCO). A large proportion of foreign workers are concentrated in the craft and related trades[12] with 77,222 (92.6%), followed by the elementary occupations at 6,646 (8.1%), and the least in the skilled agriculture workforce, mainly comprising forestry and fishery, at 130 (0.002%)[13].

Of the total in the crafts and related trades category, masonry and concrete workers accounted for 65,292 (79%), followed by carpenters at 5,321 (6.4%), metal workers at 3,053 (3.7%), food processors at 1,355 (1.6 %), and electrical workers at 141 (0.2%). On the elementary occupations category, construction helpers and laborers stood at (1,611) and remaining were in other areas.

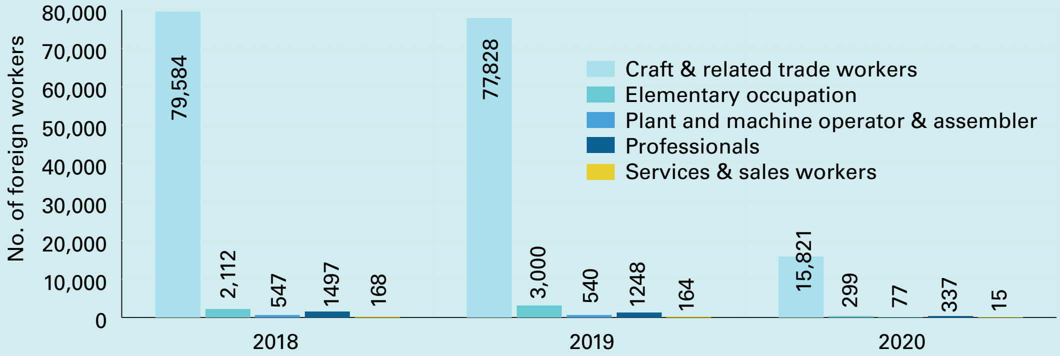
The dependence on skilled and low-skilled foreign workers in the construction activities poses a huge impact on the overall cost of construction that determines housing rents.



[13] Those working in the craft and related trades category include people engaged in the following activities: construction, metal and machinery, handicraft and printing, electrical works, food processing, wood carving, and garment.

[14] Elementary occupations include cleaners, and helpers and laborers in agriculture, forestry, fishery, mining, construction, manufacturing, and transport.

Chart 3: Distribution of foreign workers by occupation



The data on monthly wages for foreign workers, which loosely measures the productivity and efficiency of workers, requires further validation and cross-checking as some data appears to have been underestimated. As per the data provided by labor recruitment agencies or individuals, the mean and median monthly wages for foreign workers is estimated at Nu 7,433.2 and Nu 6,000.0 respectively. Within the occupational level, there is a significant deviation of wages of the craft and related trades workers as compared to professionals and managerial level. This indicates that craft and related trades and elementary workers are largely underpaid as per the threshold prescribed by the International Labor Organization.

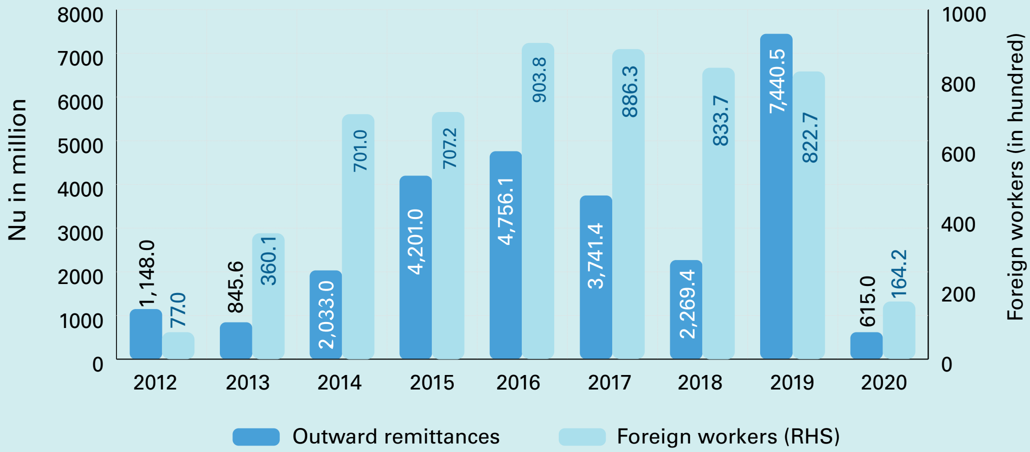
Implication of foreign workers on remittances

The import of foreign workers depletes the foreign currency reserves through the outward remittances. For the past three years, total average outward remittance was recorded at Nu 3,516.6 million as compared to inward remittances of Nu 4,734.7 million.

Of the total outward remittances, more than 90 percent of payments were remitted to construction sector workers including hydropower projects, followed by mining and manufacturing and other service activities. Although there is a positive net remittances flow in recent times, the increasing demand for foreign workers to complete pending construction activities is expected to increase the outward remittance, thereby causing a huge drainage of foreign currency reserves which could further worsen the current account balance.

Additionally, the higher outward remittances is likely to reduce the source of revenue for the government. As a result, this could affect the government's ability to finance and service fiscal debt. Moreover, a higher outward remittance reduces the flow of liquidity in the banking sector.

Chart 4: Foreign workers and total outward remittance



Opportunities for the Domestic Workers

Given the huge demographic dividend in the country, the presence of foreign workers offers a huge opportunity for Bhutanese youth to fill up the current gaps of labor shortages in various occupational fields. Looking at the major occupations of the imported foreign workers, there appears a huge shortage in crafts and related trades category which includes masons, builders, metal workers, painters, electrical workers, and food processors. According to the Labor Force Survey Report 2020 (NSB), about 50.0 percent of the existing working populations were employed in agriculture. This means there is a huge opportunity to enhance the required skills of the local workforce and fill up the labor shortage in crafts and related trades occupations.

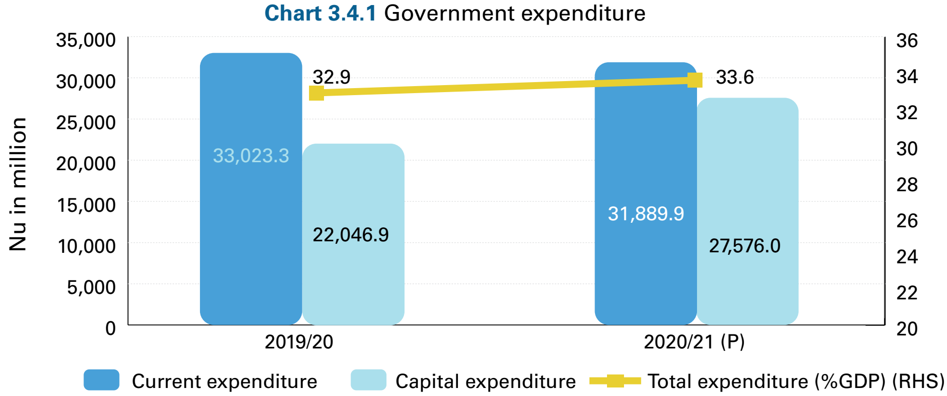
For this to happen, various skilling programs and policy initiatives are critical. This could include specialization and practical trainings in relevant fields, deployment of technologies and IT skills, and partnership and collaboration with other countries. More importantly, the government must provide assurance and confidence to those who take up these jobs through conducive rules and regulations. Further, the introduction of safety nets such as unemployment insurance and pension schemes will be crucial.

3.4 Government Finance

In response to recovery efforts, the budget for FY 2020/21 was anchored towards achieving economic resilience and transformation through intensification and acceleration of capital works.

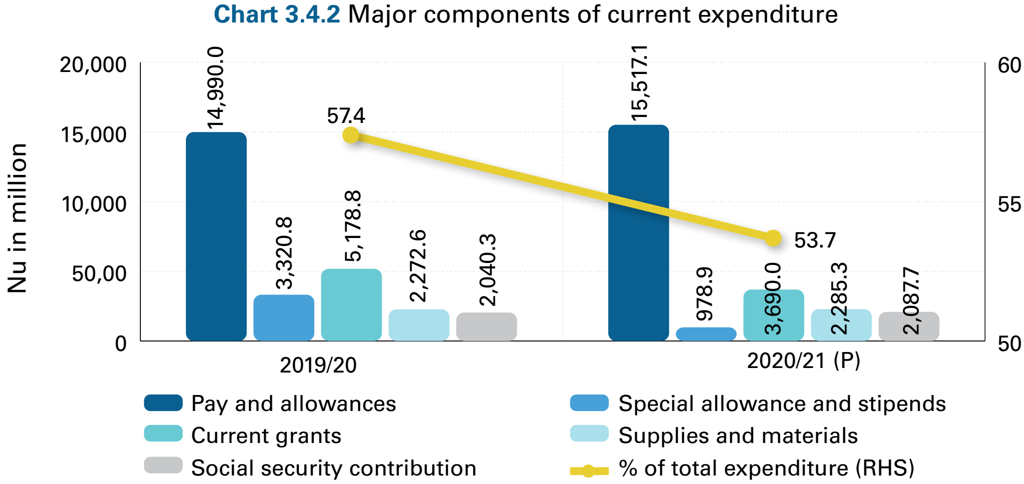
Amidst the Covid-19 pandemic, the government made effort to build a resilient and transformative economy by ensuring supportive government spending. The total government expenditure (provisional) for the fiscal year (FY) 2020/21 stood at Nu 59,465.9 million, an increase by 3.1 percent from the previous FY, accounting 33.6 percent of GDP. With anticipated fall in domestic revenue owing to the slackening in economic activities, the current expenditure was streamlined to fulfill the constitutional requirement, covering current expenditure from the domestic revenue. Hence, current expenditure stood at Nu 31,889.9 million during the FY 2020/21, a decline by 3.4 percent from the previous FY.

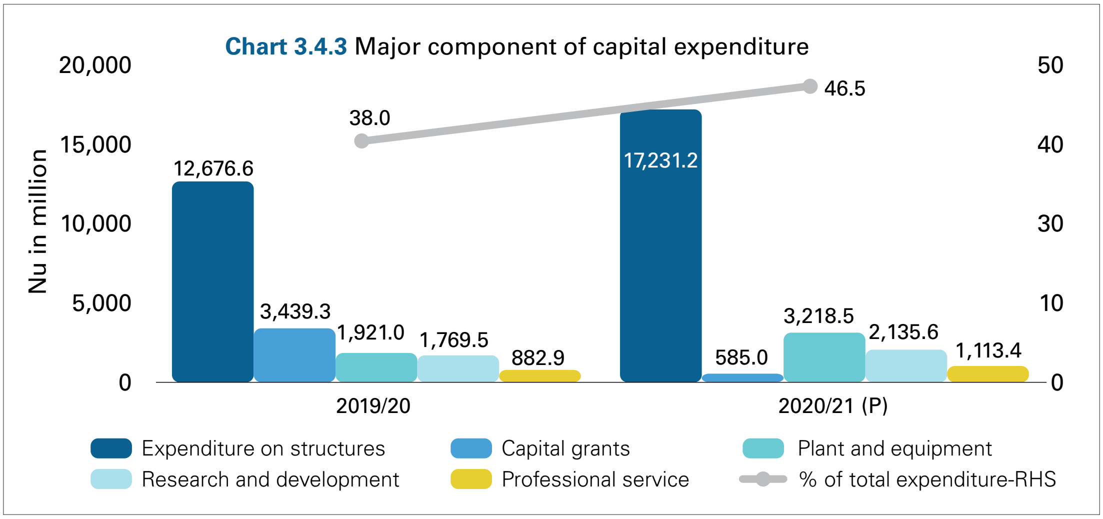
Chart 3.4.1 Government expenditure



This was mainly on account of expenditure rationalization measures including travel, allowances and special allowances, and other personal emolument deferments. To ensure support to priority activities for achieving a stable and resilient economic recovery against the pandemic, the capital expenditure for the FY 2020/21 amounted to Nu 27,576.0 million, an increase by 25.1 percent as compared to FY 2019 /20. This was mainly attributed to increase in the expenditure related to structures, other capital projects, and Covid-19 related activities.

Chart 3.4.2 Major components of current expenditure

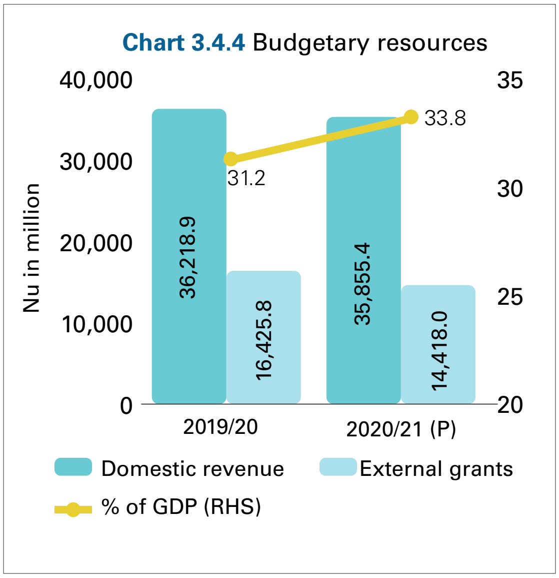




On the major component of current expenditure, pay and allowances accounted for 48.7 percent followed by current grants with 11.6 percent, and supplies and materials at 7.2 percent. These top three categories of current expenditure combined comprised 67.4 percent of the total current expenditure in the FY 2020/21.

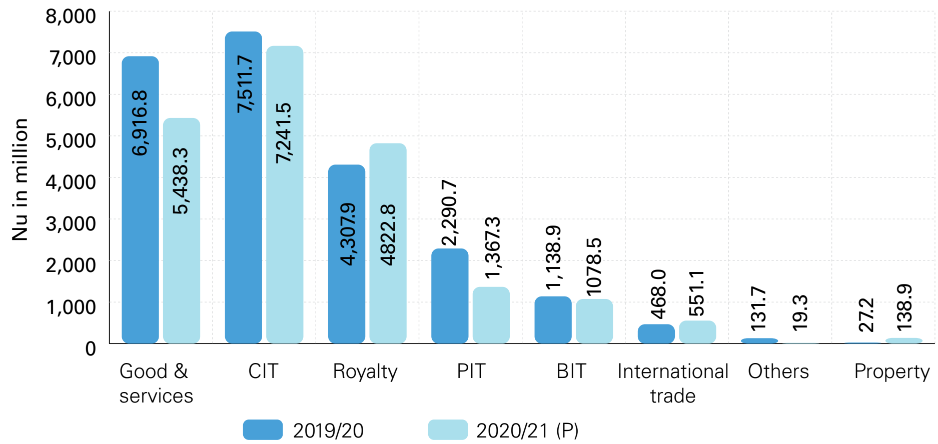
With the adoption of expenditure rationalization measures and impediments brought about by the pandemic, the economy witnessed a significant decline in the expenditure share to travels and special allowances and stipends during the review period. On the capital expenditure, the maximum expenditure was incurred on structures (roads and buildings) with 62.8 percent, plant and equipment with 11.7 percent, followed by research and development with 7.8 percent during the FY 2020/21. These three components observed 82.3 percent of the total capital expenditure.

Despite the fall in domestic revenue and external grants, the budgetary resources for the FY 2020/21 stood at Nu 59,696.1 million as compared to Nu 54,603.9 million in FY 2019/20, an increase by 9.3 percent. This was on account of significant increase in other receipts. While there has been a downward revision in tax revenue, the profit transfer from Mangdechu Hydropower Project improved to Nu 11,016.1 million in FY 2020/21 from Nu 3,053.8 million in FY 2019/20. However, the decline in tax collection and surplus transfer from RMA resulted in fall in domestic revenue by one percent from the previous FY. Although the domestic revenue has declined slightly, it was able to meet the current expenditure as deemed mandatory by the Constitution of Bhutan and also financed 14.4 percent of the capital expenditure.



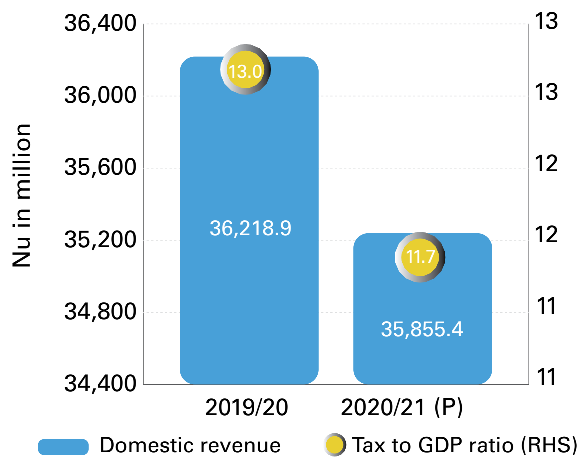
During the FY 2020/21, the overall tax revenue collected was Nu 20,661.8 million (11.7% of GDP), a decline by 9.4 percent from the FY 2019/20. Fall in the tax collection from Corporate Income Tax (CIT), Business Income tax (BIT), and Personal Income Tax (PIT) worsened the tax revenue.

Chart 3.4.5 Tax revenue



The fall in BIT is on account of implementation of various containment measures and restrictions imposed on the transactions of good and services. In addition, the deduction in CIT from 30 percent to 25 percent, and CIT deferment has resulted in lower tax revenue from CIT in FY 2020/21. On the other hand, the royalty from hydropower, international film producers, and mines and mineral increased slightly from the FY 2019/20. Moreover, there was a slight increase in tax revenue from international trade due to rise in imports of vehicle and fuel.

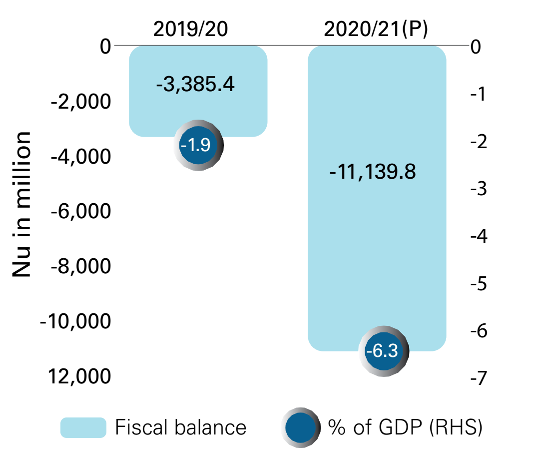
Chart 3.4.6 Tax to GDP ratio



With increased expenditure and constrained domestic revenue performances, the fiscal deficit for the FY 2020/21 was estimated at Nu 11,139.8 million, equivalent to 6.3 percent of GDP, exceeding the fiscal deficit target by 1.3 percent. The fiscal deficit was largely financed through internal borrowing (93.3%) and remaining from external borrowings.

As in the past, the government has sourced external borrowings from international agencies at a concessional rate. Whereas, the domestic financing has been raised through the issuance of long-term government bonds and Treasury Bills (T-Bills).

Chart 3.4.7 Fiscal balance



As a result, the total public debt for the FY 2020/21 expanded at Nu 238,398.9 million (127.7% of GDP), a 10.0 percent increase from the previous FY. The issuance of long-term government bonds and significant increase in the loan disbursement for ongoing hydropower projects from the Government of India (GoI) and program loan disbursements from the Asian Development Bank (ADB) and World Bank (WB) led to surge in public debt. Of the total public debt, 92.8 percent are external debt and remaining are denominated in domestic debt. The external debt increased by Nu 7,941.4 million (3.7%) on account of loan disbursements for ongoing hydropower projects from the GoI and program and project loans disbursement from the ADB and WB. Additionally, the convertible currency denominated debt against Special Drawing Rights (SDR) and Euro increased owing to depreciation of Ngultrum. The external debt largely corresponds to the hydro-related debt which stands at Nu 162,359.1 million, equivalent to 87.0 percent of GDP and remaining are non-hydro debt.

Chart 3.4.8 Public debt

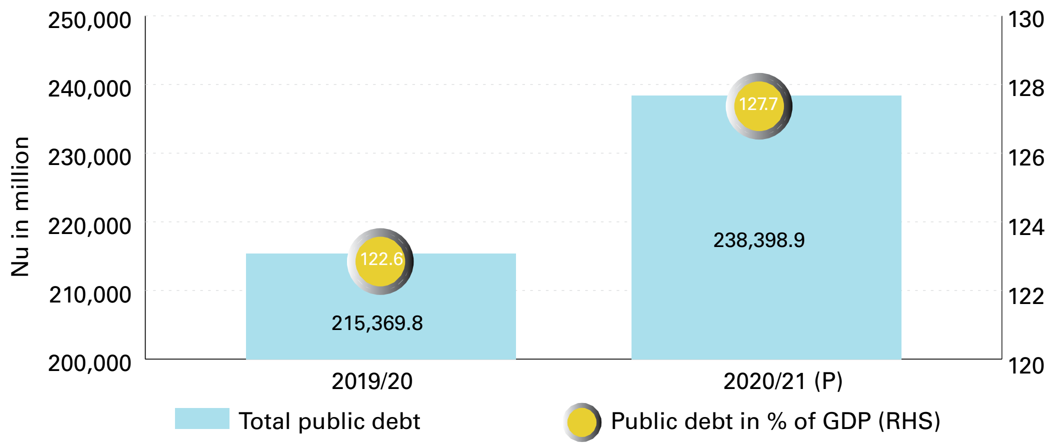
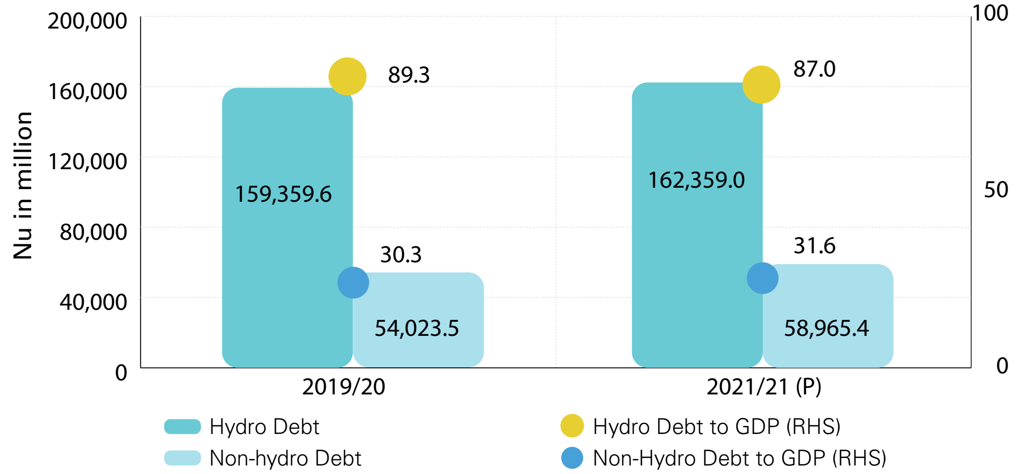


Chart 3.4.9 External debt



The domestic debt has increased by Nu 15,087.7 million on accounts of issuance of two long-term government bonds of Nu 3,700.0 million and the outstanding T-Bills of Nu 13,000.0 million.

Box 3.4.1

Fiscal Measures during the Pandemic

The government persistently made efforts to ensure that both lives and livelihoods of the people were safeguarded during the pandemic. To mitigate the adverse impact of the pandemic and address immediate economic challenges, the government introduced various fiscal and contingency measures during the fiscal year FY 2020/21. The key highlights of the measures adopted during the FY 2020/21 are summarized below:

A. Deferral of Taxes, Duties, and Other Charges

1. To ensure cash flows to help business entities meet operational cost, the government allowed the extension and deferral of Business Income Tax (BIT) and Corporate Income Tax (CIT) until the end of June 2021. The tax deferral benefited 332 CIT payers and 16,764 BIT payers. In addition, to ensure uninterrupted imports and supply of essential items, sales tax and custom duties were also deferred.
2. As tourism and related sectors were the hardest hit segment, the government waived off rental and other charges on the leased government properties to the tourism-related business entities.
3. In addition to payments made for the hotels used as quarantine facilities, the government also borne utility charges related to electricity and Wi-Fi charges.
4. Similarly, the government provided deferment facility for electricity charges and waiver of penalties on late payments for industries until June 2021.

B. Economic Contingency Plan (ECP)

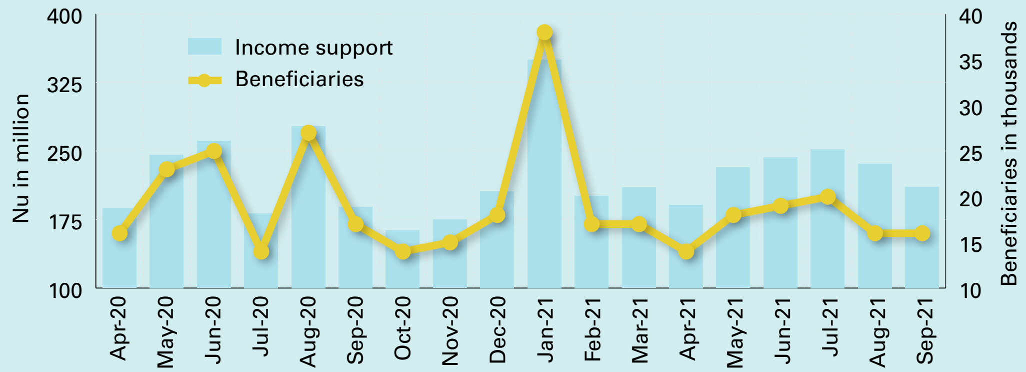
In order to accelerate economic activities, the ECP has been implemented with a budget of Nu 4,000 million, with specific emphasis on tourism and allied sectors, agriculture, and construction sectors. Accordingly, a budget of Nu 232.0 million was provided to the tourism sector for building tourism resilience and Nu 2,557.0 million for revitalizing the agriculture sector. Likewise, for the construction sector, the Build Bhutan Project was established with the budget of Nu 1,040.0 million to address the labor shortages and create employment opportunities in the construction sector.

With these initiatives, the government also created a Covid-19 Response Fund Account to facilitate deposits from voluntary contributions from the general public, business entities, and international organizations. As of 13th May 2021, the total deposits made in the Response Fund Account was Nu 122.8 million, from which the government has used Nu 120.0 million for procurement of Covid-19 test kits.

C. National Resilience Fund (NRF)

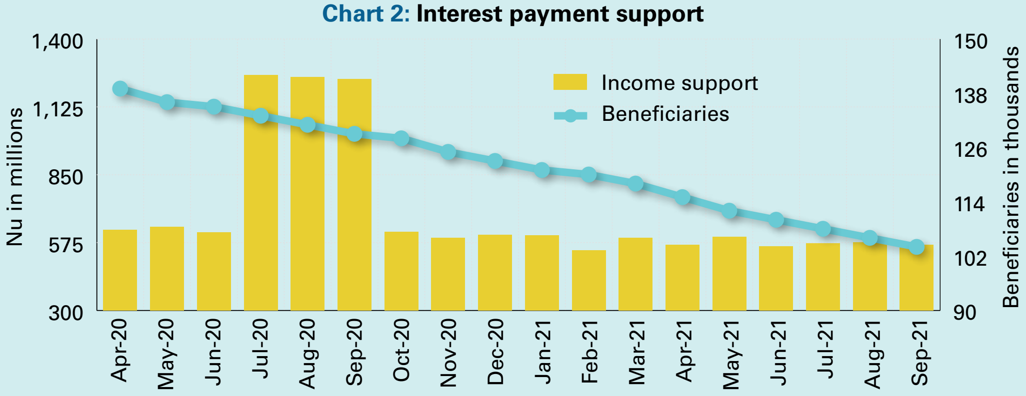
Upon the command of His Majesty The King, the National Resilience Fund was set up in April 2020 to provide economic relief to people through the Druk Gyalpo's Relief Kidu. The Relief Kidu granted monthly income support to individuals and loan interest payment support to borrowers. Initially the NRF was established for a period of one year from April 2020 – March 2021 (Phase I). In view of the ongoing social and economic difficulties faced by the people due to the persistent pandemic situation and uncertainties stemming from regional and global developments, His Majesty The King commanded that the Druk Gyalpo's Relief Kidu be continued for an additional period of 15 months from April 2021 (Phase II).

Chart 1: Income support



So far over 37,000 people have been granted the monthly income support Kidu, while close to 140,000 loan account holders benefited from the interest payment support. As of September 2021, a total of Nu 4.0 billion was spent for income support and Nu 12.6 billion was disbursed on interest payment support.

Chart 2: Interest payment support



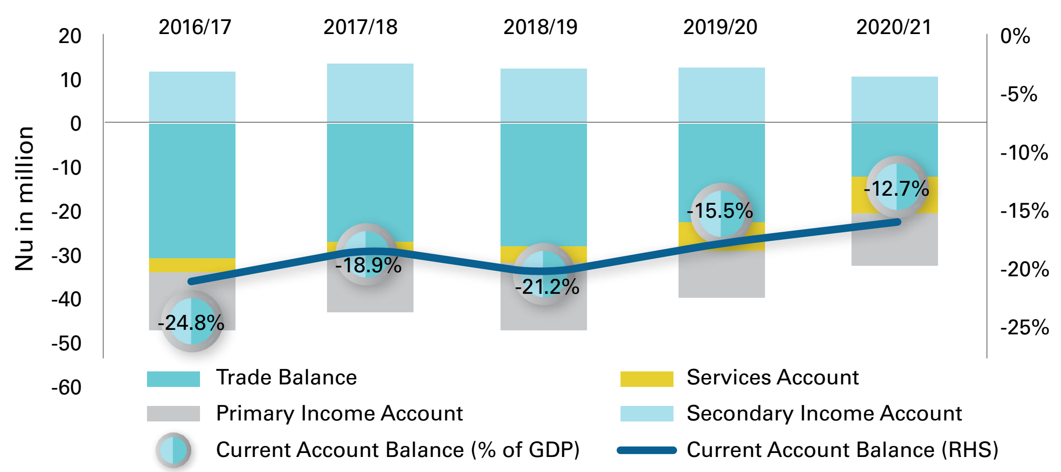
3.5 External Sector

Current account deficit improved during the FY 2020/21 due to substantial fall in trade deficit on account of increase in electricity exports and drop in merchandise imports.

The hydropower sector moderated the trade imbalance in FY 2020/21. With the full commissioning of Mangdechhu hydropower project towards end of 2019 and improved hydrological flows, electricity exports increased by 15.8 percent, constituting almost half of the total merchandise exports in FY 2020/21. At the same time, after sharp fall in FY 2019/20, non-electricity export rebounded by 12.7 percent and there was a drop in merchandise import by 5.6 percent. Consequently, trade deficit improved to Nu 12,429.5 million (7.2% of GDP) from Nu 22,726.4 million (12.7% of GDP) in the FY 2019/20.

While there was a notable improvement in the trade balances, the net services payments expanded to Nu 8,422.7 million in FY 2020/21, compared to Nu 6,595.0 million in FY 2019/20. The service import declined by 37.9 percent and exports fell by 83.0 percent. In terms of its share to the GDP, the net services payments accounted 4.9 percent during FY 2020/21. With the temporary international travel restrictions, especially the official travels, tourists, education and health related travels, the export of travels and air transport have plummeted. The export earnings from travel contracted by 95.3 percent to Nu 282.4 million in FY 2020/21, against Nu 6,021.4 million in FY 2019/20. Similarly, the earnings from air transport dropped from Nu 2,703.2 million to Nu 166.4 million. Likewise, the payment for import of travel services also dropped from Nu 3,554.4 million to Nu 1,349.9 million, and air transport declined from Nu 1,124.7 million to Nu 288.9 million during the review period.

Chart 3.5.1 Components of current account balance



During FY 2020/21, the net primary income payments widened by 5.2 percent, amounting to Nu 11,306.5 million (6.6% of GDP), mainly attributed to interest payment on external debt though compensation paid to employees decreased by 77.5 percent due to restriction on cross-border movement of labors.

At the same time, the net secondary income receipts declined by 16.0 percent valued at Nu 10,381.2 million (5.9 % of GDP). Despite increase in net inward remittances, drop in budgetary grants received and current transfer received from NGOs have resulted into fall in net secondary income receipts. With the sudden exit of foreign workers in the second half of 2020 and a gradual relaxation of labor import in the beginning of 2021, the outward remittances to India increased to Nu 739.0 million. On account of non-life insurance, net premiums received during the FY 2020/21 was recorded at Nu 94.1 million, against net payments of Nu 14.9 million during the previous year. However, payment of net claims was recorded at Nu 1,294.1 million during the review period, against Nu 223.1 million during the FY 2019/20.

With the improvement in trade balance, supported by continued secondary income inflows, the overall current account deficit improved to 12.7 percent of GDP (Nu 21,777.6 million) in FY 2020/21 from 15.5% of GDP (Nu 27,712.5 million) in FY 2019/20. In terms of current account balance composition by trading partner, India recorded the highest as always compared to Countries Other Than India (COTI).

To arrive at the total exports and imports of goods in the balance of payments presentation, additional components were added to the trade data as shown in the table 3.5.1

Table 3.5.1 Reconciliation between merchandise source data & total goods on a balance of payments basis

Nu in million	2018/19		2019/20		2020/21	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise trade statistics as provided by DRC [1]	**31,962.8**	**70,356.9**	**24,267.8**	**70,037.3**	**26,943.8**	**67,937.0**
Adjustments						
+ Hydropower exports [2]	10,988.8		22,595.0		26,156.1	
+ Goods procured in ports by carriers [3]		2,384.4		1,642.7		116.8
+ Informal Trade at the border		1,201.2		1,034.2		-
+ Net exports of goods under merchanting						
- CIF/FOB adjustment for COTI		2,652.3		3,192.1		2,524.4
Total goods on a balance of payments basis	**42,951.6**	**71,290.2**	**46,862.8**	**69,522.0**	**53,099.9**	**65,529.4**

Note: 1) Excluding hydropower exports; 2) Sourced from respective power plants; 3) Includes refueling & others at stations abroad by carriers.

Capital Account[15]

During FY 2020/21, the capital account contracted by 28.5 percent due to decrease in grants inflows for hydropower projects by 67.8 percent from the previous year to Nu 1,267.4 million. Similarly, total grants inflow of non-hydro sector also witnessed a modest decrease by 4.5

[15] Capital account shows a) capital transfers receivable and payable between residents and non-residents, and b) the acquisition and disposal of non-produced non-financial assets between resident and non-residents.

percent, though grants inflow from COTI increased. Low level of capital inflows is largely attributable to the completion of Mangdechhu hydropower project accompanied by slow progress in government capital works because of the pandemic.

Financial Account

The financial inflows relating to excess of investment over saving resulted into reduction in net foreign asset positions in the economy. As such, channeling investment towards a sector that brings a significant contribution to the productivity in the economy is most desired at this juncture. The contributions can be in the form of investment that makes a sufficient profit to pay the rate of return or that enhances the debt-servicing capacity of the economy. Bhutan has been importing for the hydropower projects as well as availing concession loans to finance the import of non-hydro capital works in the country. As such, the country has been experiencing a current account deficit.

Chart 6.5.2 FDI inflows (Nu in Million)

Correspondingly, the financial account continued to register net inflows of Nu 4,655.8 million, which is a decrease of 82.9 percent from the FY 2019/20. The external debt being a dominant determinant of the financial account, the fall in net financial inflows was mainly due to repayment of external loans by the RMA, accompanied by decline in inflows in the form of hydropower and concessional Convertible Currency (CC) borrowings. With the low appetite for large capital investment at the moment on account of the pandemic, the inflows in the financial account have relatively declined from the previous year.

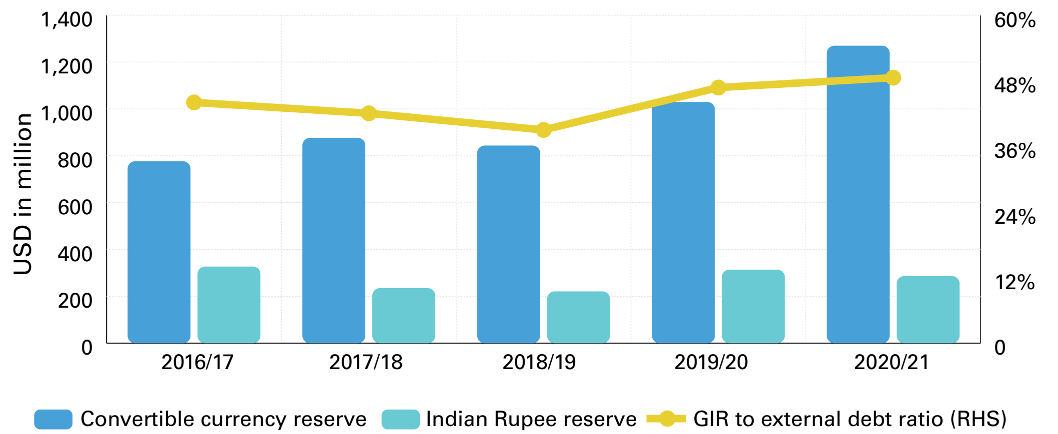
The net-inflows related to direct investment account during FY 2020/21 was Nu 352.8 million, of which 86.8 percent is an equity inflow, 10.7 percent reinvestment, and the remaining in the form of inter-company debt. Predominately, both the equity inflows and reinvested earnings were from India.

The net other investment account continued to record inflow with Nu 2,696.3 million in FY 2020/21, a decline from Nu 28,992.3 million in the previous year. This trend was on account of withdrawal of financial institutions' holdings in currency and deposits abroad coupled with fall in inflows in the form of debt. Net hydropower borrowing recorded a fall to Nu 10,486.7 million during the review period from Nu 17,689.8 million in the previous year. Concessional borrowings also recorded a decline from Nu 9,018.6 million in the previous year to Nu 4,592.2 million during the review period. Correspondingly, the overall balance (change in reserve assets) was recorded negative at Nu 6,265.5 million during the review period.

Gross International Reserves (GIR)

At the end of FY 2020/21, the gross international reserves increased to USD 1,556.2 million from USD 1,343.5 million in June 2020. Of the total, USD 1,269.74 million were convertible currency reserves, while ₹ 21,295.8 (USD 286.4) million were denominated in Indian Rupee. The total reserves were sufficient to finance 21 months of merchandise imports (excluding

Chart 3.5.3 Gross International Reserve (GIR)



services) and 28 months of essential imports (goods & services), thereby meeting the Constitutional requirement of 12 months essential imports. As of June 2021, the ratio of international reserves to external debt stood at 48.6 percent.

Balance of Payments with India

India continues to be a major trading partner for Bhutan that determines the overall balance of payments position. Electricity is the main export to India. On account of increase in electricity exports, the trade deficit has declined from Nu 15,895.5 million to Nu 9,117.1 million during FY 2020/21. As such, the current account deficit improved by 15.7 percent during the review period from Nu 25,996.5 million in FY 2019/20.

In the primary account, interest payment on hydropower loan has increased to Nu 10,507.4 million during the review period from Nu 8,582.2 million in the FY 2019/20, due to debt repayment for the Mangdechhu hydropower project. Further, the compensation paid to Indian employees recorded a significant decrease by 77.5 percent from Nu 2,814.8 million of the previous year. Under secondary income account, the budgetary grants inflows decreased by 23.0 percent from ₹ 4,666.1 million in the previous year.

In the capital and financial account, both budgetary grants received for non-hydro and hydropower developments decreased to ₹ 5,806.0 million (from ₹ 6,409.4 million) and ₹ 1,267.4 million (from ₹ 3937.2 million), respectively. A notable decline in hydropower grants inflows during FY 2020/21 from the previous year is mainly on account of delay in the investment.

After provisioning for net errors and omissions, Bhutan's overall balance with India stood negative at Nu 4,984.8 million for the FY 2020/21, resulting in decrease of Indian Rupee reserves to Nu 21,295.8 million from Nu 23,713.7 million in the previous year.

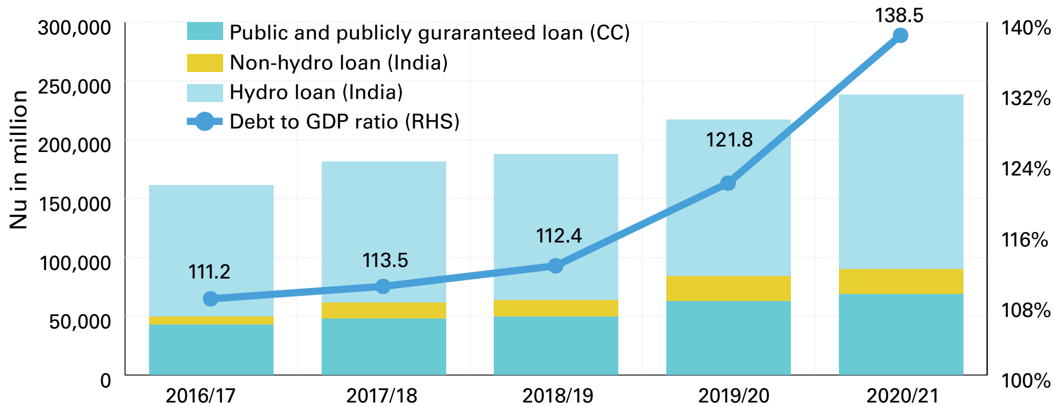
Balance of Payments with Countries Other Than India (COTI)

The trade deficit with COTI narrowed by more than 50.0 percent during the review period from Nu 6,830.9 million in the FY 2019/20. The improvement in trade deficit was mainly on account of decrease in imports of merchandise goods by 25.1 percent from Nu 12,718.1 million of the previous year, while export increased by 5.7 percent from Nu 5,887.2 million in FY 2019/20.

Underpinned by fall in returns on investment, the primary income account recorded a net payment of Nu 215.3 million against the net receipt of Nu 586.0 million in FY 2019/20. At the same time, the secondary income account continued to record a net receipt of Nu 7,997.2 million during the FY 2020/21, a decrease by 1.1 percent from the previous year. The budgetary grant inflows recorded a slight decreased by 0.8 percent from Nu 2,124.0 million in FY 2019/20.

The net inflows in capital account were recorded at Nu 341.8 million in FY 2020/21, against Nu 26.7 million in the previous year, solely in the form of grants for investment. Similarly, the net financial inflows decreased from Nu 6,795.1 million to Nu 4,103.6 million on account of decline in external debt disbursement by international agencies. The overall balance with COTI was recorded at Nu 1,280.7 million during the review period.

Chart 3.5.4 External debt outstanding by composition



External Debt

Bhutan's total external debt stock peaked to USD 3,203.2 million (Nu 238,143.3 million) during the FY 2020/21, which is equivalent to 138.5 percent of GDP. The total debt stock increased significantly by 11.5 percent during FY 2020/21 from USD 2,872.7 million in FY 2019/20. This was mainly due to increase in hydropower loans, and convertible currency loans sourced from multinational institutions. Of the total external debt, 71.2 percent (169,546.9 million) were INR outstanding loans and remaining 28.8 percent (Nu 68,596.5 million) were outstanding convertible currency loans.

Within the Rupee debt, 87.3 percent were self-liquidating hydropower projects debt while 12.7 percent are non-hydro debt (GoI Standby Credit and Currency Swap) which are incurred to meet the balance of payment (BOP) requirements with India. Similarly, in the convertible currency debt, concessional public debt constitutes 97.1 percent, while the remaining 2.9 percent constitutes outstanding external debt of the private sector.

International Investment Position

As of June 2021, the external financial assets amounted to USD 1,451.9 million, a decrease by 8 percent from USD 1,577.7 million in June 2020. A majority of the financial assets represents the reserve assets followed by trade credits, currency, and deposits.

Similarly, the external financial liabilities increased by 11.6 percent from USD 3,993.7 million in June 2020 to USD 4,457.6 million in June 2021, on account of increase in loan liabilities by 12.3 percent.

Table 6.5.2 International Investment Position

Item	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21 (P)
Net IIP	**-2,052.8**	**-2,362.0**	**-2,561.6**	**-2,415.9**	**-3,005.7**
Assets	**1,245.2**	**1,226.0**	**1,277.2**	**1,577.7**	**1,451.9**
Currency and deposits	64.9	65.2	66.6	63.4	62.3
Trade credits	73.4	49.8	83.2	122.9	97.7
Reserve assets	1,011.6	1,079.1	1,115.9	1,366.2	1,287.9
Others	95.3	32.0	11.4	25.2	4.0
Liabilities	**3,298.0**	**3,588.1**	**3,838.8**	**3,993.65**	**4,457.64**
Direct investment in Bhutan	126.0	132.6	151.1	133.5	138.4
o.w. Equity	99.5	106.2	124.5	109.7	114.6
o.w. Inter-company debt	26.4	26.4	26.6	23.7	23.8
Currency and Deposits (C & D)	95.1	97.5	81.0	69.4	67.5
Loans	3,038.2	3,308.1	3,541.9	3,740.1	4,201.5
Trade credits	30.4	41.5	56.5	42.5	41.7
SDR allocations	8.3	8.4	8.3	8.2	8.5
Exchange rate to USD (end of period)	**64.5**	**68.6**	**68.9**	**75.5**	**74.3**

Note: Differences in value of reserve assets reflected here is due to exchange rates for individual components. The C&D liabilities include accrued interest where available.

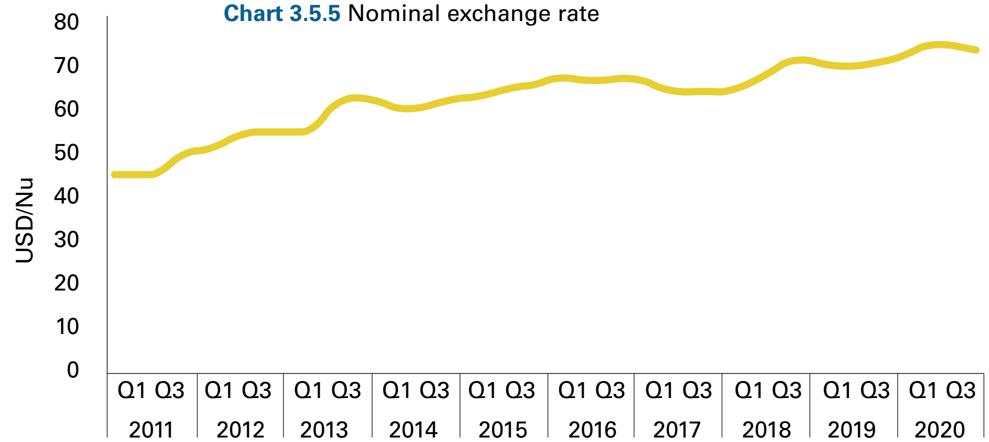
As a result, the net International Investment Position of Bhutan stood at negative of USD 3,005.7 million in June 2021, as against negative USD 2,415.9 million in June 2020. This is mainly due to increase in financial liabilities from USD 3,993.7 million to USD 4,457.6 million during the FY 2020/21.

Exchange Rate Development

Exchange rate is an important macroeconomic variable for an open economy as it plays a vital role in determining the international competitiveness, encouraging investment, and managing price stability. Therefore, an appropriate choice of exchange rate regime is one of the central macroeconomic decisions that a country makes to maintain overall macroeconomic stability.

Given the close geographical and economic linkages between Bhutan and India, Bhutan has opted for a conventional pegged exchange rate arrangement with INR since the introduction of Ngultrum in 1974. The peg exchange rate arrangement has served Bhutan well in terms of building confidence in the domestic currency, reducing trade uncertainty, anchoring price stability, promoting investment and also cushioning the impact of exchange rate shock.
Historically, the nominal exchange rate of Ngultrum is depreciating against US dollar (USD). The Ngultrum depreciated from Nu 45.3 per USD in 1st quarter 2001 to Nu 74.1 in 2nd quarter 2021.

Chart 3.5.5 Nominal exchange rate



India in particular experienced several currency volatilities, with INR hitting all-time high in April 2020 at ₹ 76.2 per USD. The currency volatility has been largely attributed by volatile capital flows. Besides the direct impact of exchange rate fluctuation on Bhutan's debt outstanding, investment, and fiscal flows, there is pass-through effect of inflationary pressure in the domestic economy.

Impacts of Exchange Rate Fluctuations

External borrowing continues to remain the key financing source for development activities, which has been increasing consistently over the years. As of June 2021, the outstanding external debt increased by 11.5 percent to USD 3,203.2 million (Nu 238,143.3 million), of which 71.2 percent is Rupee debt and 28.8 percent is convertible currency debt. With the existing peg arrangement, a major portion of external debt being denominated in INR has cushioned the impact of exchange rate shocks. In addition, the INR debt has been incurred mostly for hydropower developments, accounting to 62.1 percent of total external debt.

Chart 3.5.6 Total external debt composition by currency

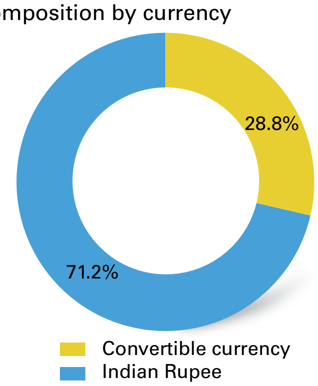
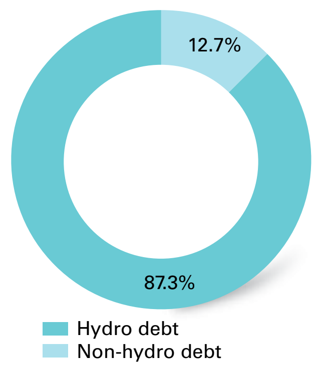


Chart 3.5.7 Total Indian Rupee debt by sector



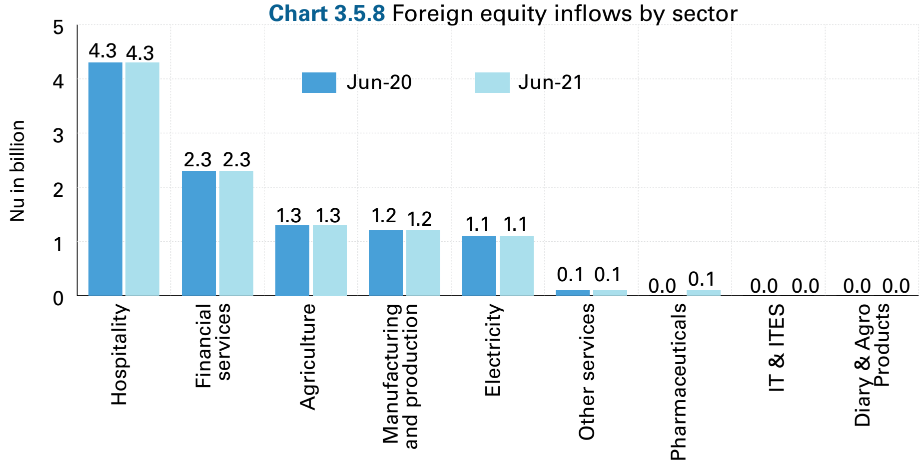
On the other hand, the convertible currency (CC) debt amounting to USD 922.8 million are concessional loans from multilateral institutions and bilateral partners that are subject to exchange rate risk. With the appreciation of the exchange rate from Nu 75.5 in June 2020 to Nu 74.4 in June 2021, the cost of CC debt servicing decreased by Nu 51.5 million and the CC debt stock by Nu 1,057.8 million.

Foreign Direct Investment (FDI)

The significance of FDI in developing economics is much greater as it is a long-term investment that will help promote production and economic activities. It not only adds to capital formation, but also serves as a means of transferring production technology, skills, innovative capacity, and organizational and managerial practices between different economies, as well as provide access to global capital and marketing networks. Currently, Bhutan has not opened up to short-term investments like bank lending and portfolio investment, which are often meant for short-term profit motive. Unlike other countries, Bhutan's FDI Policy was mainly geared towards promoting only Greenfield investment which has helped to safeguard and retain the existing position during the pandemic. Had most FDI been in short-term and Brownfield investment, the capital drainage by now would have been heavily adverse.

Although, FDI has three components—equity capital, reinvested earning, and inter-company debt—this report focuses on the inward equity position as of June 2021. In June 2021, the foreign equity position stood at Nu 10,453.2 million, remaining almost constant compared to June 2020[16]. Being the largest trading and development partner, India continues to be the largest investor, constituting 30.0 percent of the equity inflows, followed by Hong Kong with 15 percent. Following the previous trend, foreign investors were more attracted in the service sector. While, high investments were made in the tourism and hospitality sector, it was the worst hit sector during the pandemic. This sector is also susceptible to exchange rate risk. Nevertheless, evidence from the past crisis shows that the foreign affiliated enterprises in many countries had greater resilience during crisis on account of its linkages with and access to the resources of parent companies (Alfaro and Chen, 2012; Desai et al., 2008). In the case of Bhutan, it can be ascertained that the relationship holds mainly from government policy and economic reasons, as it is more likely to attract foreign investors to invest when Ngultrum depreciates relative to their currency as well as favorable FDI policies coupled with a stable political system.

Chart 3.5.8 Foreign equity inflows by sector



[16] Covering only 41 FDI companies.

Box 3.5.1

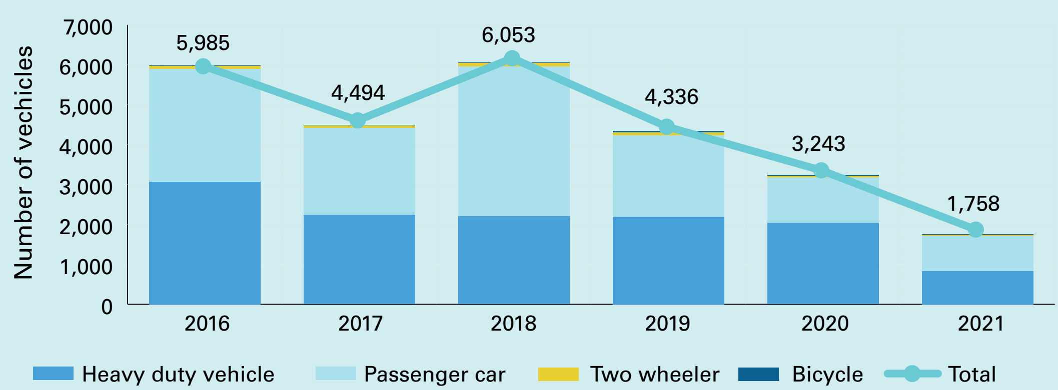
Import of Vehicles and Accessories

Background

As of June 2021, the total number of registered vehicles in the country stood at 114,646, up from 109,663 in June 2020, increasing annually at 8.2 percent in the past five years. A majority of the vehicles are registered in the bigger towns, with more than 80% registered in Thimphu and Phuentsholing. Of the total vehicles, a two-third are passenger cars followed by heavy duty vehicles (HDV)[17].

Motor vehicles are among the top five imports, averaging about 7.0 percent of the total imports. The annual vehicle import, including bicycles (Nu 16.8 million), increased to Nu 6,052.5 million in 2018 against Nu 4,493.59 million in 2017. Since 2018, the import dropped by 28.4 percent, largely driven by the fall in the import of HDVs by 45.7 percent in 2019. Further, because of the dwindling economic activities, as a result of the ongoing pandemic, and a subsequent dip in household and business incomes, import demand for vehicle dropped to Nu 3,243.1 million (-25.2%) in 2020. This was mainly on account of the fall in HDVs import by 44.3 percent. Additionally, the import of passenger vehicle also dropped moderately by 6.9 percent. This shows that the pandemic has impacted imports differently, with investment and business demand affected more severely compared to household consumption. Similarly, the import of two-wheeler motor vehicles and bicycle dropped in 2020 by 43.7 percent and 9.9 percent respectively. As per the provisional data for the first six months of 2021, a slight improvement in the economic situation saw the import of vehicles during the first two quarters expand moderately. However, import is expected to remain below pre-pandemic level.

Chart 1: Annual import vehicle by types



[17]Source: ICT/Telecommunication, Surface, Transport, Aviation, Media and Postal Statistics, Ministry of Communication and Information.

Passenger Vehicles

The category of vehicle imported is commonly measured by engine capacity known as cubic capacity (cc). Based on this, passenger vehicles are categorized broadly into six categories, ranging from below 1,000cc to above 3,000cc[18]. The import demand for cars with engine capacity below 1,500cc is higher, constituting more than 60 percent of passenger car imports before 2020. Despite unprecedented economic downturn because of the pandemic, demand for this category of passenger car increased by 37.7 percent in 2020, and is expected to increase further by the end of 2021. However, import of cars with engine capacity above 1,500cc dropped more than 50 percent in 2020 and will continue to do so in 2021 as well.

In terms of volume, more than 4,500 passenger vehicles are imported annually. Of this, more than three-fourth are cars with engine capacity less than 1,500cc. In 2020, the annual imports increased by 2.6 percent, driven mainly by 20.7 percent increase in imports of car with less than 1,500cc engine capacity. Except for vehicles with engine capacity between 2,501cc to 3,000cc, import volume of passenger vehicles with higher engine capacity dropped by 66.0 percent in 2020.

Table 1: Import of Passenger Vehicles Category by Value and Number

Category	2016	2017	2018	2019	2020	2021
Value (in Million Nu)						
≤1000cc	539.9	501.6	522.6	406.1	502.8	146.1
>1000cc to ≤1500cc	1,444.0	874.8	789.0	747.9	1,085.8	596.9
>1500cc to ≤1800cc	156.6	174.8	351.3	502.0	169.4	9.9
>1800cc to ≤2500cc	108.8	405.5	201.6	236.9	135.6	40.0
>2500cc to ≤3000cc	258.0	184.4	263.7	220.2	121.0	27.7
>3000cc	560.6	97.5	73.8	76.5	24.2	11.2
Total	**3,067.9**	**2,238.7**	**2,202.0**	**2,189.5**	**2,038.8**	**831.9**
Number						
≤1000cc	1,793	1,870	2,130	1,737	2,060	794
>1000cc to ≤1500cc	2,262	1,536	1,386	1,350	1,665	915
>1500cc to ≤1800cc	186	219	506	663	131	4
>1800cc to ≤2500cc	101	279	135	163	97	35
>2500cc to ≤3000cc	260	322	477	585	680	389
>3000cc	246	18	20	22	5	3
Total	**4,848**	**4,244**	**4,654**	**4,520**	**4,638**	**2,140**

[18] The categorization of engine capacity in the Bhutan Trade Statistics is as per Bhutan Trade Classification (BTC) which are align to tax schedule.

Heavy Duty Vehicles

The HDVs with higher engine capacity are used for farming and transportation of goods and passengers, and include special purpose vehicles like firefighting trucks, concrete mixing trucks, and crane lorries. The HDVs for transportation of goods are the most imported ones, accounting for more than three-fourth of annual imports, followed by special purpose vehicles at about 15.0 percent. In 2020, HDV imports dipped by 44.3 percent, mainly driven by the drop in the import of vehicles for passenger and goods transport by 36.5 percent and 50.0 percent respectively. This is primarily attributed to the decreased mobility and transportation of goods because of the pandemic. On the other hand, import of special purpose HDVs doubled from that of 2019 and import of tractors also increased by 10.2 percent in 2020. With a gradual relaxation of Covid-19 restrictions and the improvement in business activities in 2021 against 2020, except for passenger transport HDVs, the value of first six months of 2021 imports for tractors and special purpose vehicles are higher than the 2020 figure, and that of vehicle for goods transport is almost equivalent to 2020.

Similarly, the number of annual HDV imports decreased by 37.0 percent in 2020. More than 90 percent of the total import volume comprises HDV for goods transport, followed by passenger transport at about 5.0 percent. The import of HDVs for goods transport and passenger transport dropped by 43.9 percent and 37.5 percent respectively. Though tractors and special purpose vehicles accounted for less than 5.0 percent of HDV imports, their imports have continuously increased in 2020 and during the first half of 2021.

Table 2: Import of Heavy-Duty Vehicles Category by Value and Number

Category	2016	2017	2018	2019	2020	2021
Value (in Million Nu)						
Tractor	30.1	38.8	15.4	18.1	19.9	23.2
Passenger Transport	239.7	119.5	211.6	239.6	152.1	11.1
Goods Transport	2,497.9	1,955.4	3,397.4	1,737.6	868.1	726.7
Special Purpose	61.9	73.1	133.4	46.1	95.9	119.7
Total	**2,829.6**	**2,186.8**	**3,757.8**	**2,041.4**	**1,136.1**	**880.7**
Number						
Tractor	69	54	27	28	29	42
Passenger Transport	125	75	123	123	69	38
Goods Transport	3,237	2,631	3,026	1,913	1,196	915
Special Purpose	43	51	28	11	25	58
Total	**3,405**	**2,757**	**3,177**	**2,047**	**1,290**	**1,011**

Motor Cycle and Bicycle

The import of two-wheeler vehicles is also increasing annually from Nu 68.7 million in 2016 to Nu 79.0 million in 2019 with an average purchase price and volume increasing by 5.0 percent annually. For similar reasons, the import value of motorcycles also decreased by 43.7 percent in 2020 (Nu 44.5 million) against Nu 79.0 million 2019. In terms of engine capacity, motorcycles with engine capacity between 50cc to 250cc is highly imported, making up for more than three-fourth of the total imports. Like import of passenger vehicles and HDVs, import of motorcycles by end of 2021 is expected to be higher. In the first half of 2021, the total value of motorcycle import amounted to Nu 23.9 million.

In terms of volume, during the pre-pandemic period, about 750 motorcycles were imported annually, of which 550 were with engine capacity ranging from 50cc to 250cc. However, post 2019, as a result of the pandemic, import of motorcycles dropped drastically by 42.5 percent in 2020. As of June 2021, there were 11,789 motorcycles in the country.

Table 3: Import of Motorcycles and Bicycle by Value and Number

Category	2016	2017	2018	2019	2020	2021
Value (in million Nu)						
≤50cc	0.9	0.1	0.1	-	-	0.1
>50cc to ≤250cc	31.6	33.4	47.6	46.9	31.0	13.3
>250cc to ≤500cc	22.7	19.7	18.2	12.0	9.4	7.3
>500cc	13.4	3.2	10.2	20.1	4.0	3.1
Motor Cycle Total	68.7	56.3	76.0	79.0	44.5	23.9
Bicycle	19.1	11.8	16.8	26.3	23.7	21.3
Number						
≤50cc	13	1	1	-	-	1
>50cc to ≤250cc	469	432	676	620	359	140
>250cc to ≤500cc	176	150	147	92	66	45
>500cc	63	37	47	42	6	16
Motor Cycle Total	721	620	871	754	431	202
Bicycle	1,231	931	1,694	1,645	4,607	3,658

The import of bicycles has been increasing annually by 18.2 percent on average between 2017 to 2019. Exceptionally, bicycle imports in 2020 was almost three times higher than in 2019, at 4,607, although import value declined to Nu 23.7 million from Nu 26.3 million. Although bicycle is not defined under the category of vehicle imports like motorcycle, it is necessary to analyze it from imports of accessories side. The increasing number of bicycles also contributes to increasing import of spare parts and other accessories.

Spare parts and other accessories

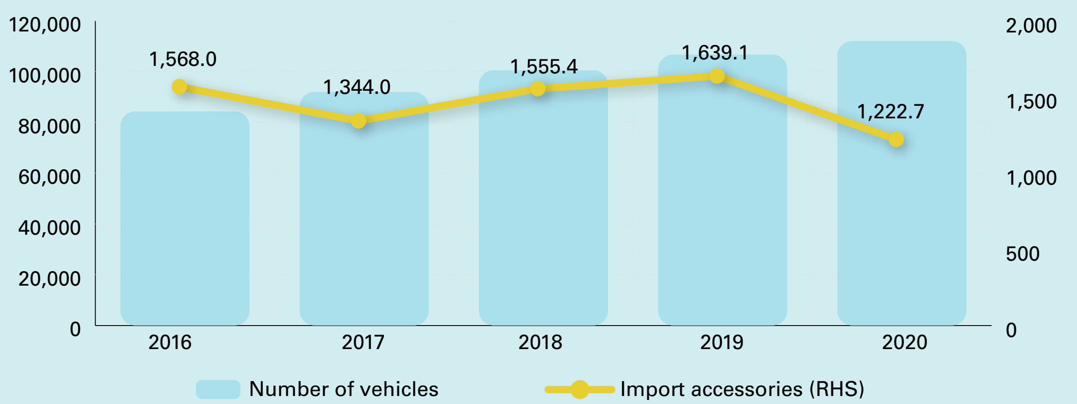
With the increase in vehicle import, the import demand for spare parts and other accessories has been rising. In 2019, the imports increased by 5.4 percent, valued at Nu 1,639.1 million which is about 38.0 percent of the vehicle import value. Tyres and tubes form the highest imported accessories, amounting to Nu 1,129.8 million in 2019, equivalent to two-third of total accessories import.

Table 4: Import of Vehicle Spare parts & Accessories (Nu in million)

Types	2016	2017	2018	2019	2020	2021
Vehicle Chassis	402.1	118.9	125.2	102.7	8.8	6.3
Vehicle Bodies	2.3	6.0	9.0	20.6	16.3	1.6
Vehicle spare parts	439.5	419.4	437.8	379.0	410.4	282.0
Two-wheeler & bicycle accessories	7.9	6.3	6.6	7.0	4.5	6.2
Tyre & tubes	716.2	793.4	976.7	1,129.8	782.6	363.8
Total	**1,568.0**	**1,344.0**	**1,555.4**	**1,639.1**	**1,222.7**	**659.8**

The import of spare parts and other accessories in 2020 dropped by 25.4 percent at Nu 1,222.7 million as demand for tyres and tubes and chassis declined by 30.7 percent and 91.4 percent respectively. On the contrary, during the period, the import of vehicle spare parts increased by 8.3 percent. As per the figure for the first six months of 2021, imports amounted to Nu 659.8 million; so, the import value by the end of 2021 is estimated to be higher than that of 2020 as the total number of vehicles in the country increases. Because of steady increase in the number of vehicles in the country, the import of vehicle accessories is expected to rise.

Chart 2: Number of vehicles & import of accessories



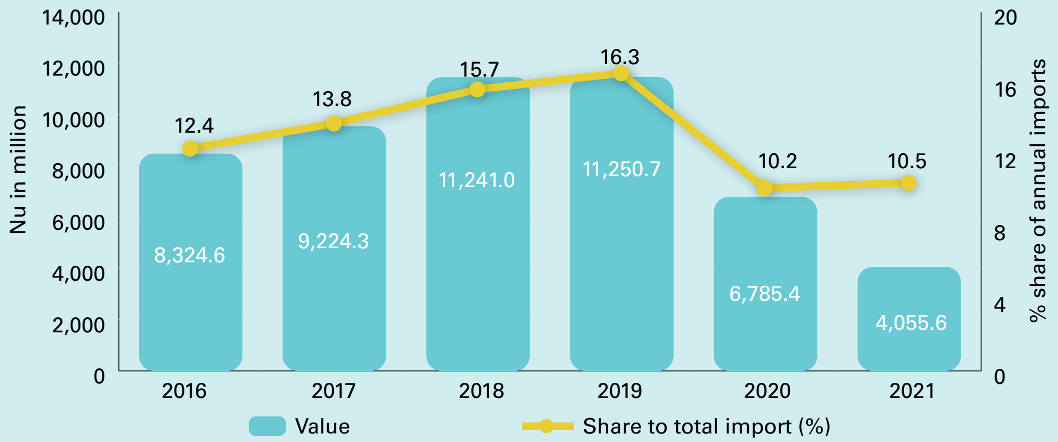
Box 3.5.2

Petroleum Imports and Prices

Background

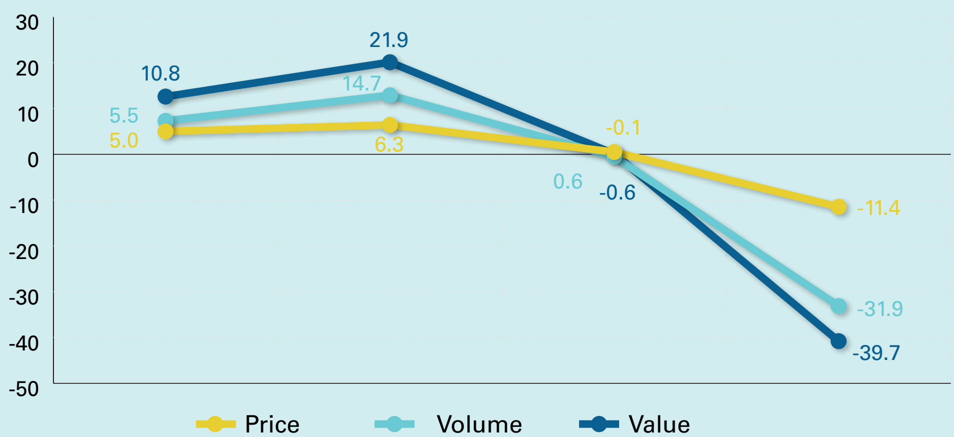
Bhutan do not produce fossil fuels of its own but imports from India. With the number of vehicles increasing each year and expanding economic activities, the import of fuel has increased annually at an average of 10.9 percent from 2017 through 2019. Petroleum products remain one of the highest annual imported items, constituting about 15.0 percent of total import value. During the period, overall petroleum import price increased by 4.0 percent annually while import volume increased by 6.5 percent.

Chart 1: Annual import of petroluem products



With the onset of the pandemic by the end of the first quarter of 2020, the imposition of containment measures such as restriction on mobility and operation of businesses impacted overall economic activities, thereby reducing import demand for petroleum product by 40.8 percent in 2020 (Nu 6,785.4 million) against Nu 11,460.8 million in 2019. Change in both

Chart 2: Change in petroluem import price and volume



volume and price was noted. In 2020, petroleum product price dropped by 11.5 percent, while import volume fell by 31.1 percent. This shows that despite the fall in price, because of deep contraction in aggregate demand, import demand dropped drastically.

On the contrary, because of the spike in petroleum price and gradual rise in aggregate demand, the import value of petroleum products is expected to be higher in 2021. During the first half of 2021, average petroleum price increased by 21.3 percent, and by the end of 2021, it stood at a record high. In terms of import category, more than 80.0 percent are dominated by diesel and petrol.

Diesel and Petrol Import

Diesel tops with more than two-third of the import and petrol comprises one-fifth. In 2019, the import bill of diesel alone amounted to Nu 7,7762.6 million, accounting for 69.0 percent of the petroleum product imports. It was the topmost imported item with 11.2 percent share of total imports. Despite minimal increase in diesel price, and increase in overall income (5.7 percent increase per capita GDP), the continuous decline in real investment demand since 2017 resulted in the decline in import of HDVs which stood at 35.6 percent in 2019. This was due to the fall in government capital expenditure and private investment demand, especially hydropower construction where HDVs are used extensively. Change in annual investment demand in the economy drives change in import demand of diesel.

Chart 3: Income & price elasticity of import demand for diesel

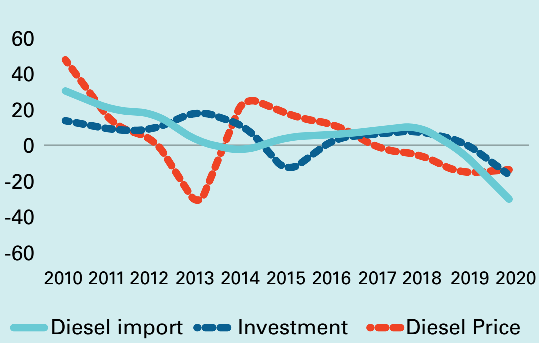
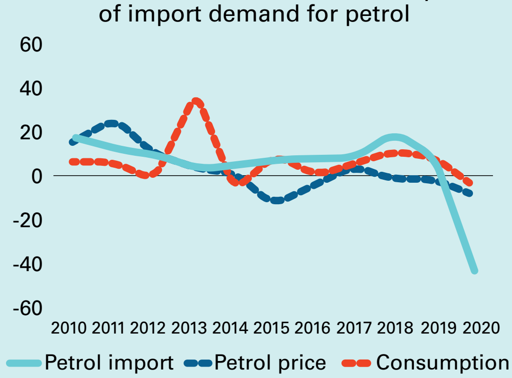


Chart 4: Price & income elasticity of import demand for petrol



On the other hand, import of petrol increased by 7.5 percent in 2019 valued at Nu 2,509.1 million. Although the unit price of petrol dropped by 1.0 percent, with increasing numbers of light and medium vehicles, mainly passenger cars, the import volume of petrol increased by 43.1 percent. Unlike the demand for diesel, which is largely dependent on investment demand, the demand for petrol is fueled by consumption that constantly increases with growing household expenditure income. For these reasons, petrol imports experienced a continuous spike at an average of 12.2 percent from 2017 through 2019. Additionally, import of petrol is more sensitive to income or consumption demand than the change in price. As reflected in the chart, the unit price of petrol dropped by 13.9 percent in 2015 and consecutively in 2018 and 2019, during which period volume of imports increased considerably. This indicates that import demand for petrol is price inelastic in nature. The demand for petrol will continue to rise unless passenger cars are replaced by electric and hybrid fleets.

Other Fuel Imports

Import of other fuel types such as kerosene, Air Turbine Fuel (ATF), furnace oil, lubricating oil, Liquefied Petroleum Gas (LPG), and others account for less than one-fifth of the total fuel imports. In 2019, the other fuel import value stood at Nu 1,189.1 million with a moderate growth of 1.1 percent from 2018, largely driven by the increase in import of LPG. During the same period, import of LPG increased by 20.2 percent, amounting to Nu 346.1 million with 11.1 percent increase in unit price and 8.2 percent increase in import volume. The expansion in household consumption demand and increasing hotel and restaurant production services, by 7.5 percent and 15.3 percent in 2019, led to increase in import of LPG. However, with reduced hotel and restaurant production services due to the pandemic, largely because of the suspension of tourism-related services, import demand for LPG dropped by 17.5 percent in 2020. It is expected to remain below pre-pandemic levels in 2021 as tourism services continue to remain shut.

The demand for kerosene has dropped continuously from 2016 onwards as a result of change in price subsidy policy both in Bhutan and India. To fulfill the primary objective of the subsidy for household and individual consumption, the subsidy for commercial industries, the main consumers, was lifted in January 2016. Moreover, the Government of India has deregulated pricing in 2010 and gradually removed subsidy since 2016 with a target to eliminate subsidy by FY 2021-22. The price of kerosene is now almost three times higher than in 2016 which was Nu 14.0 per liter. Because of the price effect, and for health and environmental reasons, kerosene is now being continuously substituted by other cleaner options. The import demand for furnace oil (mainly used by manufacturing industries) and lubricating oils (engine oil for vehicles) continuously increased till 2019. However, the demand declined in 2020 and is estimated to have fallen in 2021 as well.

Table 1: Import of Petroleum Products by Value and Volume

Types	2016	2017	2018	2019	2020	Jan-June 2021
Value in Million Nu						
Diesel	5,777.78	6,648.56	7,944.80	7,762.57	4,664.32	2,861.75
Petrol	1,755.31	1,969.39	2,333,61	2,509.08	1,305.52	764.17
Kerosene	68.07	79.96	82.11	42.02	27.70	27.70
ATF	127.92	170.66	230.98	225.47	63.79	18.19
Furnance oil	34.90	49.61	124.03	136.38	56.75	21.10
Lubricating oil	416.97	315.67	1,652.69	336.33	276.92	134.12
Other fuels	36.74	15.41	76.63	60.71	66.06	43.04
LPG	198.95	223.31	288.02	346.10	309.00	183.30
Other gases	59.11	71.77	35.81	2.05	1.05	2.28
Total	**8,475.74**	**9,541.01**	**11,454.59**	**11,460.80**	**6,785.44**	**4,055.64**
Volume in Million litres unless specified						
Diesel	133.89	144.62	159.78	154.66	108.99	54.91
Petrol	36.24	39.12	46.91	50.96	28.97	14.12
Kerosene	4.86	4.34	3.59	2.92	1.70	0.91
ATF	3.29	3.98	4.88	4.96	1.72	0.44
Fuel oil (furnace oil)	1.43	1.69	3.41	3.69	1.91	0.56
Lubricating oil	2.48	1.88	2.37	2.10	1.68	0.83
Other fuels	0.32	0.14	0.43	0.68	0.67	0.33
LPG (KG)	7.60	8.08	9.44	10.21	8.43	3.79
Other gases (KG)	1.15	1.29	0.71	0.24	0.02	0.02
Total	**191.26**	**205.13**	**231.52**	**230.42**	**154.08**	**75.91**

3.6 Money and Credit

Money supply expanded with surge in aggregate deposits, while the credit growth in the banking sector continued to remain subdued during FY 2020/21.

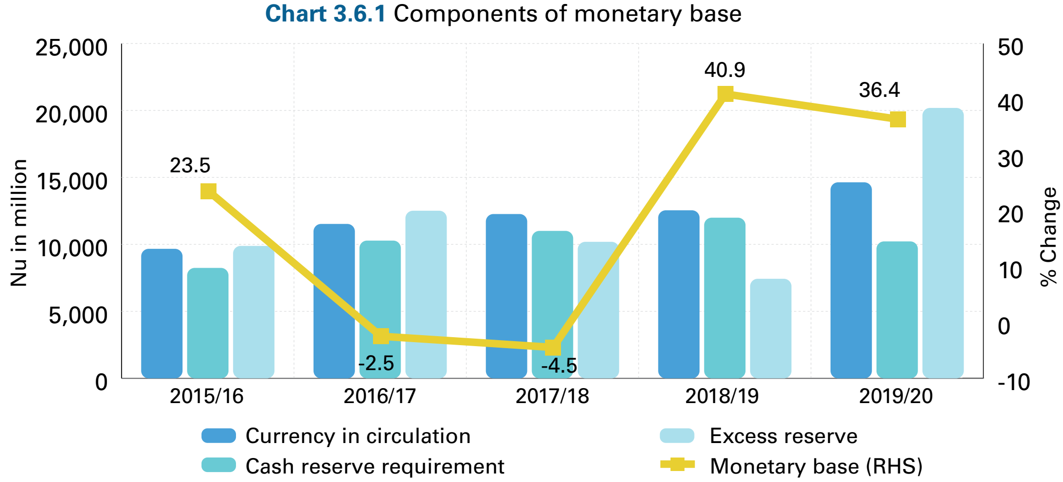
Monetary and credit conditions moderated in the FY 2020/21, which reflects the weakening of underlying economic conditions posed by the pandemic uncertainty. Credit growth further decelerated and remained subdued, as demand languished and risk aversion continued to grip the banking system. However, the liquidity condition remained favorable and the banking sector experienced liquidity surplus due to surge in deposits. With the buildup in deposits and persistent accumulation of liquidity in the banking sector, interest rate spreads widened across different financial instruments and loan products[19].

Total deposits in the banking system increased significantly throughout 2020 as a result of drying up of spending and investment activities in the economy. Higher growth in deposits also led to expansion in money supply (M2) in FY 2020/21. In consonance with accommodative monetary policy operation, a consecutive reduction of Cash Reserve Ratio (CRR) to ease liquidity pressure in the financial sector affected the monetary base.

Monetary Base

The monetary base (M0)—which comprises Currency in Circulation (CiC), banks' deposit, and excess reserve maintained with the RMA—grew by 36.4 percent during FY 2020/21, as compared to 40.9 percent in the previous year. The lower growth is largely on account of fall in currency demand and reduction in CRR. The CiC, which constitutes around 24.0 percent of total monetary base, grew only by 4.7 percent in FY 2020/21 against 16.7 percent in FY 2019/20. In order to minimize the spread of virus, increase in the adoption of digital payment has led to a fall in demand for cash. Additionally, the reduction in income due to displacement of large working groups and subdued household demand have also contributed to the decrease in demand for cash.

Chart 3.6.1 Components of monetary base



[19] The financial market instrument includes 91 days Government T-bills.

Banks' deposit with the RMA, which constitute cash reserve requirements, recorded an increase of 19.6 percent in the FY 2020/21 against 14.8 percent in the previous year. The persistent accumulation of deposits, due to increased cash inflows on account of interest waiver support on loans and limited investment avenues, has largely offset the impact of CRR reduction. The CRR was reduced as part of the monetary policy measures to provide an adequate liquidity in the banking sector. The CRR was reduced consecutively from 10.0 percent to 9.0 percent in March 2020 and further to 7.0 percent in April 2020. A total of Nu 4,217.9 million (2.4% of GDP) of liquidity was released to the banking sector.

Despite RMA's effort to manage structural liquidity through implementation of weekly liquidity management operations and sweeping of volatile current deposits, the excess reserve situation persists, recording a growth of 67.8 percent during FY 2020/21. The excess reserve constitutes almost 55.2 percent of monetary base. The sustained capital and financial inflows are also the drivers of liquidity build-up in the financial sector.

Money Supply (M2)

During FY 2020/21, money supply (M2) grew by 24.4 percent (Nu 180,314.2 million) from 19.3 percent in previous year, largely contributed by increase in growth of aggregate deposits and Net Foreign Assets (NFA). The aggregate deposits held by the commercial banks, which accounted for 93.4 percent of money supply, expanded by 26.5 percent in FY 2020/21 from 19.2 percent in the previous period. A significant surge in time deposits from 15.0 percent to 32.9 percent in the FY 2020/21 has contributed to the rise in the aggregate deposits. Similarly, the saving deposits, which constitutes 68.5 percent of total demand deposits, also recorded a growth of 31.7 percent, against 25.8 percent in the FY 2019/20. The favorable interest rate on the term deposits and tax waiver on income on fixed deposits continued to encourage individuals to park their funds in longer term deposits since there was limited alternative investment avenues in the economy.

On the other hand, current deposits which often remained highly volatile, slowed down to 5.2 percent in the FY 2020/21 as compared to 21.3 percent in the previous period. The main reasons for lower growth in current deposits was due to sweeping of accounts.

On the sources of money supply, NFA, the key driver, slowed down in the FY 2020/21, while net bank credit to government recorded a positive growth[20]. The NFA, which comprises inflow of convertible currency and Indian Rupee, recorded a growth of 17.2 percent in the FY 2020/21 as compared to 31.6 percent during the previous period. The repayment for Currency Swap and fall in return on foreign currency reserve investments have led to lower growth in NFA.

The bank credit to private sector, which accounted for 70.2 percent of money supply, grew lower from 13.3 percent to 6.5 percent in the FY 2020/21, reflecting a lower private sector investment in the economy. The growth in private sector credit was sustained due to continued provisioning of concessional interest rate and working capital loan provided to all economic sectors affected by the pandemic. As a measure to stimulate economic activities and support livelihoods of the people affected by the pandemic, the pressure for funds for the government

[20] Bank credit to government includes government securities and ways and means advances.

increased, leading to a higher domestic borrowing through issuance of marketable securities in the banking sector. As a result, the net bank credit to government stood at Nu 6,403.7 million in the FY 2020/21, equivalent to 3.7% of GDP.

Table 3.6.1 Monetary Aggregates

	Nu in million			Growth in percent		
Item	**2018/19**	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
I. Reserve Money	31,973.9	45,049.8	61,429.4	-4.5	40.9	36.4
II. Broad Money (M2)	121,416.7	144,890.5	180,314.2	5.6	19.3	24.4
III. Narrow Money (M1)	69,203.4	85,575.6	101,825.9	4.4	23.7	19.0
III. Components of M2						
1. Currency Outside Banks	9,744.1	11,782.9	11,874.7	5.5	20.9	0.8
2.Transferable Deposits	59,459.3	73,792.8	89,951.2	4.2	24.1	21.9
3.Time Deposits	51,011.3	58,653.1	77,953.3	10.5	15.0	32.9
4. Foreign Currency Deposits	1,202.0	661.7	535.0	-52.2	-44.9	-19.1
IV. Sources of M2						
1. Foreign Assets (Net)	63,920.6	84,090.6	98,552.0	-3.2	31.6	17.2
2. Claims on Government	2,406.9	-3,840.4	6,403.7	-52.1	-259.6	266.8
3. Claims on Other Public Sector	6,230.8	7,140.8	9,856.2	-25.0	14.6	38.0
4. Claims on Private Sector	104,850.5	118,812.5	126,561.4	20.5	13.3	6.5
V. Money Multiplier	3.8	3.2	2.9			

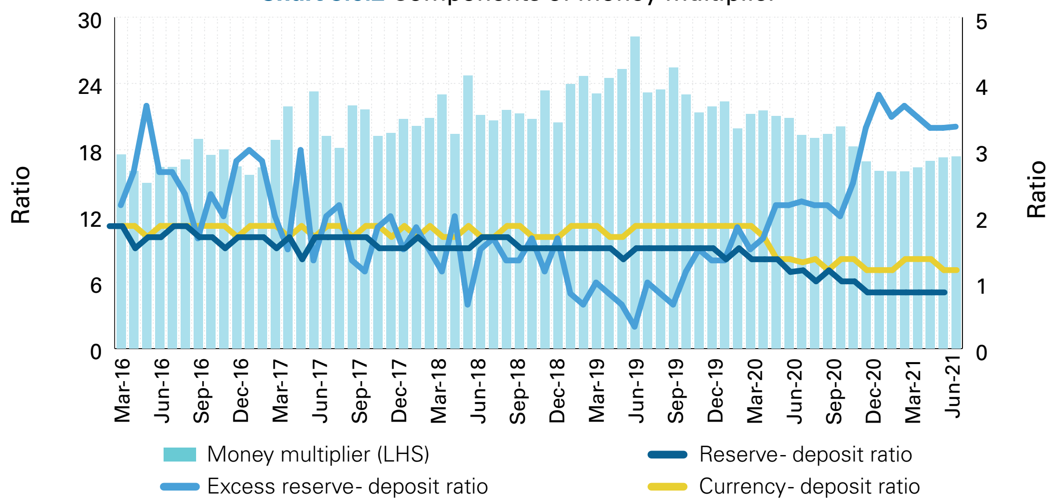
Note: The Monetary Aggregate includes data from RMA and Commercial Banks, which is comparable between June to June ending.

The money multiplier, a key monetary behavioral parameter, remained lower at 2.9 percent in the FY 2020/21 from 3.2 percent compared to the previous year. Considering the impact of the pandemic, the process of money creation remained sluggish during the FY 2020/21. Slower process of money multiplier is largely due to subdued demand conditions and investment perspective in the economy, leading to persistent build-up of the surplus liquidity position in the banking system.

The currency-deposit ratio, which reflects the public's preference for holding cash, slightly reduced from 8.0 percent to 7.3 percent in the FY 2020/21, due to higher pick-up in digital payment mode in response to pandemic containment measures. As of June 2020, the reserve–deposit also decreased marginally to 7.1 percent from 8.9 percent, reflecting an accommodative monetary policy stance followed by the RMA. On the contrary, ratio of excess reserve to deposit exhibited stronger rise from 13.3 percent to 20.1 percent in the FY 2020/21, depicting a continued expansion of liquidity in the banking sector.

With deep contraction of economic activities, the velocity of money further decelerated to 1.0 percent in FY 2020/21 from 1.2 percent in FY 2019/20.

Chart 3.6.2 Components of money multiplier

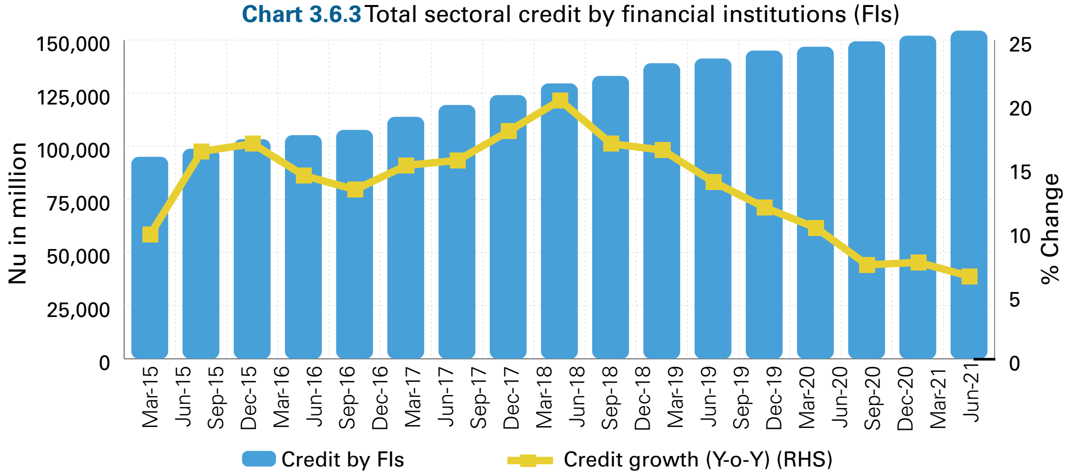


Credit Market[21]

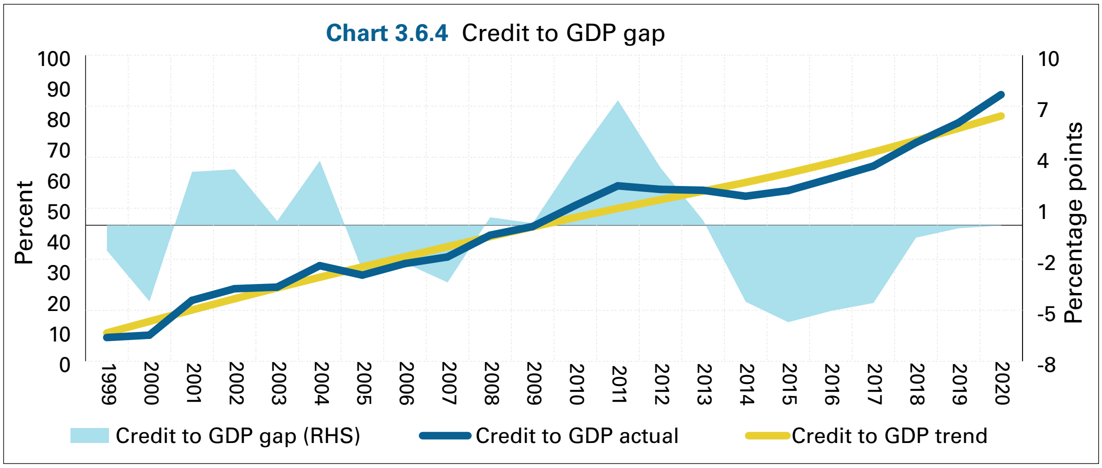
As of June 2021, total credit growth of the financial institutions (FIs) recorded one of the lowest at 5.7 percent (Nu 172,141.4 million) compared to 12.0 percent in 2019/20, one of the lowest since the Rupee shortage in 2012[22]. The unabated weakening of economic activities, risks aversion behavior of financial institutions due to heightened assets quality concerns, and delay in government spending in capital projects are the key factors contributing to the slower growth in credit market. Additionally, the credit-to-GDP gap widened and remained below potential level during the FY 2020/21, reflecting a constrained credit demand in the economy.

It was observed that credit demand has been ebbing in most sectors despite the RMA's loose monetary policy measures to ensure the availability of adequate liquidity at all time in the system and provide concessional loans to the affected sectors. Credit to housing and

Chart 3.6.3 Total sectoral credit by financial institutions (FIs)



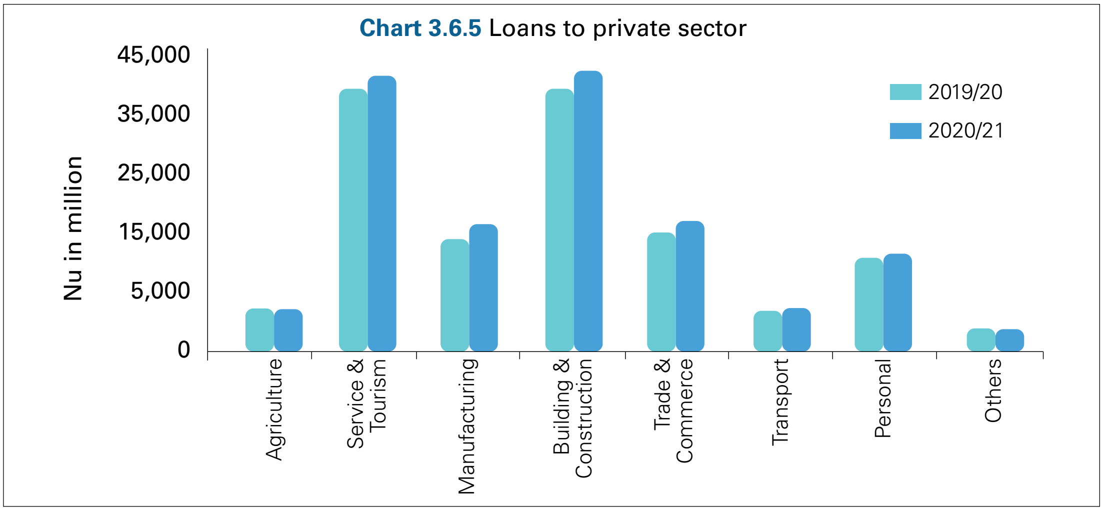
[21] Detailed assessment on the domestic credit by FIs is given under Chapter 6.
[22] The total credit outstanding includes the loans and advances of National Pension and Provident Fund.



construction sector, which accounted for 26.1 percent, reduced significantly to 6.8 percent in the FY 2020/21 from 21.9 percent. As the construction sector growth largely depends on foreign labor, the sector was adversely impacted by the pandemic. The service and tourism sector which was also severely impacted by the pandemic recorded a lower growth of 4.7 percent in FY 2020/21 from 25.7 percent during the review period. Despite rise in agriculture's share to GDP and policy initiatives on the supply front, credit to agriculture, which accounted for 4.3 percent of total credit, contracted by 0.4 percent, compared to 6.1 percent in the previous year.

As in the past, the concentration of credit in primary production such as agro-processing and livestock combined with low-level innovations and technology were the main underlying factors that contributed to slower growth in the agriculture sector. Similarly, the share of agriculture loan to GDP stood at 3.7 percent, reflecting a low level of investment in agriculture as compared to other sectors.

On the contrary, credit to trade and commerce expanded by 10.0 percent in FY 2020/21, mainly due to facilitation of soft loans by the financial institutions to ensure an uninterrupted flow of essential goods during the pandemic. Credit to transport sector also experienced a

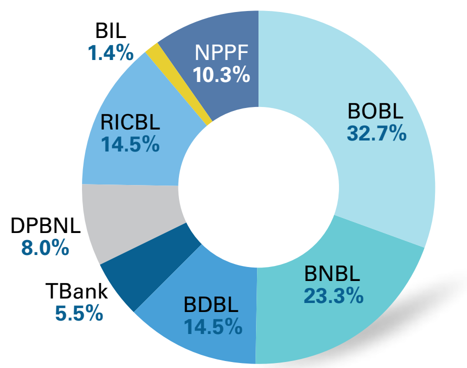


significant growth from -6.9 percent to 7.0 percent in 2020/21, largely driven by increased demand for passenger cars.

The credit to deposit ratio, which measures demand for credit relative to available funding, decreased from 89.3 percent from the pre-pandemic period to 75.1percent as on June 2021, reflecting a lower credit flow despite a comfortable level of deposits held by the banking sector.

In terms of institutional deployment of credit by different financial institutions, the commercial banks financed 76.0 percent (Nu 130,897.8 million) and the remaining were financed by non-banks[23].

Chart 3.6.6 Financial institutions' contribution to credit



In terms of share of total loan portfolio, the Bank of Bhutan Limited (BoBL) continued to hold the highest share, accounting for 29.6 percent, followed by Bhutan National Bank Limited with 20.9 percent, and Bhutan Development Bank Limited (BDBL) with 13.0 percent. In terms of share by non-banks, the Royal Insurance Corporation of Bhutan Limited (RICBL) accounted for 12.5 percent, followed by the National Pension and Provident Fund (NPPF) with 10.3 percent.

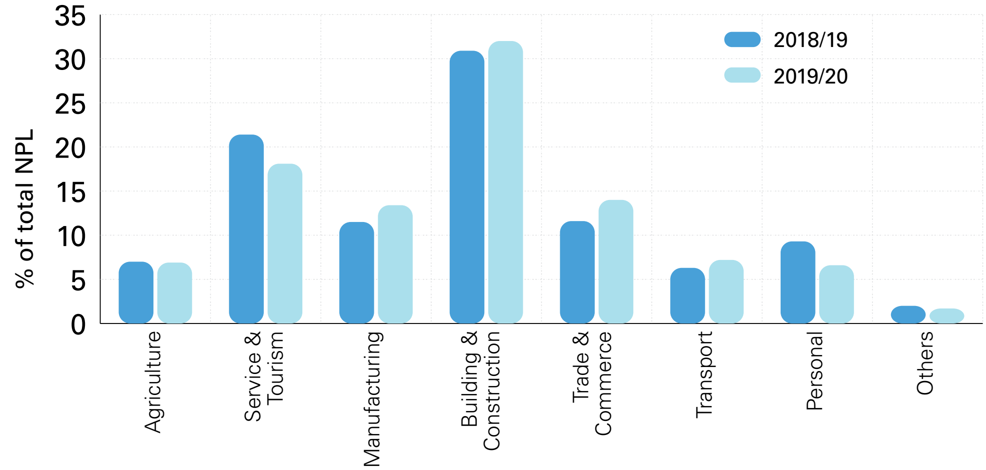
With sustained monetary and regulatory policy measures including the temporary deferment of loan and interest waiver, the RMA helped safeguard the risks through implementation of several risk mitigation measures such as stress testing, NPL resolution, and temporary relaxation of prudential regulations. Until today, the financial sector remains sound and resilient. The overall asset quality of the financial institutions improved with decrease in NPL to 14.1 percent in June 2021 (Nu 24,243.8 million) as compared to 16.4 percent (Nu 26,658.7 million) in June 2020.

In terms of sectoral NPL, most sectors witnessed an improvement in the performance of credit quality in FY 2020/21. The highest NPL was recorded in the service and tourism sector with 29.2 percent (Nu 7,072.5 million), followed by the trade and commerce sector with 19.4 percent (Nu 4,838.5 million), and the manufacturing sector with 19.0 percent in FY 2020/21. The housing sector held an NPL share of 6.7 percent (Nu 3,007.4 million). These sectors, which accounted for 80 percent of total loan portfolios, were impacted by the pandemic.

On the share of total NPL by banks and non-banks, the banks accounted for 61.8 percent, with highest in the case of BDBL at 21.6 percent, followed by BNBL at 20.6 percent, and BoBL with 14.8 percent. Of the total share of the NPL in non-banks, 36.0 percent is concentrated at the RICBL, and 1.8 percent with the BIL. With the rising concern about the NPL, the RMA

[23] Includes Royal Insurance Corporation Limited (RICBL), Bhutan Insurance Limited (BIL), and National Pension and Provident Fund (NPPF).

Chart 3.6.7 Sectoral non-performing loans



in collaboration with the Government and the financial institutions carried out an in-depth diagnostic assessment of the NPL. The guidelines on foreclosure and write-off on the NPL were issued and deliberated with the financial institutions by the RMA to resolve and mitigate the risk of mounting NPL in the financial sector.

Accordingly, the stress tests for credit risk carried out by the RMA anticipates the risk of rising NPL across all financial institutions under the assumptions that the pandemic persists for a while. Going forward, as financial institutions respond to credit demand during the post recovery phase of the economy, they are cautioned and advised to strategize to reinforce their capital and liquidity positions to fortify themselves against any potential balance sheet stress.

4 Medium-Term Macroeconomic Outlook

Medium-term Macroeconomic Outlook

The effort towards global economy recovery continues although the Delta and Omicron variant outbreaks have severely decelerated the pace. However, the degree of recovery differs across the globe, depending upon the disparities in access to vaccine and policy response. About 94.0 percent of population in low-income countries remain unvaccinated. As such, according to World Economic Outlook, October 2021, the global economic growth has been revised from previous projection of 5.9 percent in 2021 to 4.9 percent in 2022. The manufacturing sector in particular faces shortages in key intermediated inputs supply, including the decline in exports, which has subsequently weakened the sector's performance across the countries.

On the regional front, India's economy has been showing signs of recovery though it varies across different sectors. There is an uptick in aggregate demand due to improvement in economic activities. For example, the Google and Apple mobility indices revealed improvement in movement trends of people across different sectors as reflected in the surge in fuel consumption. The petrol consumption touched the pre-pandemic level, while aviation turbine fuel and diesel consumption also experienced improvement.

On the domestic front, the pandemic has adversely affected the growth trajectory. Nevertheless, timely interventions in mitigating the impact of the pandemic and provision of safety nets through the Kidu Relief granted by His Majesty The King, along with fiscal and monetary measures, prevented the economy leading to deep contraction.

A brief update on the medium-term macroeconomic outlook is summarized below:

According to the MFCTC updates of October 2021, the domestic economy was projected to revive to 3.3 percent in 2021. The upward revision was based on improvement in economic activities in the agriculture sector by 6.8 percent, mainly due to increase in crops and livestock production. Various measures to boost agricultural productivity have been implemented during the pandemic. However, improvement in supply chain within the country has been an ongoing effort of the government.

On the demand side, the total consumption, which constitutes 74.2 percent of total output, is expected to increase by 20.7 percent in 2021, due to increase in both private and public consumption. Further, public investment is estimated to increase by 31.6 percent as part of counter cyclical fiscal policy measures against the pandemic in the medium term. The private investment, on the other hand, is expected to grow by 2.8 percent.

While almost all sectors have been hit hard by the pandemic, the hydropower sector continued to exhibit resilience and remained the primary contributor to economic growth. The sector is expected to grow by 1.6 percent in 2021. With the commissioning of Punatshangchhu-II and Nikachhu hydroelectric projects in 2023, the hydropower sector will be the main contributor to the country's economic growth.

Against this backdrop, with gradual recovery in the industrial and services sectors followed by the agriculture sector, the growth trajectory is projected to rebound to pre-covid level at 5.5 percent in 2022.

Though the pandemic has caused disruptions in the labor market, it has in fact triggered the government and other agencies to make innovative and impactful interventions from both demand and supply front in the labor market. As such, the overall unemployment is anticipated to decrease from 5.0 percent in 2020 to 4.7 percent in 2021, particularly with the initiation of skills development plan and foreign worker management strategy in the medium term. With the above measures, the youth unemployment which registered at 22.6 percent in 2020 is also expected to decline to 21.2 percent in 2021.

Inflation pressures from oil and supply chain disruption which have been the main drivers of inflation in many countries showed the sign of easing in the recent months. Although with rising global commodity prices and continued supply chain disruptions, the inflation is expected to remain elevated. But with a gradual easing of containment measures and calibrated approach of central banks in tightening stance of monetary policy in the region, inflation is expected to moderate.

Since the inflationary pressure in Bhutan is determined largely by exogenous factors, the general price level in the country will be directly impacted by this development, anticipating the inflationary pressure within the range of 5.0 to 7.0 percent over the medium-term.

Boosting private sector participation, generating employment, and improving aggregate demand needs to be accelerated through substantial fiscal stimulus. As such, the fiscal deficit is expected to remain elevated at 8.6 percent of GDP in the FY 2021/22. However, the fiscal balance in the FY 2022/23 is expected to be positive at 0.4 percent of GDP. The domestic revenue is estimated to grow by 7.0 percent from a deficit of 8.0 percent in FY 2020/21.With accelerated government investment activities, economic activities are anticipated to pick up in various sectors, contributing to the growth in tax revenue. The economic activities are likely to pick up including tourism receipts (SDF and Visa Fees) on account of mass vaccination and reopening of the economy on a calibrated manner. Consequently, sales tax collection from hotels, airport tax, corporate income tax, and business income tax from tourism and allied businesses are also expected to gradually improve. The tax revenue during the FY 2021/22 is expected to grow by 7.7 percent from -9.4 percent in FY 2020/21.

On the expenditure front, the total budget outlay is expected to increase by 4.4 percent (Nu 73,919.3 million) in the FY 2021/22 from the previous year, with the highest allocation of capital expenditure of 32.7 percent (Nu 38,320.7 million) of the total capital outlay during the 12th FYP. The capital expenditure is expected to grow by 39.0 percent in the FY 2021/22 from Nu 27,576.0 million in the previous year.

Incurrence of higher capital expenditure is mainly accelerated by the plan capital activities through frontloading. However, owing to the pandemic and consequent delay in capital expenditure during the plan period, particularly 2020 onwards, the share of total capital expenditure to the total outlay during the entire plan period is expected at 39.5 percent while share of total recurrent expenditure to total outlay is anticipated at 60.2 percent.

To remain within the provision of the Constitutional Requirement, the recurrent budget constituting 48.2 percent of total outlay is estimated at Nu 35,598.7 million during the FY 2021/22 (FY 2020/21: Nu 43,515.8 million) which is a 18.2 percent decrease from the previous fiscal year.

Correspondingly, the total fiscal deficit during the FY 2021/22 is expected at Nu 18,889.5 million which is 69.6 percent increase from the previous fiscal year.

The deficit is to be financed through domestic borrowings with issuance of long-term government bonds and short-term securities (90 days Treasury bills), while remaining amount is expected to be financed from external borrowings[24]. Notably, despite projected improvement in fiscal deficit during the FY 2021/22, the public debt is projected to grow by 116.8 percent of GDP from 125.6 percent of GDP in the FY 2020/21, mainly on account of increase in borrowings for the hydropower construction, particularly the Kholongchu Hydropower Project. The persistent increase in the public debt stock due to delay in completion of ongoing hydropower projects combined with a sharp fall in domestic revenue base will continue to bring uncertainty over the medium-term.

The current account imbalance is expected to improve in the medium-term due to gradual relaxation in trade restrictions and financial flows coupled with completion of major hydropower projects. With the increase in volume of trade, the overall trade deficit is expected to increase to 12.5 percent of GDP in FY 2021/22 from 7.3 percent of GDP in the previous year, largely contributed by increase in imports against a marginal increase in exports. Nevertheless, the trade deficit is projected to improve from the FY 2022/23 onwards with hydropower export expected to grow by 27.4 percent with the commissioning of two new hydropower projects in 2023. On the other hand, total import is anticipated to grow by 17.7 percent (Nu 77,342.1 million) in FY 2021/22, witnessing a decreasing trend from FY 2022/23 onwards in the medium-term.

With improvement in the economic conditions over the medium-term, the receipts related to services is expected to improve, against a higher increase in payments for services. As such, with payments surpassing the receipts, the net services payment is expected to increase by 35.1 percent in the FY 2021/22. With deterioration of trade balance (by 80.4%) combined with higher payments in primary income account (by 23.0%), the current account deficit is expected to deteriorate by 48.4 percent during the FY 2021/22, amounting to Nu 30,852.7 million.

A positive capital and financial net flows in the form of official grants, hydro-related and concessional loans is expected to decline by 1.6 percent in the FY 2021/22 owing to decrease in hydro loan disbursement. However, the net surplus in the capital and financial account will be sufficient to finance the current account deficit over the medium-term.

Corresponding to these developments, Bhutan's overall balance is expected to remain positive at Nu 8,245.3 million during the FY 2021/22. As a result, the gross international reserves is expected to increase by 7.2 percent from Nu 115,039.1 million in the FY 2020/21, sufficient to finance 19 months of merchandise imports and 28 months of essential imports.

The macroeconomic vulnerabilities posed by the pandemic has significant risks to the health of the financial sector as it impinges on asset quality, capital adequacy, and profitability of financial institutions. With limited opportunities for private investment due to low level of public investment, the credit flow in the economy has been constrained. However, with the ongoing economic recovery effort and increase in demand for credit, the private sector credit growth is estimated to increase by 8.0 percent in the FY 2021/22 from Nu 142,821.3 million in the FY 2020/21.

Subsequently, money supply is expected to grow by 14.4 percent in the FY 2021/22 and 17.9 percent in the following year.

[24] For the computation of Debt to GDP ratio, the GDP figure for FY 2020/21 has been used.

Table 4.1 Medium-Term Macroeconomic Outlook Indicators

	Actual	2021 Projection		
	2020	**2021**	**2022**	**2023**
Production (Supply)				
Real GDP	-10.1	3.3	5.5	5.3
Agriculture	4.6	6.8	6.8	3.2
Industry	-13.1	3.2	4.7	6.2
Mining & quarrying	-18.8	7.5	-2.5	-4.0
Manufacturing	-20.8	2.3	3.9	3.2
Electricity & water	25.2	-5.3	-1.6	32.8
Construction	-20.6	19.0	15.1	-24.2
Services	-6.9	2.8	6.0	4.9
Wholesale and retail trade	-7.0	-1.0	6.8	6.2
Hotel and restaurant	-73.5	37.0	94.0	41.0
Financing, insurance, and real estates	-8.9	4.7	5.0	5.2
Unemployment rate (%)	5.0	4.7	4.4	3.9
	2020/21	**2021/22**	**2022/23**	**2023/24**
Prices				
Headline inflation	4.5	6.0	6.7	6.0
Implicit inflation target	4.5	4.5	4.5	4.5
Fiscal (% of GDP)				
Total Revenue and Grants	33.8	29.0	21.1	25.3
o.w Tax revenue	11.7	11.7	13.3	13.9
Total Expenditure	40.1	38.9	23.5	26.0
o.w Capital	15.6	20.2	6.2	9.0
Fiscal Balance	-6.3	-9.9	-2.4	-0.7
External (% of GDP)				
Current account balance	-12.7	-17.0	-13.7	-3.6
Trade balance	-7.2	-12.5	-5.8	-0.2
External Debt	137.6	127.9	143.9	132.2
Essential imports coverage (months)	28.2	28.6	28.5	31.0
Monetary (% change)				
Money Supply	24.4	14.4	17.9	12.4
Net Foreign Assets	17.2	13.5	23.0	17.6
Net Domestic Assest	30.8	13.5	23.0	17.6
o.w Credit to private sector	6.9	10.9	17.4	12.7
Private to GDP ratio	73.6	77.1	83.0	85.1

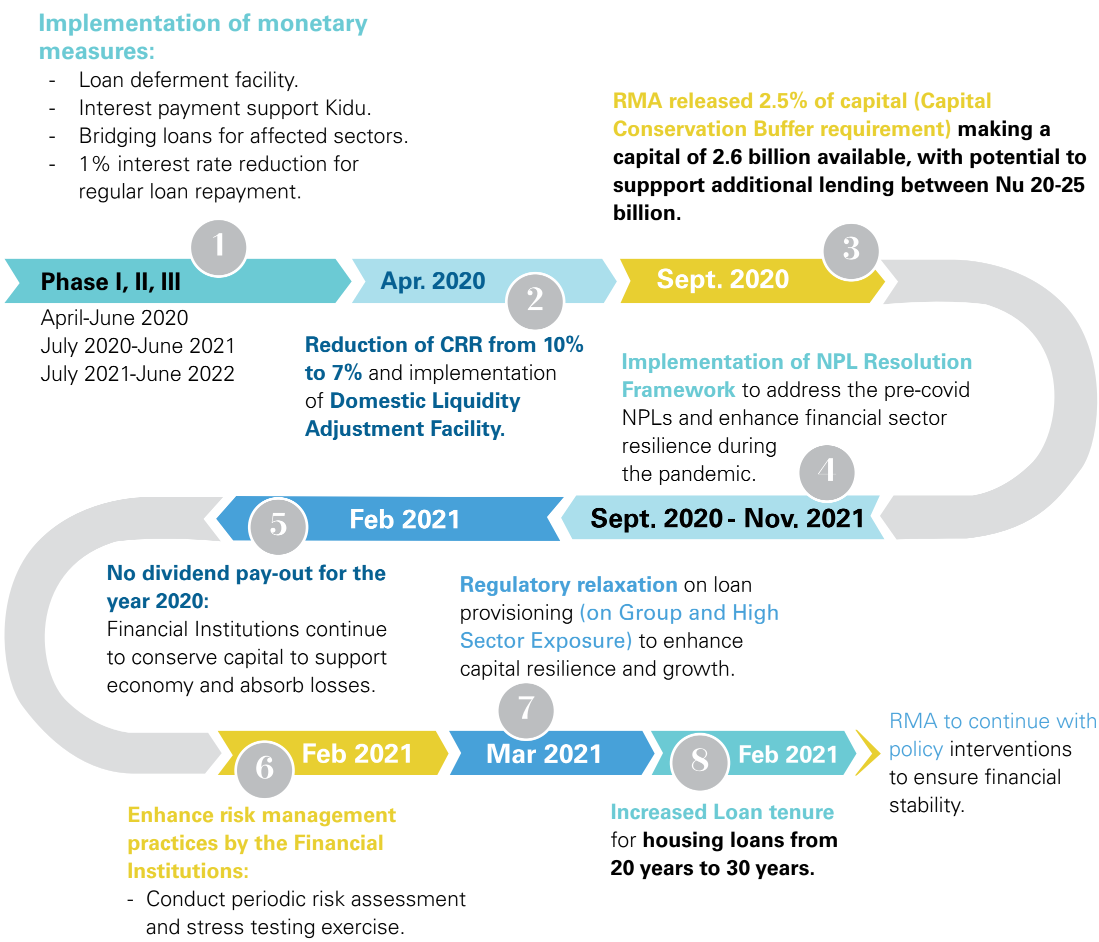
Source: MFCTC, Ministry of Finance (Projections as of October 2021)

5 Monetary Policy Operation

Monetary Policy Operation

Despite challenges posed by the pandemic, timely policy intervention with uninterrupted confidence of general public in the banking sector helped to maintain resilience and stability in the financial system.

With the onset of the pandemic, the monetary policy of the RMA focused towards promoting economic growth alongside maintaining stability in the financial sector by using both conventional and non-conventional policy tools[25]. To minimize the impact of the pandemic, the RMA relaxed both monetary and regulatory requirements to ensure that there is adequate and uninterrupted flow of liquidity in the economy, at the same time ensure safeguards to mitigate potential risk faced by the financial sector. The key highlights of the RMA's monetary policy measures to promote stability and resilience in the financial sector during the time of pandemic are summarized as follows:



With the evolving pandemic situation, the RMA remains prepared to strengthen both monetary policy and supervisory oversight of the financial sector and to make interventions whenever necessary. Some of the key future policy priorities for the RMA to navigate the pandemic

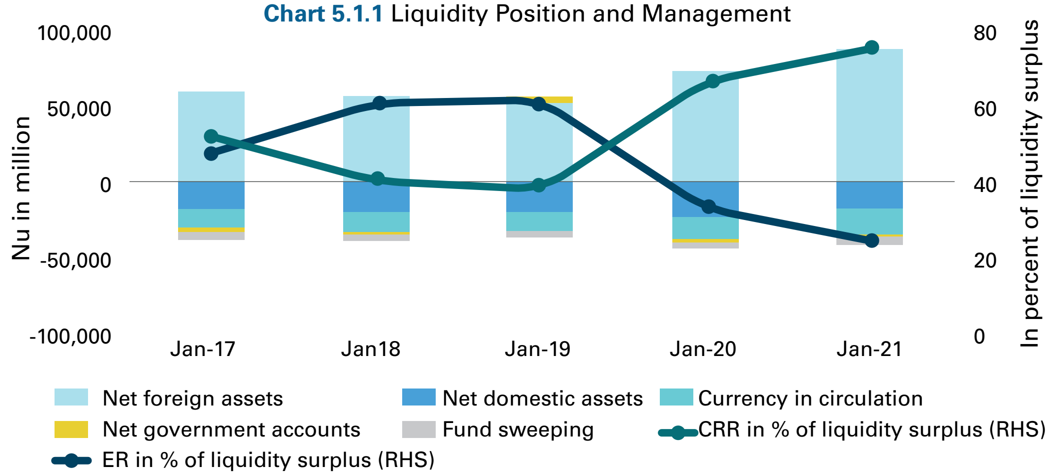
[25] The conventional policy instruments adopted by the RMA currently comprises of CRR and regulatory tools, and the non-conventional policy instruments includes sweeping of volatile current account deposits.

successfully are implementation of early warning signals with a focus on institution with the highest risk profile to prevent systemic risk, formulation of guidelines on loan origination and monitoring, formulation of valuation framework across all financial institutions, and strengthening of corporate governance practices within the financial sector.

5.1 Banking Sector Liquidity

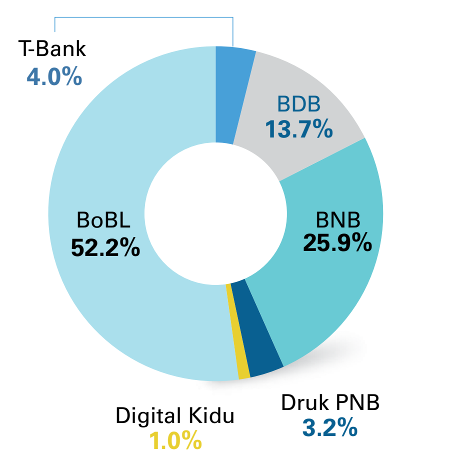
As mandated, the RMA's key priority is to maintain smooth functioning and stability of the financial sector and support the national priority of economic growth and stability. Availability of adequate liquidity is the prerequisite for the sector to conduct its intermediary function. Supported by the RMA's monetary measures, the overall liquidity situation remains favorable, contributed by rise in net foreign assets and deposits of the banks.

Chart 5.1.1 Liquidity Position and Management



During the FY 2020/21, the short-term liquidity surplus (excess reserves) stood at Nu 35,225.8 million, an increase by 74.5 percent from the previous year, which is adequate to support the short-term liquidity demand of the economy. Thus, the banks in particular remained well-placed to play a catalytic role in supporting the process of economic recovery.

Chart 5.1.2 Distribution of excess reserves



Owing to structural challenges, the banking sector is faced with high variation in the liquidity distribution among banks. As of June 2021, the BoBL held a share of over 52.2 percent of the overall liquidity surplus, as the bank continues to maintain large portion of current account deposits of the public sector. However, the holding patterns have improved as compared to June 2020, wherein almost 75.0 percent of the current account balances were maintained at the BoBL. The improvement in the concentration of current account at the RMA was disaggregated through consolidation of current account deposit held by different agencies.

5.2 Domestic Liquidity Management

Given the existing structural liquidity surplus, the RMA continued to rely on the CRR as a key tool for monetary policy operations. To strengthen the monetary policy operation and liquidity management, the RMA implemented Domestic Liquidity Management Framework (DLMF).

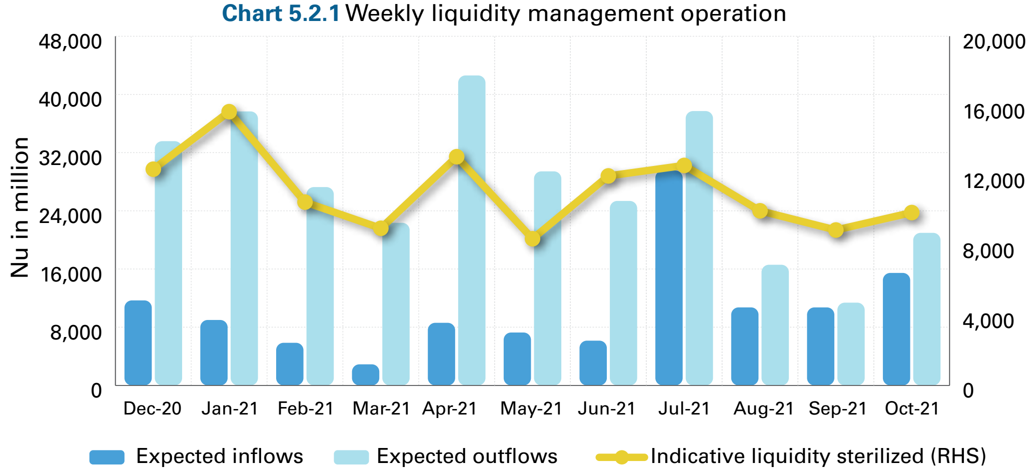
The main objectives of the Framework are: (i) to ensure and provide undisrupted optimal level of liquidity in the banking system (ii) to encourage banks to proactively carry out their liquidity management function based on the need and priority of the economy (iii) to support the development of interbank lending operations and also develop the domestic money market.

Setting up a DLMF will go a long way in establishing a key building block for monetary policy operation by allowing the RMA to better fulfil its legal mandate to formulate and implement the monetary policy, and in ways better aligned with the existing practices. To supplement the existing CRR with market-based liquidity management instruments, the implementation of DLMF will have the direct benefits including promotion of market-based liquidity management and monetary policy signaling. It will also support the development of money market and encourage inter-bank market operation, enhance treasury function of banks and the government, and gradually transit from existing supply-based MLR approach to policy-driven interest rate corridor of monetary policy operations.

Currently, with implementation of DLMF, the RMA conducts Weekly Liquidity Management Operation (WLMO) for the five commercial banks. The WLMO is conducted with the objective to meet the short-term payment obligations of the banks, with the maturity of one-week period. Each bank submits its weekly liquidity position along with liquidity requirements to the RMA through the web-based system. The RMA Liquidity Management Committee, chaired by the Deputy Governor, meets weekly to decide on the volume of weekly liquidity operation and to discuss the liquidity issues faced by the banking sector.

As of 6 October 2021, a total of 48 weekly liquidity operations have been conducted by the RMA. Based on the weekly information received from the banks, it has been observed that there is a persistent liquidity surplus in the market. Despite the negative net flows, the banks continue to have sufficient current account balance maintained at the RMA to meet their expected liquidity outflows.

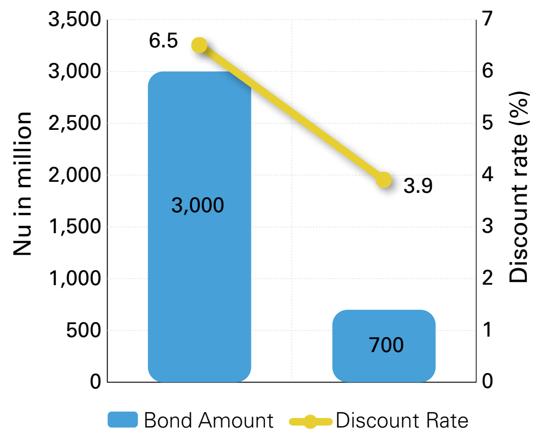
Chart 5.2.1 Weekly liquidity management operation



5.3 Capital Market

As an important catalyst for the development of capital market, the government securities play a vital role. Over the years, the government has been actively financing fiscal deficits through issuance of marketable debt instruments including the Treasury Bills and also the longer-term government bonds. In 2021 alone, the government raised funds of Nu 57,700.0 million through issuance of T-bills at an average discount rate of 0.4 percent.

Chart 5.3.2 RGoB bond amount and discount rate



The government issued its first long-term sovereign bond in September 2020. This marks an important step towards leveraging the private sector to finance increasing spending needs without relying on official development assistance and concessional external borrowings.

The first sovereign bond amounting to Nu 3.0 billion was issued at a fixed annual coupon rate of 6.5 percent. The transaction was well-received by the investors, registering an oversubscription by more than 300 percent. The subscribers mainly comprised financial institutions, non-bank institutions such as pension and insurance companies, civil society organizations, and individual investors. Similarly, in January 2021, a 10-year bond amounting to Nu 700.0 million was issued through an open auction at 3.9 percent cut off rate. The issuance of long-term sovereign securities was initiated to support government spending and to create new investment avenues for potential investors. Besides meeting the financing gaps of the government, the long-term securities will help in developing secondary market trading for domestic liquidity management by the RMA during times of liquidity shortfall in the banking system. However, as observed, currently the interest rates of the government securities remain inelastic and do not depict the real interest rate due to underdeveloped interbank market and abundant supply of liquidity in the market.

5.4 Monetary Measures

Amidst the pandemic, the RMA implemented Monetary Measures in phases- Phase I (April- June 2020), Phase II (July 2020 - June 2021) and Phase III (July 2021 – June 2022). Main highlights of the Monetary Measures are summarized below:

PHASE I:

1

Deferment of loan repayment: Loans were deferred for a period of 3 months and gestation period for projects under construction were extended by 3 months without penal interest until June 2020.

2

Interest waiver: Interest waiver was provided based on the loan outstanding as of 10 April 2020, whereby, the cost of the interest waiver was shared equally between the Government and the FSPs.

3

Extension of gestation period for project under construction: Additional gestation period of three months was provided and the waiver of interest was also provided for three months.

4

Term-based soft working capital facility for tourism related businesses: Short-term financing for tourism-related companies and businesses were provided at a concessional interest rate of 5.0 percent to meet operational expenses.

5

Loans to cottage and small industries: To encourage local production, micro loans up to Nu 500,000 at 2.0 percent concessional interest rate for agriculture sector & working capital loans at 4.0 percent for CSIs were provided.

PHASE II:

1

Deferment of loan repayment: All loans outstanding as of 30 June 2020 were given the option of deferring their loan repayments by another year.

2

Incentive for regular repayments during the deferment period: Borrowers willing and able to repay the loans were offered 1.0 percent interest rebate.

3

Soft term loans to businesses (bridging loans) by FIs: This loan facility was provided to ensure the resilience and continuation of operations for CIT & BIT filing business/ agencies that were affected by pandemic to enable them to meet their operational expenses.

4

Soft short-term loans to micro businesses and CSIs: In order to continue supporting the micro and CSI borrowers including informal/mobile businesses, the microloans and working capital loans were provided to CSIs under the MM.

5

Conversion of concessional term-based soft WC facilities (under Phase I MM) to concessional term-based loans: WC facilities for wholesalers, industries, and tourism availed under the Phase I MM shall be converted into new term-based loans.

PHASE III:

1

Deferment of loan repayment: All loans sanctioned as of 30 June 2020 were eligible for the deferment for another one year until June 2022.

2

Incentive for regular repayments during the deferment period: Continuation of one percent interest rate reduction (rebate) on term loans for another one year (July 2021 to June 2022) was provided to borrowers who service their loan installments regularly and fully as per the agreed repayment schedule (after adjustment of 50.0 percent interest payment support).

3

Treatment of bridging loans/soft term Loans: Gestation period provided for another one year until June 2022 for the Bridging Loans/Soft Term Loans granted to the business entities under the Phase II Monetary Measures. These loans shall also include those concessional loans granted under Phase I Monetary Measures and are still being continued under Phase II Monetary Measures.

4

Treatment of interest accrued during the deferment period: Interest accrued during the deferment period are not capitalized. At the end of the deferment period, the total accumulated interest from April 2020 to June 2022 (after the adjustment of 50.0 percent interest payment support) will be converted into Fixed Equated Installment Facility (FEIF) payable in equal installments within a period of up to five years.

5

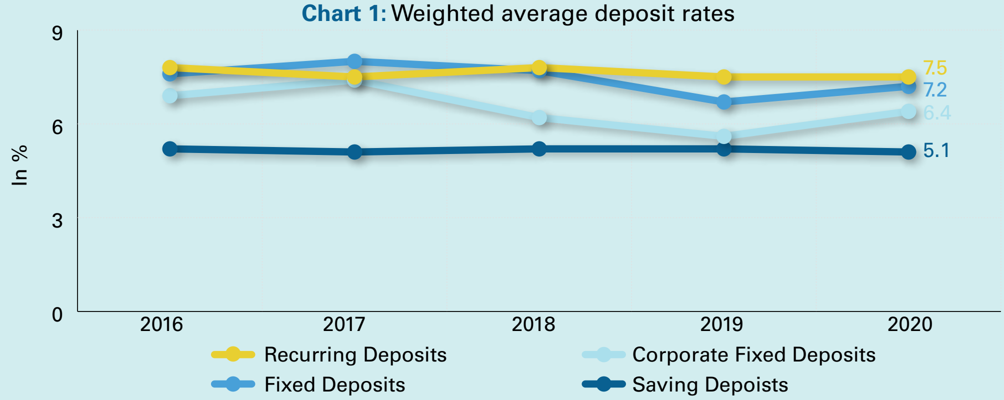
Loan-to-Value (LTV) limits and land valuation: In case of project financing/business loans, the Financial Service Providers are allowed to provide loans up to the LTV limit of 100.0 percent of the collateral value.

BOX 5.1

Interest Rate Development

Interest rate in the country has evolved with major policy reforms to promote competition and flexibility. Originally, the interest rate was administered by the RMA, however, it was liberalized and determined by the market forces of demand and supply. The RMA's effort towards rationalization of market lending rate and enhancement of banks intermediation efficiency through reduction of Interest Rate Spread (IRS)[26] continues to remain a priority. Since the implementation of the Minimum Lending Rate (MLR) in 2016 there has been a narrowing of the lending rate. However, a shift in the sectoral resource allocation from productive investment over import and consumption-oriented sector has been limited. In the last three years, the financial institution credit was largely concentrated in sectors such as building and construction and the service sector constituting more than 50 percent of the total credit.

Chart 1: Weighted average deposit rates

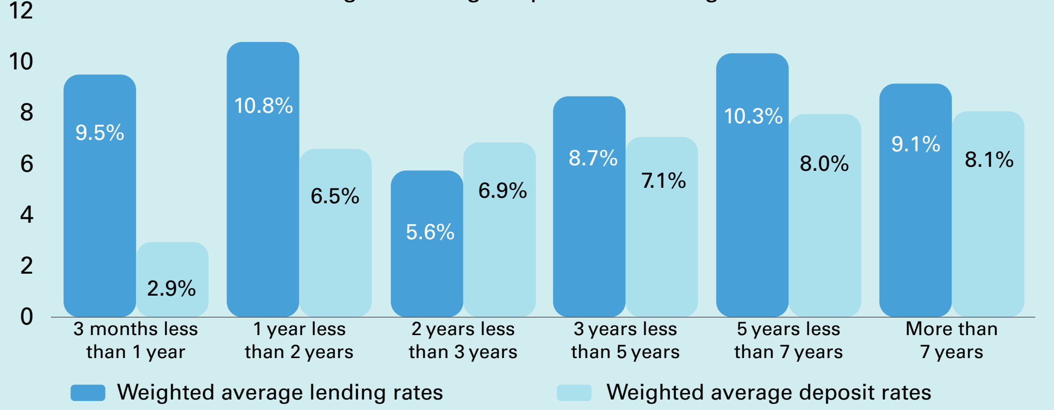


Currently, the IRS remains relatively high for the shorter term (2-3 years), while the spread remained relatively lower for tenure of over 5 years. For instance, in 2020, the IRS for duration of 2-3 years stood at 4.0-6.0 percent, while the IRS for duration of more than 7 years stood at 1.0-3.0 percent. The spread, however, differs across different banks due to factors such as difference in operating cost, liquidity risk, and market concentration.

The weighted average interest rate for saving deposits in the last five years ranged at 5.1-5.2 percent. In 2020, the saving rate reduced slightly to 5.1 percent compared to 5.2 percent in 2019. In terms of time deposits, the rates ranged between 5.6-8.0 percent in the last five years. The recurring deposits has the highest interest rate at 7.5 percent and the corporate fixed deposits the lowest rate at 6.4 percent in 2020. Within the time deposits, deposits with longer maturity have higher interest rates compared to deposits with lower maturity.

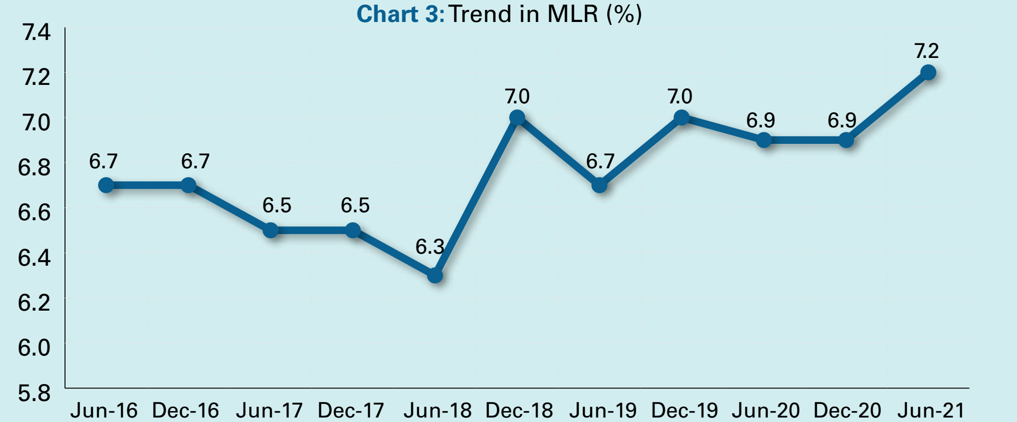
[26] The IRS spread refers to the difference between the interest rate a financial institution pays to depositors and the interest rate it receives from loans, and it generally reflects the efficiency of the financial system in the country. A high IRS acts as an impediment to the expansion of financial intermediation necessary for growth and development.

Chart 2: Weighted averge deposits & lending rate-2020



On the other hand, the weighted average lending rates of the banks stood at 9.4-10.8 percent for loan tenure of less than 3 years, while the lending rates for duration of more than 3 years stood at 8.7-10.3 percent in 2020. The weighted average lending rates saw a decline in 2020 compared to 2019 for all duration of loan tenure. This reflects structural rigidity in the interest rate due to high dependency on bank-based capital. (Deposits rates are generally rigid upwards, while the lending rates are rigid downwards).

Chart 3: Trend in MLR (%)



As a key determinant of lending rates for the financial institutions, the MLR—computed based on the cost of deposit, CRR cost, and operating cost—has increased marginally from 6.9 percent in December 2020 to 7.2 percent in June 2021. This was mainly due to significant increase in deposits mobilized by the banks thereby resulting into increase in Marginal Cost of Fund (MCF). As on June 2021, the MCF is computed at 5.6 percent, an increase by 0.4 percent from December 2020. With increase in the deposits mobilized by the banks, the CRR cost has increased to 0.4 percent from 0.4 percent in December 2020, despite reduction of the CRR from 10.0 to 7.0 percent in the 2020. Similarly, the operational cost of the banks were computed at 1.2 percent in MLR as of June 2021, a decrease of 0.1 percentage points from 1.3 percent in December 2020.

Box 5.2

Moving Towards a Greener Financial Ecosystem

The idea of sustainable development in Bhutan is rooted on the Buddhist principles and traditional Bhutanese cultural values. The respect for all living beings has led to the development and adoption of ecologically-friendly policies and strategies. Given this strong base and commitment to preserve our pristine environmental endowment, Bhutan can be a global leader in pioneering new knowledge on sustainable finance. This ambitious goal however requires proper coordination and policy alignment across different stakeholders including the financial institutions, environment conservation and regulatory bodies, and the private sector. Several efforts are already underway to strengthen sustainable finance in the country. However, there is a wider scope for the government and the financial sector to come up with a national strategy that is built upon the Economics of Environment and Green Enterprise aligns closely with the Gross National Happiness development model. The RMA as a regulatory body has been emphasizing the need for an inclusive green finance element in business operations and in mainstream finance. This has been undertaken by identifying key stakeholders, establishing consensus and commitments with different stakeholders, setting standards, and formulation of a green taxonomy. Moving ahead, the RMA's strategy for advancing green finance roadmap is supported by four broad strategies.

The RMA is currently at the advanced stage of developing a Green Finance Roadmap that aims to develop a mother document based on the existing and new initiatives of the RMA. At the same time, this will ensure that different resources are managed coherently and efficiently to support the implementation of Bhutan's sustainable development goals. As part of the strategic plan, the RMA aims to align Bhutan's financial system with the sustainable development goals through an integrated approach of promoting cooperation, collaboration, and consultation amongst Government agencies, regulators, and multilateral institutions.

6
Financial Sector Development

Financial Sector Development

The Covid-19 pandemic has threatened the livelihoods of the people and businesses, posing challenges to stability in the financial system. However, timely interventions with a series of Monetary Measures from the onset of the pandemic have ameliorated the adverse impact in the financial sector.

Maintaining soundness and stability in the financial sector emerged as a priority for the RMA during the pandemic. The RMA remains strongly committed to undertake this endeavour with a cautious approach. Numerous measures were put in place to mitigate the impact of the pandemic on people's lives as well as to maintain financial stability. The loan deferment facility and IPS Kidu have prevented build-up of NPLs. Concessional loans sanctioned as part of monetary measures benefitted the affected sectors. The reduction of CRR and relaxation of Capital Adequacy Ratio (CAR) enabled the financial institutions to maintain liquidity buffers and continue lending activities without disruption. Overall, the monetary measures not only helped the affected sectors but also provided opportunity to work closely with different stakeholders with a common objective to protect the livelihood of people.

In FY 2020/21, although the financial sector witnessed a modest monetary expansion both in terms of credit and deposits, with a manageable level of NPLs, the RMA began conducting stress test to assess potential risks faced by the sector. Until today, the financial sector as a whole remains stable with a comfortable level of capital adequacy and liquidity. However, a persistent pandemic situation may pose risks of distress in terms of meeting the minimum capital adequacy requirement and rise in NPLs. On the positive side, the pandemic encouraged a widespread adoption of digital banking which has been gaining momentum recently. With emerging digital banking platforms provided by the financial sector including mobile and internet banking, the RMA's efforts to further promote financial inclusion will become easier. Various digital platforms made it easy for the people to make online transactions. This will pave way for the RMA to achieve higher level of financial inclusion in the country. Currently, to follow a planned and structured approach to further advance financial inclusion, the RMA is spearheading A2F demand side survey in line with the National Financial Inclusion Strategy (2018-23).

With growing usage of digital-based financial transactions, the RMA continues to accord high importance to protecting the integrity and stability in the international financial transactions. Fight against money laundering and financing of terrorism has been given utmost priority at all times.

Accordingly, an IT-enabled system was developed to strengthen its tactical, operational, and strategic analytical capabilities to track suspicious transactions. Awareness programs were conducted, and cooperation and coordination at both national as well as international level were strengthened.

To make an assessment on the latest development, this chapter provides an overview of the overall performance of the Bhutanese financial sector for the FY 2020/21.

6.1 Balance Sheet

The business size of the financial institutions grew by 16.7 percent, to the tune of Nu 39,485.6 million. While the deposits fuelled the growth of liabilities, cash balances with RMA and marketable securities were the prominent drivers of assets of the financial institutions[27].

Table 6.1.1 FIs Balance Sheet (Nu in Million)

Assets			Liabilities		
Particulars	**Jun-20**	**Jun-21**	**Particulars**	**Jun-20**	**Jun-21**
Cash & Bank Balances	71,152.4	85,369.9	Paid-up Capital	10,550.9	10,690.9
o.w balances with RMA	27,982.2	46,106.2	Reserves	12,722.8	17,136.4
Marketable Securities	5,490.7	19,966.3	Deposit Liabilities	150,192.9	174,545.0
o.w Government Securities	1,594.8	11,152.3	Bonds/Debentures	2,500.0	1,499.0
Loans & Advances (Net of Provision)	144,826.2	153,877.8	Borrowings	1,184.0	843.1
Equity Investments	6,097.1	5,517.1	Provisions	4,291.4	5,014.6
Fixed Assets	4,479.7	4,921.5	Funds	50,712.9	57,085.1
Other Assets	3,795.6	5,674.5	Current & Other Liabilities	3,686.9	8,513.2
Total Assets	**235,841.6**	**275,327.3**	**Total Liabilities**	**235,841.7**	**275,327.3**

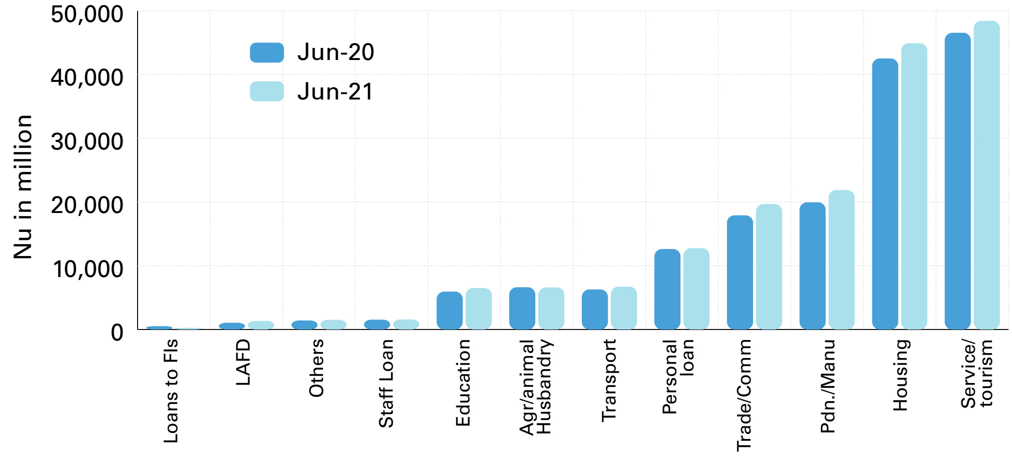
Although the size of balance sheet of the financial institutions increased by 16.7 percent during FY 2020/21, the equity investments (Asset) and borrowings (Liabilities) declined significantly by 9.5 percent and 28.8 percent, respectively. This decline is contributed by limited investment opportunities owing to the pandemic. On the investment front, the new securities issued by the Government provided investment avenue for the financial institutions and helped build the collateral market. On the other hand, a surge in deposits propelled the growth of liabilities. The reserves also witnessed a significant growth. The transfer of dividends to reserve and prudent provisioning requirement by the RMA led to increase in reserve position of the financial institutions.

[27] The financial institutions include 5 banks and 3 non-banks.

6.2 Credit Portfolio

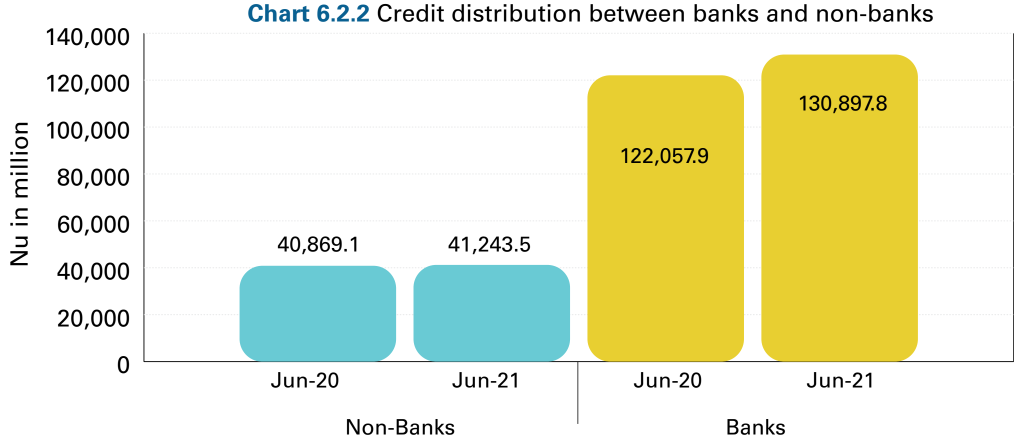
As compared to the last five-year trend, the FIs recorded a modest credit growth of 5.7 percent in FY 2020/21. The subdued economic activity due to the pandemic resulted in the fall of domestic private demand. Despite providing concessional loans to sectors such as trade, commerce, and tourism, the credit flow in the economy remained at all-time low.

Chart 6.2.1 Sectoral investment



Within credit to private sector, the loans to service and tourism (28.1%) have emerged as an important segment of overall credit portfolio, followed by the housing sector (26.1%). With the impact of the pandemic, all sectors witnessed a marginal increase in loans and advances except loans to financial institutions and agriculture. There was a negligible decline in the loans to agriculture, as farmers were confronted with travel restrictions due to the pandemic. The credit distribution between banks and non-banks also remained highly asymmetrical[28]. The credit provided by the banks accounted to 76.0 percent of the total loans as of June 2021[29].

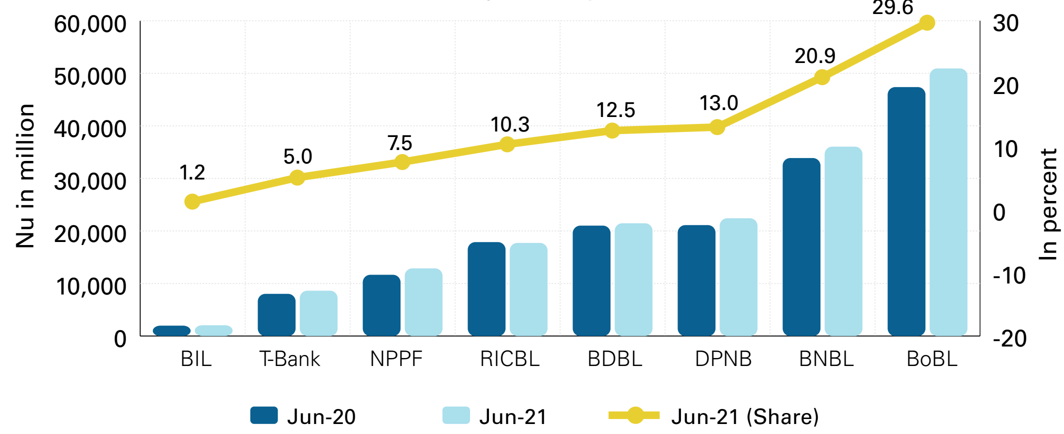
Chart 6.2.2 Credit distribution between banks and non-banks



In terms of sectoral exposure, the highest exposure of the banks is in the housing sector, while it is the service and tourism sector in the case of non-banks. It was observed that the portfolio of education loan was significantly larger with the non-banks. The non-banks education loan constituted 82.5 percent of the total education loan amounting to Nu 6,507.8 million. The NPPF alone had an education loan outstanding of Nu 5,304.6 million[30].

Being the largest commercial bank in the country as well as a public sector bank, the BoBL continues to hold a maximum share of credit supply in the economy. As of June 2021, the BoBL held a share of 29.6 percent, amounting to Nu 50,925.1 million. In terms of absolute growth, the BoBL credit expanded by Nu 3,545.8 million, followed by BNBL with Nu 2,169.3million.

Chart 6.2.3 Loan exposure by institutions



6.3 Asset Quality

One of the critical concerns of the financial sector was the accumulation of non-performing assets. The IPS Kidu and RMA's NPL Resolution Measures has saved the financial sector from going into deeper distress during the pandemic. From April 2020 to June 2021, Nu 12.8 billion of IPS Kidu was provided to all borrowers, out of which Nu 2.2 billion was related to NPL accounts. As a step towards cleaning up the balance sheet of the financial institutions, the RMA undertook the NPL Resolution Measures and implemented guidelines on foreclosure and write-offs of NPL in 2021. This effort resolved NPLs worth Nu 1.1 billion beginning September 2020 till June 2021.

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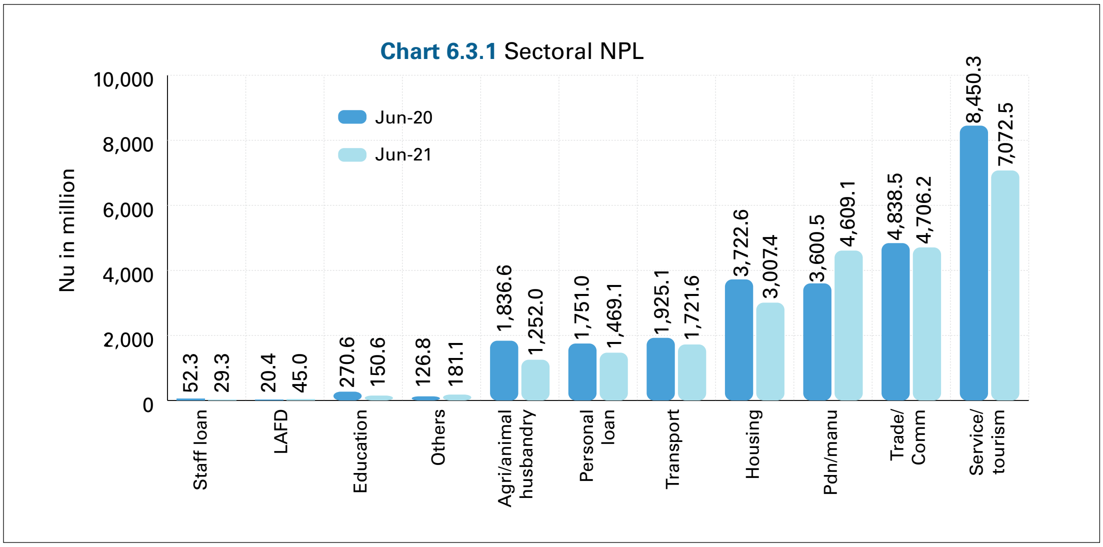
[28] Banks in Bhutan includes the Bank of Bhutan Ltd. (BoBL), Bhutan National Bank Ltd. (BNBL), Bhutan Development Bank Ltd. (BDBL), Druk Punjab National Bank (DPNB), and T-Bank Ltd. (T-Bank). The non-banks include Royal Insurance Corporation of Bhutan Ltd. (RICBL), National Pension & Provident Fund (NPPF), and Bhutan Insurance Ltd. (BIL).

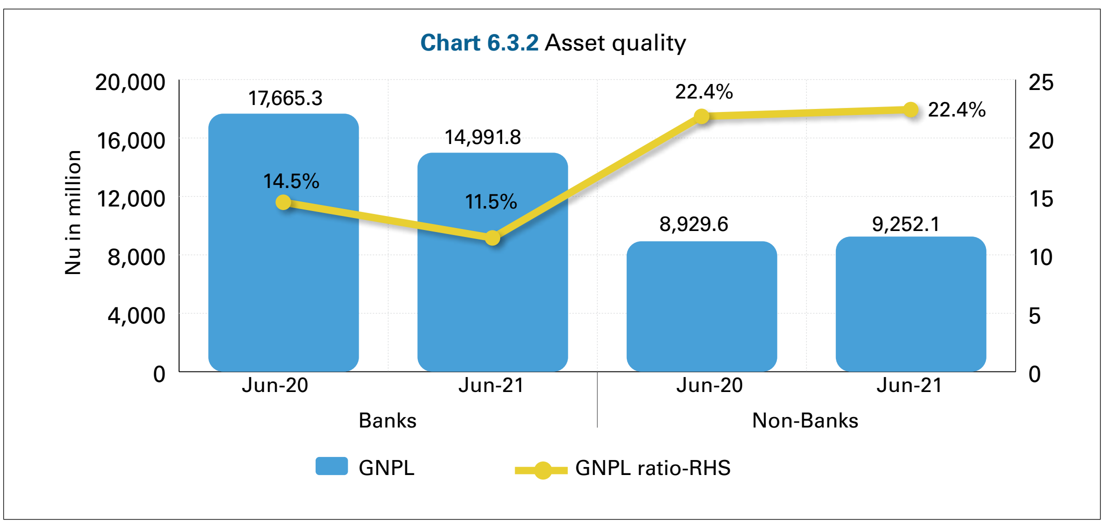
[29] The only limitation for the non-banks is that they do not provide loans against fixed deposits (LAFD).

[30] For detailed sectoral distribution between banks and non-bank, refer RMA's Financial Sector Performance Review, June 2021.



Unlike in the past, almost all the sector's NPL decreased (except for LAFD, Production and Others). There has been a marginal increase in NPLs of LAFD and Others, but the NPLs of Production and Manufacturing inflated by Nu 1,008.6 million. The lockdown in Phuentsholing from 17th April to 10th August 2021 severely impacted the operations of industries, as majority of the industries and manufacturing plants are located there.

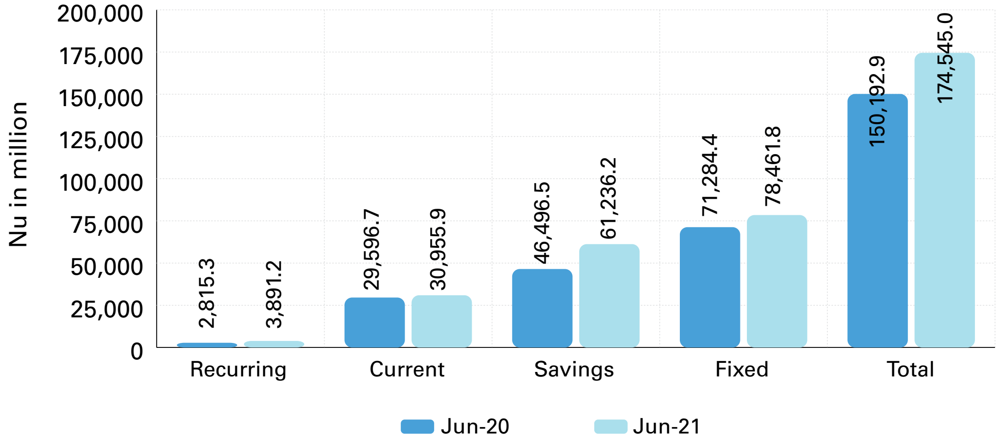
Evaluating the NPL exposure between banks and non-banks, the NPL ratio of non-banks remains elevated from 21.9 percent in June 2020 to 22.4 percent in June 2021. The rise in NPL in non-banks has been a major concern recently, largely contributed by selected institution including the RICBL. On the other hand, the bank's NPL ratio has decreased to 11.5 percent in June 2021 from 14.5 percent a year ago.



6.4 Deposit Liabilities

The commercial banks experienced higher growth in the deposits during the review period. The domestic banks continued to offer attractive interest rates (ranging from 5.0% to 10.0%) and there was no downward revision of the deposit rates during the pandemic. Additionally, the impact of tax exemption on interest income earned on term deposits for individuals from 2017 has also contributed to the growth in Fixed Deposits (FDs).

Chart 6.4.1 Deposits by types



More importantly, the IPS Kidu assisted the banks to maintain a steady cash inflow throughout the pandemic. Since the borrowers were exempted to pay their monthly loan repayments, their deposit holdings grew during the pandemic. The total deposits amounted to Nu 174,545.0 million as of June 2021. Of which, the FD accounted 45.0 percent of the total deposits amounting to Nu 78,461.8 million. However, the share of savings stood at 35.1 percent, with a growth of 31.7 percent in June 2021. For the first time ever, the Recurring Deposit (RD) increased by more than Nu 1,000.0 million in a year. The RD of BoBL alone witnessed an increase of Nu 722.9 million during the period.

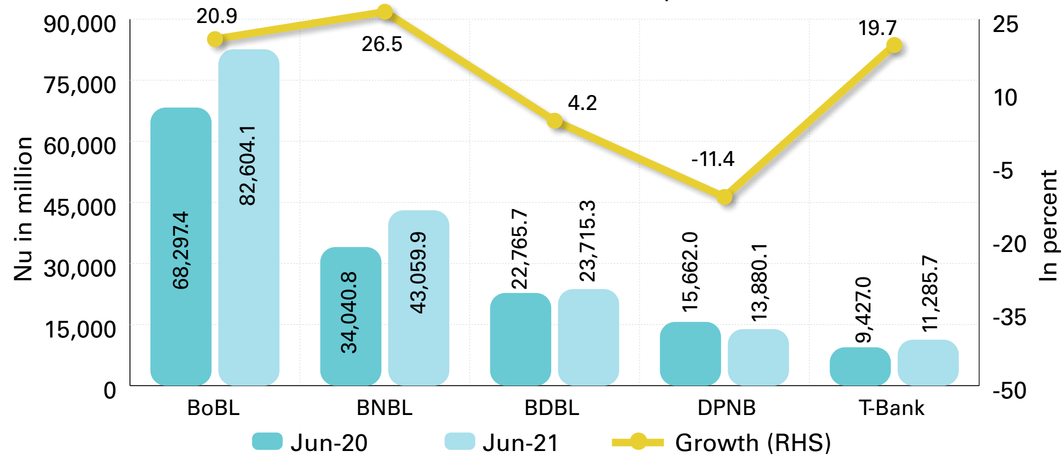
Of the total deposits, 47.3 percent are concentrated with BoBL, followed by BNBL with 24.7 percent. While all the commercial banks saw a growth in deposits during the period, the deposits of DPNB fell by 11.4 percent, driven by the fall in time deposits. The DPNB experienced a massive decline in FDs related to other commercial banks and government corporations, amounting to Nu 1,323.0 million and Nu 1,999.2 million, respectively.

Similarly, the FD of BDBL also declined by Nu 1,151.6 million, despite higher interest rate offered as compared to other commercial banks[31]. On the other hand, the BoBL recorded a higher growth in FD amounting to Nu 7,928.0 million. The BNBL witnessed the highest growth in savings amounting to Nu 5,811.0 million, Nu 157.5 million higher than that of the BoBL. The T-Bank also witnessed expansion in its Term Deposits (TD) and Demand Deposits (DD) by Nu 1,035.5 million and Nu 823.1 million[32], respectively.

[31] The interest ranges from a minimum of 5.9% to 9.1% for the individual fixed deposits (depending on the tenure of the deposits). On the similar products, the maximum interest rates offered by banks are T- Bank (9%), BNBL (9%), BoBL (8.5%), and DPNB (8.8%) as of June 2021.

[32] Term Deposits includes FD and RD, while demand deposits include Savings and Current Deposits.

Chart 6.4.2 Banks deposit

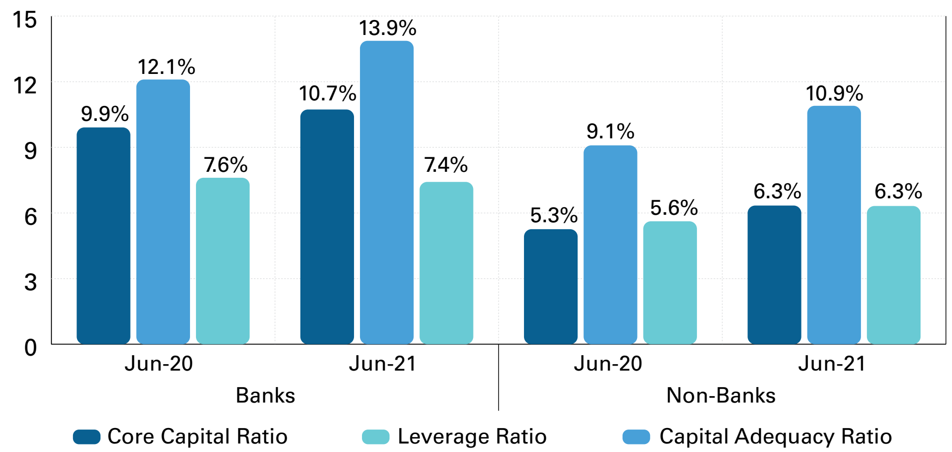


6.5 Core Financial Indicators

The RMA undertook prudent provisioning and monitoring amidst the pandemic.

In the past three years, the RMA made several efforts to identify vulnerabilities, and evaluate the soundness of the financial institutions. The assessment of the indicators includes performance in capital, asset, earnings, and liquidity. Firstly, in terms of CAR, the financial institutions were well within the minimum requirement prescribed by the RMA, except for the RICBL. Amongst the financial institutions, the BNBL had a strong capital base with Core Capital Ratio (CCR) and CAR of 13.6 percent and 17.6 percent, respectively, as of June 2021.

Chart 6.5.1 Core Indicators (Capital)

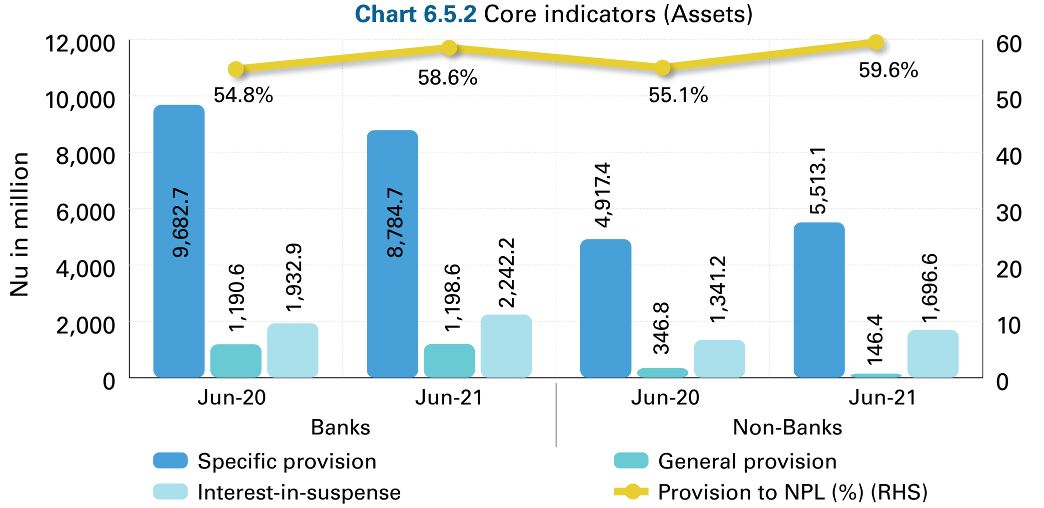


The BNBL's leverage ratio stood at 7.6 percent[33]. Although, the BDBL met the CCR as well as the CAR, the bank marginally failed to meet the Minimum Leverage Ratio requirement by 0.1 percent[34].

As a part of monetary policy interventions, in 2020, the RMA released the Capital Conservation Buffer requirement of 2.5 percent to create adequate liquidity buffer and continue supporting lending in the economy[35]. This reduction released about Nu 2,600.0 million worth of capital with a potential to support additional lending between Nu 20,000.0 million-Nu 25,000.0 million.

The movement of asset within the classification bucket adversely impacted the terms of provisioning. The RMA sets different levels of NPL provisioning based on the number of overdue days. The general provisioning requirement ranged from 1.0 percent to 1.5 percent and specific provision requirement ranged between 20.0 percent to 100.0 percent.

Chart 6.5.2 Core indicators (Assets)



The financial institutions, particularly the banks, encountered a stressful situation given the augmentation of interest expense through rise in deposits during the pandemic. Additionally, the loan deferment facility would have severely impacted their cash inflows had there not been the IPS Kidu. Furthermore, cash inflows were supported through 1.0 percent interest rate reduction on regular loan repayments from the borrowers.

The earning indicators of non-banks marked a significant improvement in June 2021, largely driven by the earnings of NPPF. Besides the interest income on loans and advances, the NPPF's term deposits with commercial banks and investment in marketable securities amounted to 22,137.2 million as of June 2021. While, the profitability deteriorated, the negative profit after

[33] The difference between Core Capital Ratio, CAR, and Leverage Ratio is that Core and CAR are calculated based on the Risk Weighted Assets, while Leverage Ratio takes into account the "on- and off-balance sheet" exposures only. After relaxing the capital conservation buffer of 2.5% in 2020, the minimum requirement for Core Capital and CAR are 5.0% and 10.0%, respectively.

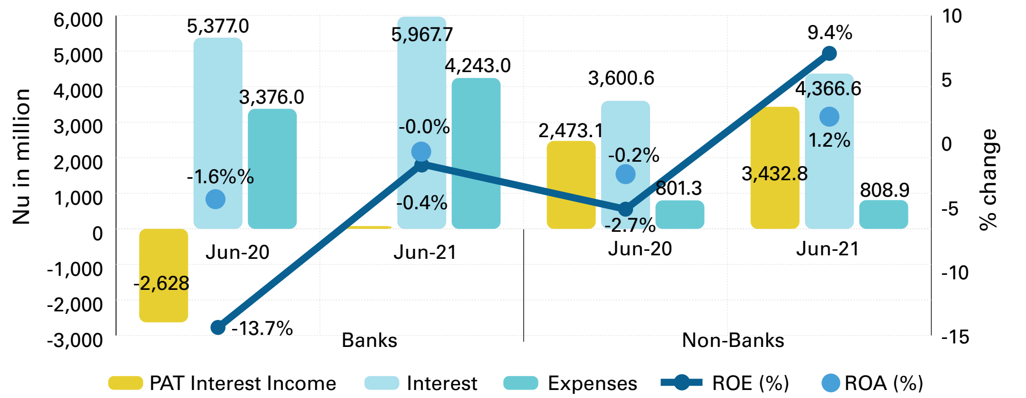
[34] The minimum leverage ratio requirement is 5.0% and it is targeted to avoid building-up of excessive on- and off-balance sheet leverage in the financial sector.

[35] Capital Conservation is aimed to ensure that financial institutions build up capital buffers during normal times which can be drawn down as losses are incurred during a stressed period.

tax (PAT) of the banks was mainly due to losses incurred by the BNBL and BDBL. As of December 2020, the financial sector generated a marginal profit of Nu 1,700.0 million, mainly supported by the IPS Kidu of Nu 9,300.0 million (April 2020 to December 2020)[36].

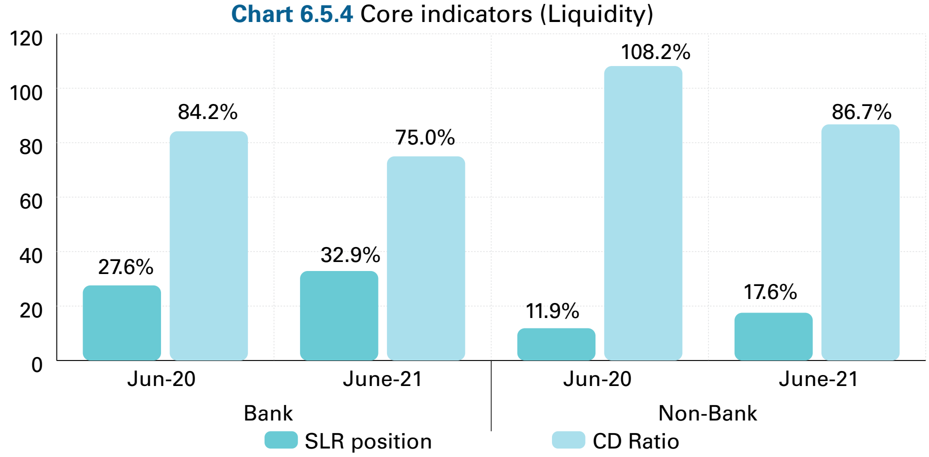
Since the outbreak of the pandemic, deposits increased and, to a great extent, remained stable during the period. The Statutory Liquidity Ratio (SLR) position of both banks and non-banks were well above the prudential requirements (20.0% for banks and 10.0% for non-banks). A substantial increase in quick assets such as the cash balances and marketable securities (Table 6.1.1) drove the SLR position to a much higher level. On the other hand, the Credit to Deposit (CD) ratio declined for both banks and non-banks. Banks experienced a rapid

Chart 6.5.3 Core indicators (Earnings)



mobilization of deposits and slow growth in credit growth. The increased funding source of NPPF brought down the CD ratio of non-banks. Excluding the NPPF, CD ratio of non-banks, however, remained higher at 87.0 percent as compared to less than 76.0 percent in the case of banks.

Chart 6.5.4 Core indicators (Liquidity)

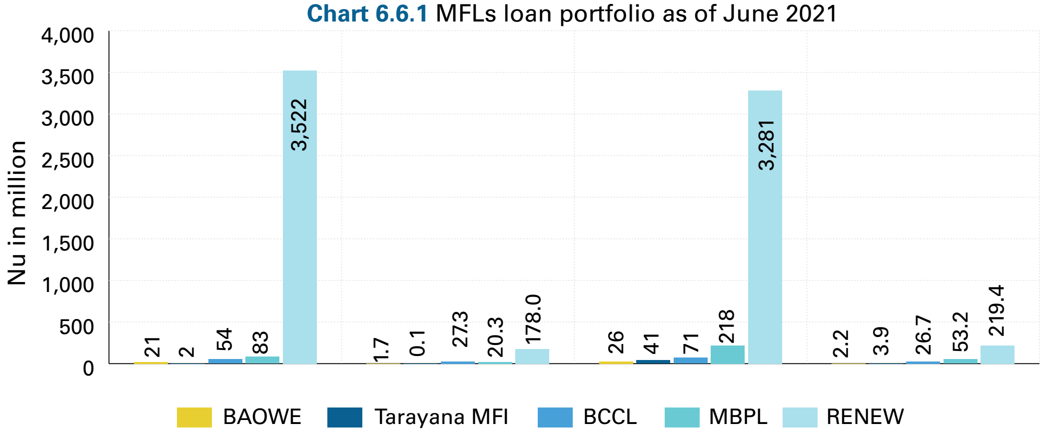


[36] Financial institutions follow accounting on a calendar year basis. Generally, the NPL decreases during the end of the year due to improvements in loan recovery and improvement in loan repayments.

6.6 The Microfinance Institutions (MFIs)

Guided by the vision of National Financial Inclusion Strategy (2018-2023), the RMA continued its efforts to further strengthen financial inclusion and access to finance. Keeping in mind the contributions of MFIs in promoting production and employment, the RMA remained focused to promote MFIs as part of the national strategy. Until today, the MFIs has been progressive in mobilising savings and credit delivery in the rural areas. Collective loan outstanding of five MFIs in June 2021 stood at Nu 305.4 million, compared to Nu 227.39 million in June 2020[37]. Covering 95 gewogs in 10 Dzongkhags, the RENEW Microfinance has expanded its credit delivery by 23.2 percent by June 2021. More than 71.0 percent of the total loan outstanding were at the disposal of the RENEW Microfinance. Despite the challenges posed by the pandemic, the Tarayana made an exemplary performance. From 2 loan accounts in June 2020, it has grown to 41 accounts in June 2021 with a loan outstanding of Nu 3.9 million.

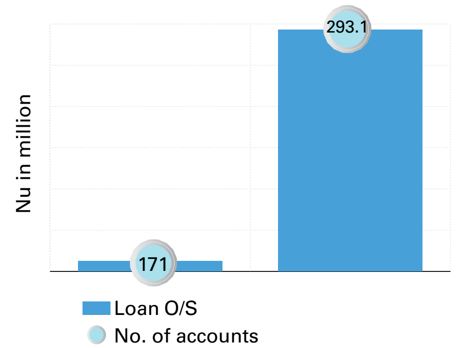
Chart 6.6.1 MFLs loan portfolio as of June 2021



In terms of loan quality, as of June 2021, the NPL of MFIs stood at Nu 12.3 million, recording a NPL ratio of 4.2 percent. Of the total NPL of Nu 12.3 million, the NPL of trade and commerce sector amounted to Nu 7.1 million followed by the agriculture sector with Nu 3.8 million. During the review period, no NPL was recorded against sectors such as Home Loan, Livestock, and Production and Manufacturing.

In an effort to promote MFI resources, the two MFIs (MBPL and RENEW) mobilized a total deposit of Nu 284.5 million with 48,892 deposit accounts during the review period.

Chart 6.6.2 MFIs asset quality as of June 2021



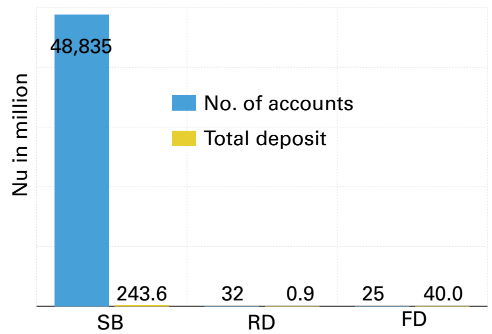
[37] The MFIs include Tarayana Microfinance, Bhutan Association of Women Entrepreneurs (BAOWE-Pelzing), Bhutan Care Credit Ltd. (BCCL), Microfinance Bhutan Pvt. Ltd. (MBPL), and RENEW Microfinance Pvt. Ltd. Within these MFIs, MBPL and RENEW are deposit-taking MFIs.

In terms of banking products, the MBPL offers Savings (SB), Recurring Deposit (RD), and Fixed Deposit (FD) facilities. The SD facility is the only deposit type offered so far by the RENEW Microfinance.

6.7 National CSI Development Bank (NCSIDB)

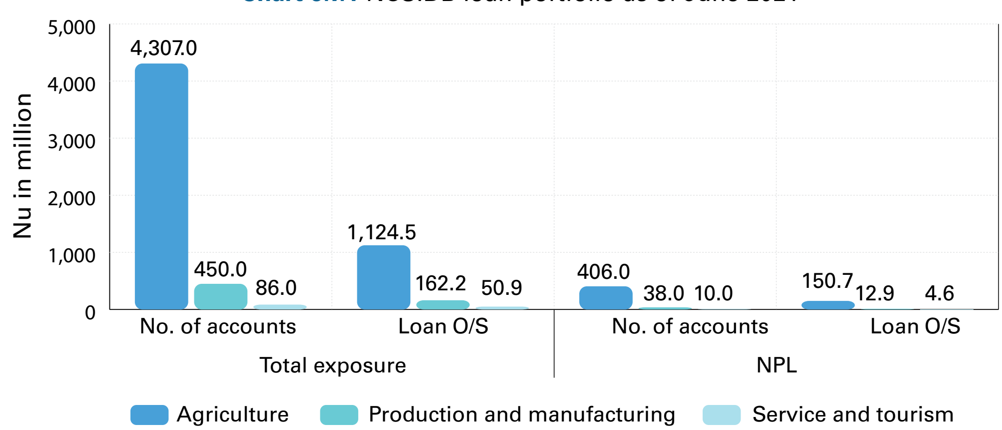
Expanding the credit flow to the Cottage and Small Industries (CSIs) has been a policy priority for the RMA and the Government[38]. Strengthening this sector is seen as a key to economic diversification efforts that has immense potential to promote economic productivity and address youth unemployment challenges.

Chart 6.6.3 MFI deposit portfolio as of June 2021



On 21 February 2020, the NCSIDB was inaugurated to operate as a non-deposit taking CSI bank. Since then, its effort in providing financial access to the unreached and under-served segment of the society has become a matter of great importance, particularly in the RNR and agriculture sector. As of June 2021, the NCSIDB provided a total loan amounting to Nu 1,337.6 million, of which, loans to agriculture sector accounted for 84.1 percent. In terms of loan quality, the NCSIDB's overall NPL ratio was accounted significantly lower at 12.6 percent as compared to 40.0 percent in June 2020. The highest NPL was also witnessed in the agriculture sector.

Chart 6.7.1 NCSIDB loan portfolio as of June 2021



[38] The CSI sector has been identified as one of the economic jewels of the nation under the Economic Development Policy 2016.

BOX 6.1

Altman Model and Financial Soundness of Commercial Banks

The banking sector is undoubtedly one of the closely supervised and monitored sector. This sector holds a prime importance as it relates to funding investment to support private demand in the economy. Since it has a large influence on the domestic economy, analyzing the financial soundness indicators has become very crucial. The distress in banking sector not only impact the domestic economy but also the international market with a varying degree of contagious effect. Under such episodes, modeling and predicting bankruptcy has become increasingly important and relevant to help obtain information on the degree of sustainability of the banks (Bolat, 2017).

There are different methods of measuring distress like capital adequacy ratio, profitability, liquidity or hybrid model like CAMEL rating (Sharma & Mayanka, 2013). Besides these methods, one of the important and commonly used models to analyze the financial soundness is Altman Z-score model, which was originally devised to identify the possibility of financial bankruptcy of manufacturing units. Over the years, the model has been modified to make it applicable to private companies, non-manufacturing secors, and developed as well as the emerging credit market.

Although Edward I. Altman developed the Altman Z-score Model in 1968 to predict market failures, it was only in 1995 that he developed a special version of the model particularly for the emerging credit markets (Bolat, 2017). The Altman's model for predicting the probability of bank's bankruptcy for emerging markets is as follows:

$$Z(A) = 3.25+6.56X_1+3.26X_2+6.72X_3+1.05X_4 \qquad (1)$$

Where, Z is the score and Xs are the independent variables. The elements of the model and cut off limits are:

Elements of the Model	Values or Cut off limits
$Z(A)$ = Integrated Indicator of bankruptcy threat	If; $Z(A) > 2.60$ = Safe Zone (Low probability of bankruptcy) $1.1 < Z(A) < 2.60$ = Grey Zone (Probability of bankruptcy is not high; however, it cannot be excluded) $Z(A) < 1.1$ = Distress Zone (There is a probability of bank's bankruptcy)
X_1 = Working Capital/ Total Assets	
X_2 = Retained Earning/ Total Assets	
X_3 = Earnings Before Interest & Taxes/ Total Assets	
X_4 = Book Value of Equity/ Total Liabilities	

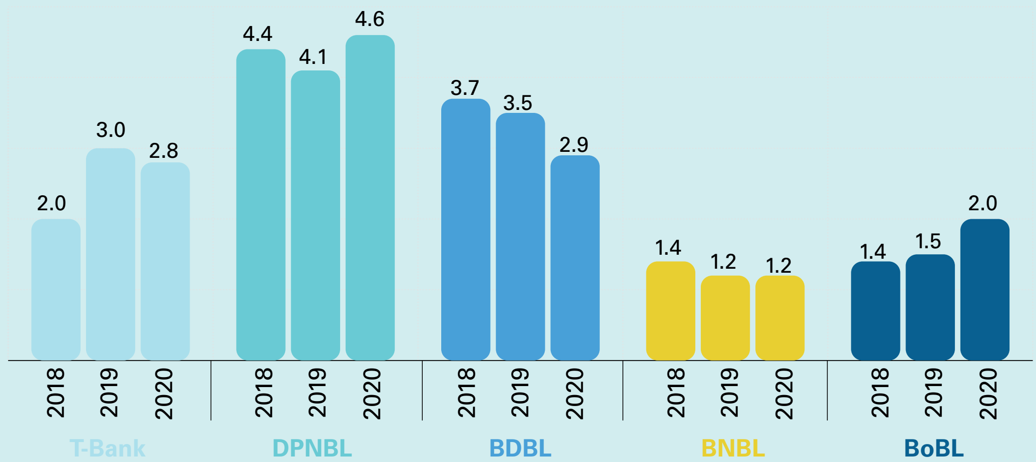
In the elements, X1represents the position of banks liquidity and ability to meet creditors' short-term obligations; X2 measures the accumulated profitability of the bank; X3 measures operating efficiency of the bank, and; X4 exhibits long-term financial soundness of banks.

Given this background, this section attempts to apply Altman's Z-score Model and evaluate whether the commercial banks in Bhutan manifest any signs of potential distress. In Bhutan, financial statements are normally used to assess the performance of the banks.

In addition, indicators such as Capital Adequacy Ratio, Profitability, Liquidity, and Asset Quality are periodically reviewed by the RMA. Further, the RMA will gradually be transiting to a Risk-Based Supervision. Recently, in the wake of the pandemic, Stress Testing models have also been developed by the RMA to gauge the health of the financial sector.

Based on the data collected from the banks and their published annual reports, the average Altman Z-score of commercial banks of Bhutan in 2020 was 3.2, which indicates that banks are in Safe Zone (with low probability of bankruptcy). Although the score reveals that none

Chart 1: Altman's Z-score of commercial banks



of the banks are in Distress Zone, there is a considerable variation in the score, depending on the business size and ownership structure. While small banks have a good Z-score, the Z-score is low with the two largest commercial banks. The low score comes from the build-up of current liabilities and sharp decline in the cash inflows owing to the pandemic. For example, the Z-score of BNBL in 2020 could have been better positioned, if there was no fall in income and retained earnings. The overall result indicates that none of the commercial banks in the country are in Distress Zone so far.

BOX 6.2

Policy Reforms related to Financial Intelligence Department

Financial Intelligence Department (FID) is responsible for detecting and preventing Money- Laundering and Financing of Terrorism as per AML/CFT Act 2018 and AML and CFT Rules and Regulations 2018. The following are the measures/reforms taken with the objective to strengthen the overall operations and functions of the Financial Intelligence Department:

1. Implementation of Bhutan Financial Intelligence Analysis System (BFIAS):

The BFIAS was developed to strengthen its tactical, operational, and strategic analytical capabilities driven by technological enablers.

The development of BFIAS was successfully completed and launched on 3 March 2021. With the BFIAS, the Reporting Entities (REs) are able to submit reports to the FID through BFIAS online portal and the FID would share intelligence reports to the law enforcement agencies through the same BIFIAS system which is more secured and reliable.

2. Awareness Workshop to Reporting Entities

Section 37 (6) and (11) of the AML/CFT Act 2018 requires the FID to provide training on money laundering and terrorist financing-related issues to its staff, the staff of law enforcement agencies or supervisors, and provide time-to-time guidance to assist the REs to fulfil their obligations. The FID conducted two awareness workshops to the representatives of the REs.

a. The awareness sessions to Lawyers and Real Estate Brokers (12 participants) were conducted on 19 April 2021.

b. The virtual awareness sessions to frontline staff (59 participants) of the banks in four Dzongkhags (Samtse, Chhukha, Sarpang, and Samdrup Jongkhar) were conducted on 11 June 2021.

3. Annual Financial Intelligence Network Forum

The first annual financial intelligence network forum was held on 28 May 2021 for the relevant stakeholders. The forum was attended by the representatives from the supervisors of the REs (MoEA, Jabmi Tshogdey) and law enforcement agencies. During the forum, key issues and challenges confronting the stakeholders in terms of preventing money laundering and countering of terrorism financing were discussed.

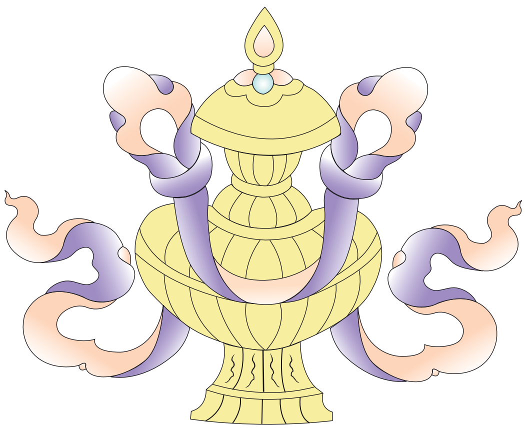
4. Strengthening International Cooperation and Coordination

In 2021, the FID virtually signed Memorandum of Understanding (MoU) with foreign Financial Intelligence Units (FIU) such as FIU Thailand, FIU Maldives, FIU Laos PDR. The objective of MoU is to improve cooperation in terms of exchange of financial intelligence to combat money laundering, associated predicate offences, and terrorist financing. As of date, FID Bhutan has signed MoUs with 12 foreign FIUs.

Bhutan also became a member of the Egmont Group in July 2020. The Egmont Group of FIUs were created to provide FIUs around the world a forum to exchange confidential information to combat money laundering.

5. Strengthening Domestic Cooperation and Coordination

FID also signed MoU with Department of Cottage and Small Industries (DCSI) to promote domestic cooperation in the exchange of financial intelligence relating to money laundering and associated predicate offences. Until now, the FID has signed MoUs with 10 domestic agencies.



7
Digitalization

Digitalization of Payment Systems

Necessitated by the pandemic, the financial sector in Bhutan experienced an evolving trend in digital payment system.

The financial landscape in the country has been evolving over time. With adoption of digital payment system, retail transactions has been gradually changing from paper-based to electronic modes. Necessitated by the pandemic, there has been a growing importance for both adoption as well as usage of emerging digital technologies to remain abreast of the latest global trends.

To accelerate Bhutan's digitalization efforts, the government has initiated the Digital Drukyul Flagship Project, which comprises eight different programs covering the citizen services, education, health, and economic sectors. Currently, the National Digital Identity project is being rolled out, signifying a historic milestone in Bhutan's journey to digital transformation.

Embarking on the national vision, the RMA is ready to realize optimum benefits of digital innovations into the financial sector, guided by the 'Druk Nguldrel-Lamtoen 2030' to support the 21st Century Economic Roadmap. Tapping on the rapid global technology and financial innovations, the RMA has initiated a pilot project on Central Bank Digital Currency (CBDC). The CBDC aims to enhance financial inclusion and provide alternative digital payment instruments including cross-border transactions.

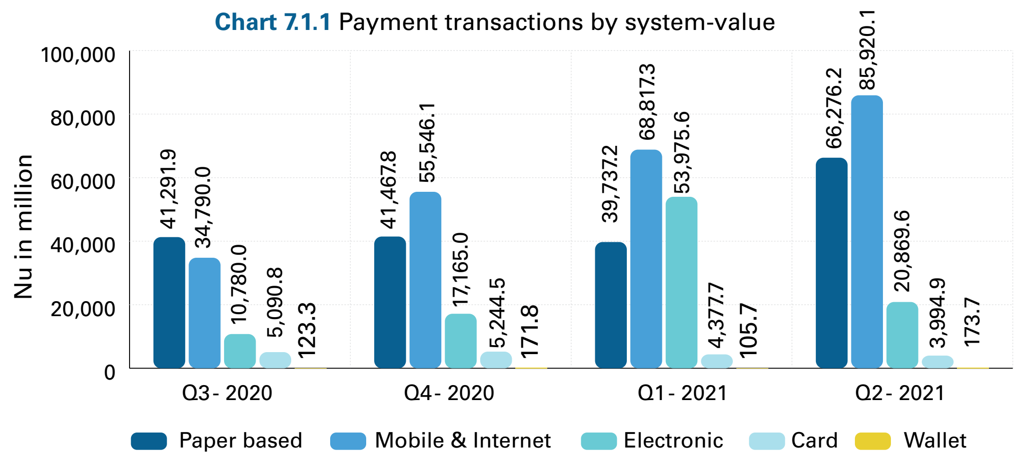
At the merchant-level, the RMA has stepped into another milestone in the digital payment ecosystem both in terms of issuance and acceptance. On the supply side, QR payment acceptance points have been expanded nationwide to different businesses. To boost the acceptance side, cost structure including pricing, interchange fees, interbank fund transfer limit, and Know Your Customer (KYC) processes were revised and simplified.

Furthermore, the RMA and the banks have been seamlessly providing customer support and assistance, and monitoring payments services. Customer education on combating cyber fraud and facilities like instant transactions SMS confirmation and increasing usage of smartphones have also contributed to the growth in digital banking and payment system.

Over the years, the payment transactions have been progressively routed through digital platforms. For instance, in June 2021, a total of 35.8 million transactions amounting to Nu 177,234.8 million were recorded, accounting a growth of 123.0 percent and 46.0 percent, respectively, since June 2020. Amongst the payment instruments, mobile and internet banking dominate the existing payment ecosystem. The QR code and payment gateway transactions also remarkably contributed to growth in mobile and internet banking transactions. A newly-launched electronic transfer system, GIFT, and e-PEMS is widely used by the government agencies and other institutional entities for bulk payment of salaries, pension, and other expenses. Furthermore, telecommunications payment channels (mobile finance) are also picking up progressively. Both the telecommunication companies have their own mobile e-money app, the B-Ngul and e-Teeru.

The RuPay scheme provided cross-border interoperability of cards using ATM and PoS terminals in Bhutan and India and this was further strengthened through the phase II Scheme. However, due to the pandemic, there was a drop in transactions owing to the closure of international travel. At the global level, Society for Worldwide Interbank Financial Telecommunication (SWIFT) has been consistently used for currency trading and international payment settlement's purpose. Detailed analysis of the performance on the digital transaction is presented in the following section.

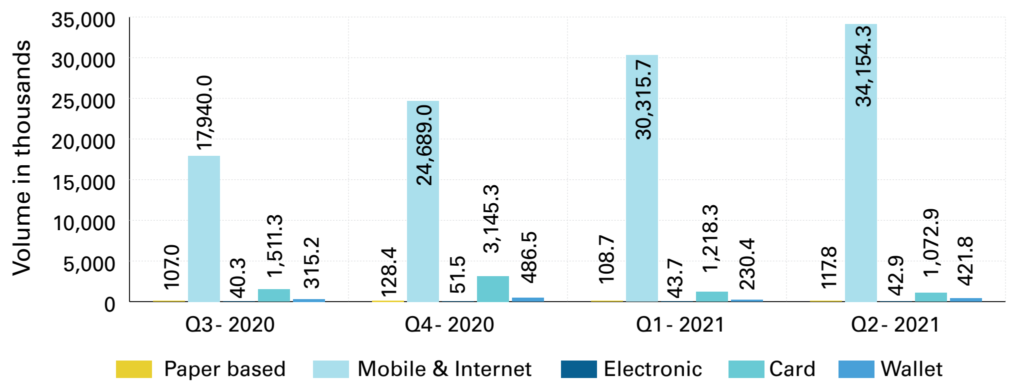
Chart 7.1.1 Payment transactions by system-value



7.1 Payment System Performance

Unlike the previous years, the payment ecosystem for the FY 2020-21 saw a significant increase in terms of the mode of payment transaction preferences. Among the five payment instruments, mobile and internet banking recorded the highest transaction value at Nu 85,920.1 million, surpassing the previous year's highly preferred paper-based payment mode (Nu 66,276.2 million). Similarly, in terms of transactions by volume, mobile and internet banking led at 34.2 million transactions. During the period, the usage of cards saw a gradual drop with the fall in ATM hits and POS transactions.

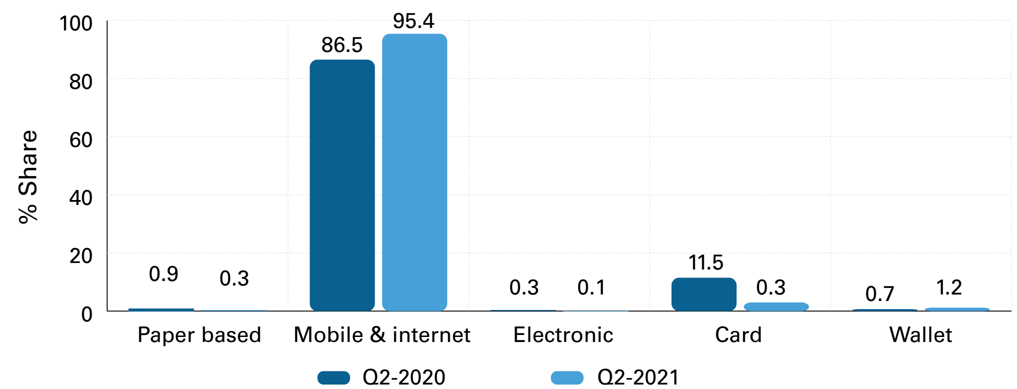
Chart 7.1.2 Payment transaction by system volume



To further support digital transactions during the pandemic, the RMA enhanced the fund transactions limit to Nu 1,000,000 in February 2021 from the initial limit of Nu 200,000 per day. As of June 2021, there were a total of 423,262 registered mobile banking users, an increase by 58.6 percent from June 2020. Dispute handling processes such as forced credit application was also introduced for failed transactions[39].

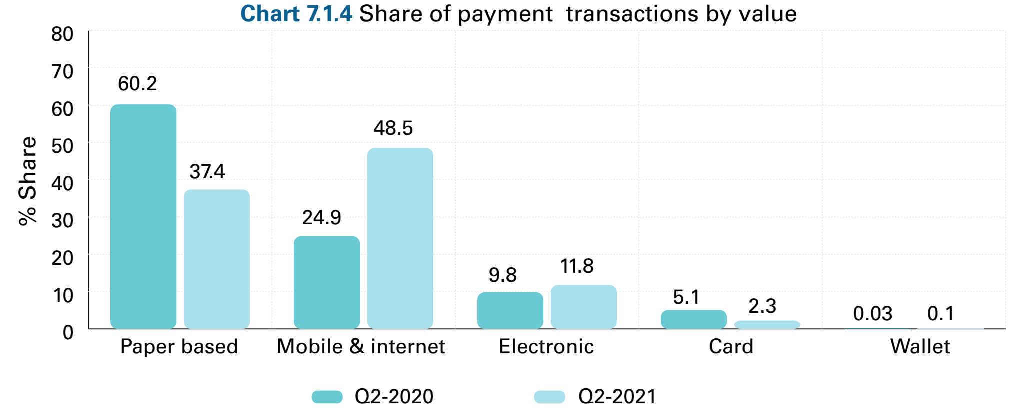
The market share of the payment in June 2021 has been largely dominated by mobile and internet banking, constituting 95.4 percent in volume. This is driven by increased mobile banking apps, Bhutan QR payment, and payment gateway. As users prefer contactless, safer, and faster platform than cash transaction, there has been a drop in card usage. Except for a slight rise in wallet transactions, other modes of payment transactions decreased as compared to Q2 2020.

Chart 7.1.3 Share of payment transactions by volume



In terms of market share of transactions by value, mobile and internet banking recorded a 95.0 percent increase from June 2020, followed by electronic transfer by 20.0 percent in June 2021. Electronic transfer, through GIFT, is also gaining popularity since 2019.

Chart 7.1.4 Share of payment transactions by value



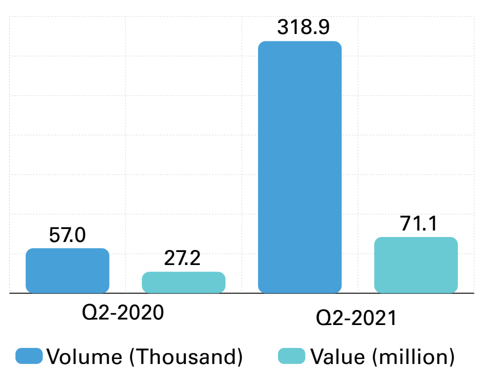
[39] Interbank fund transfer through mobile and internet banking resulted in failed transaction due to internet connectivity and payment system issues. In such cases, sender's account is debited while the amount is not counter credited into beneficiary's account. To resolve this issue, RMA and banks have implemented Forced Credit to beneficiary account both for mobile and internet banking.

Since the government accounts are maintained at the BoBL, all government transactions are routed through e-PEMS. The GIFT facilitates transaction from the BoBL to other banks on a real-time and on a gross settlement basis. At the same time, the GIFT also facilitates easy payments within the banking sector. For instance, in second quarter 2021, electronic transfer alone stood at Nu 20,869.9 million by value, witnessing a growth of 75.2 percent from Q2 2020. The e-PEMS has assisted in minimizing administrative burden and improved the public service delivery. For the FY 2020/21, about Nu 70,302.4 million government expenditure has routed through the e-PEMS platform facilitated by the GIFT.

7.2 Domestic Payment Gateway

Launched in 2016, the Domestic Payment Gateway (DPG) facilitates payment transactions on the merchant's payment portal through the exchange of payment instructions between the merchant and acquiring banks. In June 2021, the DPG transactions by volume was 319 thousand, compared to the 57 thousand in June 2020. In terms of transactions by value, the DPG transactions increased to Nu 71.1 million from Nu 27.2 million transactions.

Chart 7.2.1 Domestic payment gateway



Over the years, government, corporations, and business entities preferred digital payment services using the payment gateway. Among the three, the corporations availed the highest payment gateway services amounting to Nu 38.2 million in value. The increase in the value of transactions was mainly contributed by the sale of shares traded through the Royal Securities Exchange of Bhutan, followed by payments of utility bills transactions relating to Bhutan Power Corporation and Natural Resources Development Corporation Limited.

Chart 7.2.2 Domestic payment gateway by value

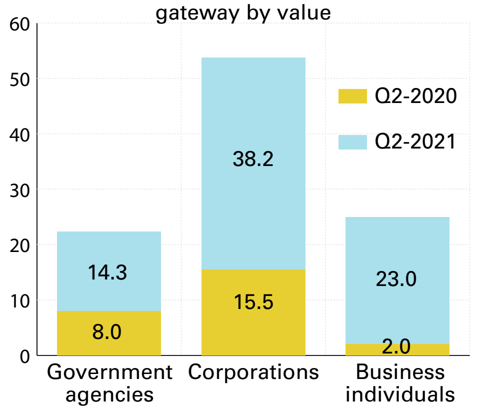
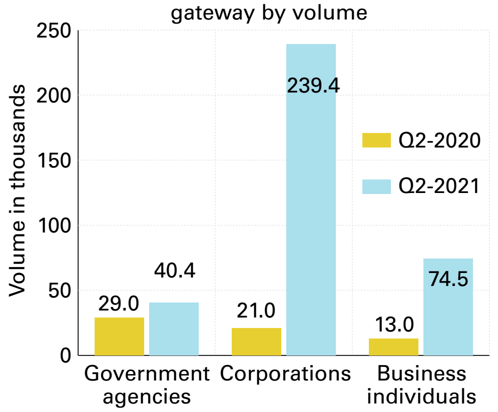


Chart 7.2.3 Domestic payment gateway by volume



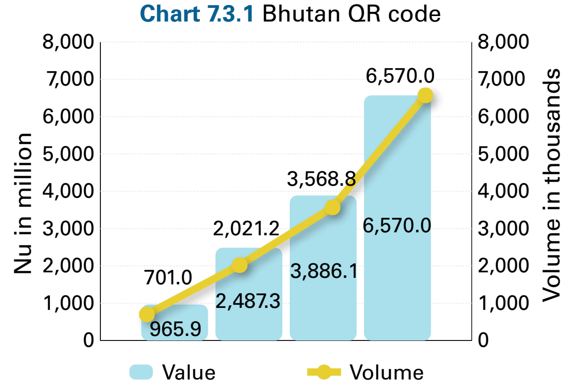
In terms of volume, corporations constitute a major share of the total transactions. The Bhutan Lottery Limited accounts for 87.4 percent of the total volume of transactions recorded amongst the institutional category[40]. Payments related to government agencies made through G2C payment aggregator, Thromdes, and National Land Commission also contributed to the increase in transactions in terms of volume. On the other hand, the growing trend in domestic e-commerce business has also contributed to the DPG transactions.

7.3 International Payment Gateway

Along with the Domestic Payment Gateway, the International Payment Gateway (IPG) transactions have also been rising. Rise in transaction of IPG by volume was recorded at 38.4 percent in Q2 2021 up from Q1 2021. The IPG has facilitated the payment for goods and services such as computer programming, designing services, postal services, and e-commerce, among others[41].

7.4 Bhutan Quick Response

Chart 7.3.1 Bhutan QR code



Launched in July 2020, the Bhutan QR code has created a QR-based solution that enabled interoperability of digital payment among member banks. The QR code payments have increased during the pandemic that provided ease of payment through instant scan.

Supported by the mobile banking app, the QR code payment has been widely used for payment at shops, fuel stations, taxis, and informal transfers among users[42]. The banks have boarded 6,849 new QR merchants so far. As of June 2021, a total of 12.9 million QR payments have been made, amounting to Nu 13,909.3 million. As of June 2021, the QR payment constituted 19.2 percent of the total mobile and internet banking transactions by volume.

Currently, all commercial banks have their own mobile banking apps. Prior to the launch of Bhutan QR, more than 99.0 percent of the mobile and internet banking was done using mobile banking[43]. Having the advantage of interoperable digital payment among the banks, the Bhutan QR transaction is expected to rise along with the mobile banking apps in the future. Keeping pace with the current digital drive and adoption of convenient payment modalities is expected to further enhance the usage of mobile banking in the country.

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[40] The percentage share by value of Bhutan Lottery is not as much as the volume since the game can also be played with minimal amount of Nu 30. The volume is counted regardless of the value.

[41] The data segregation and categorization are based on the Department of Payment Settlement and System, backed by data reported by Banks.

[42] In-built scan and pay facility in mobile banking app that are used for other purposes aside merchant payments such as making donations and fund transfer among family and friends.

[43] All the banks routed their payment through mobile banking app fund transfer except the BoBL which initiated the first QR code payment in 2019 prior to the interoperable Bhutan QR code.

BOX 7.1

Mobile Wallets

Mobile wallet has made a remarkable transition from merely being a mobile talk time or data top up service provider to mobile banking like applications of banks, helping the RMA and banks to promote wider outreach of financial services across the country. The mobile wallets enabled individuals to make bill payment, fund transfer, cash in-cash out and merchant payment services through mobile phone without a need of a bank account.

Bhutan has two authorized e-money issuer, B-Ngul (Bhutan Telecom) and e-Teeru (Tashicell) as of June 2021. The main objective of introducing mobile wallet by the RMA is aimed at expanding basic financial services network to the unbanked segment of the population in the country to support financial inclusion efforts. Individuals residing in farflung areas of the country benefited from the mobile wallets. Adding on the coverage, mobile wallets has also provided urban dwellers with more choices of payment mode.

As of June 2021, B-Ngul and e-Teeru have on-boarded 59 thousand and 70 thousand users, respectively. Within a year, e-Teeru observed an upsurge (102.6 percent) in number of subscribers while, the B-Ngul maintained a steady rise at 13.6 percent. The rising number of subscribers is almost equal to the average registered mobile banking application of the banks. As of June 2021, there were a total of 423,262 mobile banking subscribers in the country. With a parallel growth between the two channels (mobile banking and mobile wallets), it is expected to boost the country's financial services with improved coverage, efficiency, and outreach.

As of June 2021, the mobile wallet transactions stood at 422 thousand, amounting to Nu 173.7 million, against 113 thousand transactions totaling to Nu 42.3 million in June 2020.

Of the total mobile wallet transactions by value, 66.8 percent are related to fund transfers, followed by telecommunication service payment. The share by volume, on the other hand, is dominated by telecommunication services, averaging 73.2 percent. With the launch of e-Teeru in July 2020, merchant payment through mobile wallet is gaining momentum. As of June 2021, merchant payment transactions increased by 3 folds from June 2020, amounting to Nu 12.9 million. The e-Teeru's scan and pay facilities, similar to banking apps, and periodic promotional offers have gained customer's attraction to mobile and internet banking using the mobile wallets.

BOX 7.2

FinTech Regulatory Sandbox Framework

Keeping pace with global trends, Bhutan also embarked upon harnessing new opportunities ushered in by modern Financial Technology in terms of innovative Application Programming Interfaces, Artificial Intelligence, Big Data, and Distributed Ledger.

Such FinTech innovations will help bring about transformation and efficiency in the domestic FinTech ecosystem, which will ultimately change the entire dynamics of the economy. Thus, financial regulators are challenged to bring new reforms in the financial sector. For this reason, financial regulators are evaluating the existing rules and regulations and are considering adopting new regulations to better address both the opportunities and challenges presented by new technological innovations. To address these dynamics of rapidly emerging technologies and to provide regulatory guidance to consumers, the RMA introduced FinTech Regulatory Sandbox Framework in June 2020. The Framework was drawn mainly to provide requisite regulatory guidance, increase efficiency, manage risks, and create new opportunities for consumers. Going by the Framework, any FinTech proposals must align within 16 thematic areas and 5 innovative technologies to pass through evaluation and sandboxing phase[44]. Learning from the recent pandemic adversities, one of the thematic areas identified in the framework is on the FinTech. The proposed digital solution is assessed on the five principles: (i) Novelty (ii) Complementarity (iii) Viability (iv) Compatibility (v) Capability and Credibility.

Through a structured avenue, the Regulatory Sandbox will assess FinTech innovations and technologies for innovation, features, functionalities, and risks before they are released for widespread market adoption through a practical learning-by-doing approach. With Regulatory Sandbox in place, FinTech Innovations and Technology are expected not only to provide the RMA the firsthand empirical evidence but also help to implement FinTech regulations to support new innovations, at the same time also engage with innovators, IT firms, and financial service providers to experiment with innovative technologies. The Regulatory Sandbox is also expected to help the RMA in facilitating financial inclusion and improving financial outreach, especially in areas such as remittances, digital platform, digital lending, and digital payment system.

Subsequent to the introduction of the FinTech Regulatory Sandbox, FinTech Bhutan was launched in October 2020 with the first application window for e-registration of FinTech proposals. Guided by the FinTech Regulatory Sandbox Framework, FinTech Bhutan is responsible for formulating and enhancing regulatory policies to facilitate the adoption of technological innovations in the financial sector. Since the launch of FinTech Bhutan, the RMA received 16 proposals from 11 different individuals. Of the total proposals, the following are the three FinTech ideas being tested in the RMA regulatory sandbox for a duration of six

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[44] Detailed framework also covers the scope, criteria, life cycle of the sandboxing, and administrative and legal matters (https://www.rma.org.bt/assets/fintech/FinTech%20Regulatory%20Sandbox%201.17.pdf).

months. These three digital solutions are expected to be launched in the market next year after successfully completing the sandbox testing.

Digital Know Your Customer (D-KYC)

The D-KYC will solve the problem of onboarding the customer seamlessly with a lessened process for those who intend to maintain or open bank accounts with financial service providers with the digital verification of customer information with the relevant agencies via. API from the RMA's centralized KYC repository. All the financial service providers will be able to identify their customers using the unique KYC token number instantly. The customers will not have to submit KYC documents each time while establishing a financial relationship with a new financial service provider.

Mobile App for Visually Impaired

The mobile app for the visually impaired will have accessibility features integrated such as voice-based currency read out of the Bhutanese Currency, "Ngultrum", denominations upon scanning. The app will also read new and old, soiled, damaged, and counterfeit notes with the machine learning and artificial intelligence technology. This is first of its kind digital solution designed to facilitate the uncovered segments of the population. Once the application meets its current expected functionality, it is expected to include other foreign currencies and introduce optical character reading technology that can read objects, letters, and numbers.

Digital Credit Platform

Currently, there is no centralized platform where borrowers can access information, and compare and apply for loans offered by the various financial services providers. Customers have to visit banks physically to check loan eligibility and submit loan application. The proposed platform would allow borrowers to access organized loan information, compare loan offers, check loan eligibility, and apply loans instantly anytime, anywhere. The solution aims to improve efficiency, encourage credibility, induce responsible borrowing culture, minimize cost and encourage saving, complete automation of processes, ensure high quality and data-based analytics appraisal system expected to achieve lower default rates, and promote high-quality loan assets.

BOX 7.3

Central Bank Digital Currency

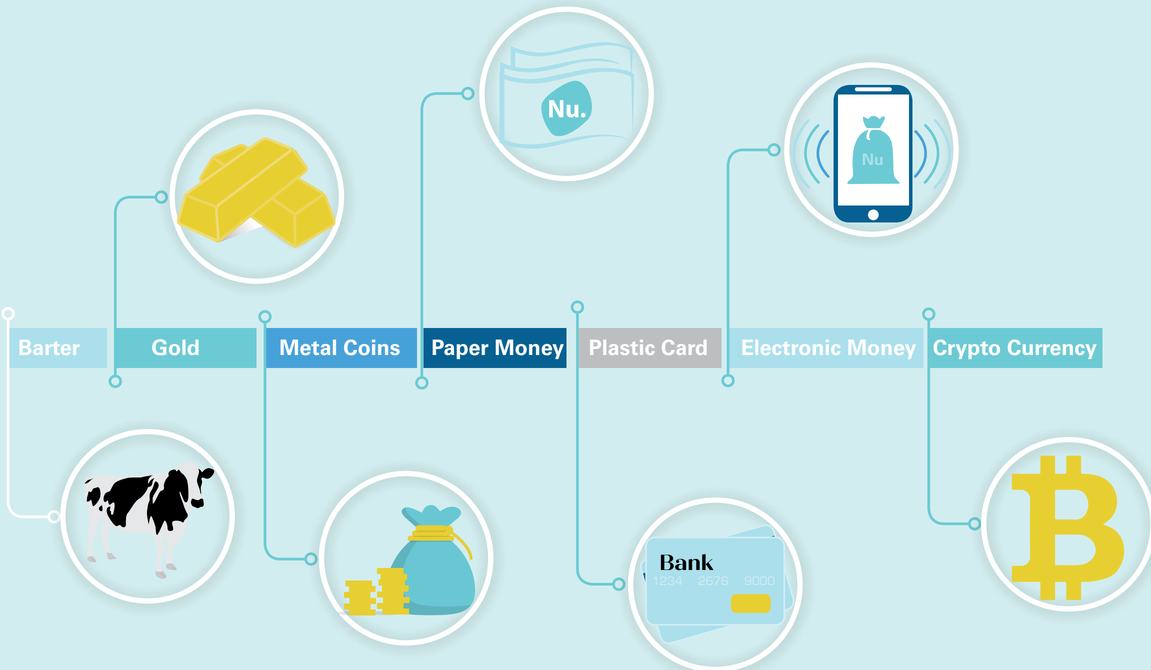
The global financial landscape is changing rapidly as a result of technological innovations. Technology is changing the way financial products and services are delivered to customers. To remain abreast of the new technologies, the RMA is committed to play an active role in supporting the development of financial technologies by promoting in-house capabilities as well as through collaboration with external partners. The RMA is piloting a project on CBDC to explore a digital alternative to money, a Digital Ngultrum, that promotes efficiency and innovation within the overall context of the country's drive to harness technology for 21st century Bhutan.

What is CBDC?

The CBDC is a form of central bank money denominated in sovereign unit of account which basically carries the functions of fiat currency. The CBDC is fixed in nominal terms, universally accessible, and valid as legal tender which has a defining feature that helps in differentiating the CBDC from other crypto currencies. Ideally, the digital currency issued by a central bank is a digital fiat that exists alongside and complements the fiat currency which are in circulation in the economy. A common ground that many central banks around the world are exploring the CBDCs are guided by three main principles of (i) further strengthening the existing policy objectives of achieving monetary and financial stability; (ii) using CBDC as an alternative money coexisting along with fiat currency with mutual complementarity, and iii) promoting innovation and efficiency to ensure continued innovation and competition in the payment landscape.

Based on these principles, many central banks are now attempting to redevise their approach to execute central banking functions based on digital money. According to Bank for International Settlements (BIS, 2021), the share of central banks currently in the process of exploring the possibility of the CBDC stands at 86 percent, of which around 5 percent of the central banks have fully operationalized the CBDC. The Central Bank of the Bahamas is the first central bank to have launched the CBDC in 2019 called "Bahamian Sand dollar". Motivated by international experience, the RMA is also learning and exploring the possibility of piloting "Digital Ngultrum" as a medium of payment. As categorized, there are two types of CBDC—the wholesale and retail CBDCs. In the wholesale CBDC, the central bank provides the CBDC to counterparties mainly for large-value payments. Specifically, the wholesale CBDC partner with financial institutions to avail banking services without a direct engagement of central bank. The retail CBDC, on the other hand, engages directly with the general public and allows the public to have accounts of the digitized fiat currency with the central banks or commercial banks or hold the CBDC on their digital wallets. As such, the retail CBDC can have an added advantage of promoting a cashless economy.

Evolution of Money



Why do we need CBDC?

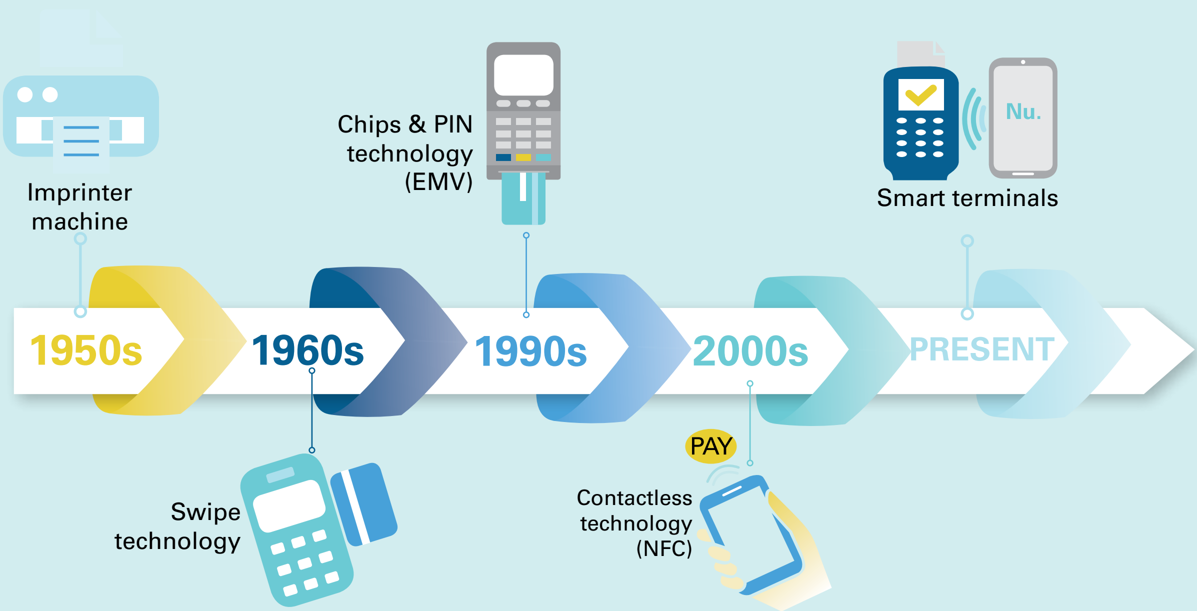
The motivation to issue digital currency by the central bank has several reasons[45]. However, the most common motivation for exploring and issuing the CBDC is driven by greater goals of attaining financial inclusiveness and promoting efficient and accessible payment systems. The core instrument by which central banks carry out these functions is through the issuance of central bank money. However, rapid digitalization transformed the payment habits of the individuals from cash[46] to contactless payments system. It is evident that the use of cash for payment transactions will continue to decline as technology advances. Thus, while physical money still exists, most transactions today are done on digital platforms. The Covid-19 pandemic has accelerated this transition to the digital mode. Thus, the central banks are inclined towards issuing their own digital currency. Some potential benefits that can likely be harnessed with the issuance of the CBDC are:

i) Efficiency as a means of payment: The common motive for central bank to issue their own digital currency is to promote efficiency as a means of payment. The core mandate of the central banks is to make available a trusted public money. Therefore, central banks issuing digital currency could serve as an alternative to cash as a means of payment and ensure greater efficiency and safety.

[45] Central banks embracing digital fiat currency is also seen as a reaction against crypto currencies like the bitcoin and stable coins which largely exist in unregulated space and are not controlled by monetary authorities, thereby posing a challenge to financial and monetary authorities.

[46] The cash could be prohibited altogether and be equally costly to hold. See the Curse of Cash. Princeton, NJ: Princeton University Press.

Evolution of Technology



ii) Enhance payment efficiency and offer financial stability: One of the bigger interest for central bank exploring the CBDC is to improve payment efficiency and provide financial stability[47]. Crypto currency and stable coins are highly volatile and pose challenges in providing public confidence of maintaining price and financial stability. With the declining usage of cash, the CBDC could be an important instrument to meet the public need for greater efficiency, stability, and confidence.

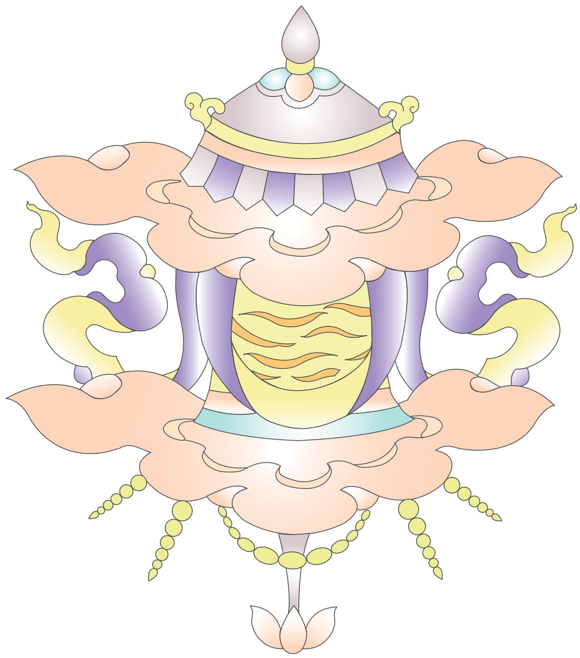
iii) Encourage Financial Inclusions: Financial inclusion is considered as a key enabler to economic growth, yet barriers such as geographical distance and less conducive business environments have hindered the efforts to achieve the objective of wider financial inclusion. With the wide adoption of technology and accelerated digitalization, the CBDC could ensure and enable access to formal banking services and products to the previously unbanked section of the community thereby supporting financial inclusion mandate of the central bank.

iv) Improve Cross Border Payment: The increasing globalization necessitates efficient cross-border online services[48]. The conventional system of cross-border payments with cash and online transactions have their limitations due to cumbersome operational requirements and heavy engagement of intermediaries. The CBDC allows direct settlements, thereby eliminating intermediaries and hence simplifying the requirements to make cross-border payments faster, cheaper, and more transparent. The CBDC also provides the opportunity to operate around-the-clock payments services from anywhere. Further, the CBDC will help improve supervisory and oversights on AML/CFT since it is transparent and free from manipulations.

[47] The crypto ecosystem lacks strong operational, governance, and risk practices, and as crypto assets aspire to come to the domain of mainstream finance, risk and challenges posed in terms of potential implications for the wider economy is set to increase. See https://blogs.imf.org :crypto boom poses new challenges to financial stability.

Central bank stands at the center of innovation of financial services and products to meet the public policy objectives of ensuring inclusive financial services and maintaining public confidence in the financial system. The CBDC provides a unique opportunity to design a technologically progressive representation of central bank money that meets the demand and need of the digital era. While cross-border CBDC can facilitate and enhance payment efficiency, ensuring multilateral collaboration (including design choices), interoperability, regulatory and supervisors' cooperation are of paramount importance to mitigate adverse macro-financial implications.

[48] The growth of international travel, shipments and remittances has led to rising demand for impeccable cross-border payment services; international tourism expenditures have doubled over the past 15 years; equally, the global remittances rose by two thirds ($720 billions) and parcel shipments across borders have more than tripled. See BIS Annual Economic Report 2021.



8

Annual Financial Statement

8.1 RMA Annual Audited Accounts: FY 2020/21

In accordance with the Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the statutory audit of the Authority's accounts for financial year 2020-2021 was carried out by Rinzing Financial Group based in Thimphu. The RMA has prepared its accounts in compliance to Bhutan Accounting Standards (IFRS 2014 version).

In this overview of the RMA's Annual Audited Accounts, FY 2019/20 is referred to as 2020 and FY 2020/21 as 2021. Factors that influenced the RMA's annual accounts for the year 2021 are summarized below.

Balance Sheet

The overall Financial Position for 2020 grew by 14.1 percent from Nu 103,138.1 million in 2020 to Nu 117,642.5 million in 2021. The growth in Financial Position is mainly due to increase in the exchange rates for revaluation of foreign assets and liabilities.

Assets

Total foreign currency financial assets have grown by 6.8 percent from Nu 102,030.5 million in 2020 to Nu 109,015.4 million in 2021 mainly due to the increase in exchange rate (spot rate) for conversion of foreign currencies against the Ngultrum. Further, the increase in the foreign currency financial assets was also contributed by an increase in the deposits with foreign banks by 46.2. On the other hand, the assets classified under securities have increased by Nu 22,417.9 million after the discontinuation of investment under the RAMP program.

Local currency financial assets

Total local currency financial assets have decreased by Nu 0.7 million for the current year after the repayment of Ways and Means to Advance to the Royal Government on 2nd July 2019 amounting to Nu 2,500 million which was availed in June 2019.

Non-financial assets

Non-financial assets grew by Nu 4,090.3 million due to increase in other assets. The Property and Equipment has increased after capitalizing GIFT software which was classified under work-in-progress and after charging depreciation on property and equipment.

Liabilities

Total Liabilities of the RMA are made up of three major components, namely the Foreign currency financial liabilities, Local currency financial liabilities, and Equity.
Foreign currency financial liabilities have increased by Nu 204.7 million from Nu 28,419.1 million to Nu 28,623.7 million during the period after availing USD 200 million worth of SAARC Finance Swap facility on 14th February 2020 from the RBI. The IMF-related liabilities have also increased by Nu 65.0 million due to depreciation of Ngultrum against SDR on the account of promissory note issued for the IMF membership.

Local currency financial liabilities have increased by Nu 19,539.6 million, contributed mainly by the increase in the balances of commercial banks brought about by increase of Nu 14,056.4 million in the current account balances. The Cash Reserve Requirement (CRR) balance has increased by Nu 2,484.0 million after the reduction of CRR rate from 10.0 percent to 7.0 percent as a monetary relief measure to the financial sector. Currency in circulation and balances of the Royal Government have increased by Nu 687.6 and Nu 829.5 million, respectively.

Total liabilities have increased by 52.4 percent with Nu 126.6 million. The Equity has decreased by Nu 5,366.4 million, mainly on account of the decrease in the foreign exchange revaluation reserve by Nu 1,724.2 million due the depreciation of Ngultrum against foreign currency.

8.2 Statement of Comprehensive Income

The total operating income of the RMA in 2021 was Nu -826.8 million (Nu 6,819.9 million 2020), which includes foreign currency revaluation gains and market gains on the securities amounting to Nu-1,282.8 million (Nu 366.6 million in 2019).

Net interest income has decreased by Nu 460.9 million, mainly on account of decrease in interest income from foreign currency with fall in the interest rates on deposits. The liquidation of staff loans in the review period decelerated the local currency interest income by Nu 0.5 million.

Other income which includes loss on foreign currency revaluation amounting to Nu 6,637.8 million which was reported under operating income as per BAS 21 has brought about the significant decrease in the other income by Nu 7,185.7 million during the period.

The overall operating expenses increased by Nu 8.7 million, mainly due to an increase in the cost of banknote printing by Nu 31.0 million followed by personal expenses of Nu 8.4 million.

Distributable profit works out to Nu 439.8 million after adjusting revaluation gain of Nu 1,719.7 million to Revaluation Reserve as per Section 23-24 of the RMA Act 2010 and distribution of realized loss of Nu 0.7 million (which was previously unrealized and is now being realized as per Section 26 of the RMA Act 2010).

Royal Monetary Authority of Bhutan
Statement of Financial Position

Assets	Note	June 30, 2021	(Amount in Nu. '000) June 30, 2020
Foreign currency financial assets			
Cash and cash equivalents	9	38,292,422	68,190,895
Deposits with banks	10	42,343,613	28,965,978
Trading assets	11	1,085,207	-
Securities	12	24,324,635	1,906,785
IMF related assets	13	2,820,725	2,739,680
Interest and other receivables		148,818	227,193
Total foreign currency financial assets		109,015,421	102,030,530
Local currency financial assets			
Cash and cash equivalents	9	34,111	41,186
Gratuity fund	10	62,872	52,635
Loans to staff	14	17,285	21,114
Total local currency financial assets		114,267	114,935
Foreign currency non- financial assets			
Monetary gold	15	2,823,406	-
Other foreign currency non-financial asset	16	606,479	-
Total foreign currency non-financial assets		3,429,885	-
Local currency non-financial assets			
Non-monetary gold	17	20,046	54,350
Inventory for banknotes	18	237,857	223,104
Property, Plant and Equipment	19	127,327	115,681
Intangible assets	19	29,431	56,352
Other assets	20	4,668,236	543,164
Total non-financial assets		5,082,898	992,652
Total assets		**117,642,470**	**103,138,117**

For Dechok & Associates Pvt. Ltd.
Firm License No. 4008504

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 2641177

Date: 30/09/2021
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

Royal Monetary Authority of Bhutan
Statement of Financial Position

Liabilities and Equity

(Amount in Nu. '000)

	Note	June 30, 2021	June 30, 2020
Foreign currency financial liabilities			
Balances of Royal Government	21	7,267,110	7,257,101
IMF related liabilities	13	2,322,396	2,257,371
Due to IFIs	22	2,849	10,823
Due to foreign central banks	22	18,995,140	18,812,100
Accrued interest payables		36,182	81,718
Total foreign currency financial liabilities		28,623,677	28,419,114
Local currency financial liabilities			
Currency in circulation	23	15,321,544	14,633,910
Balances of commercial banks	24	51,852,994	33,830,569
Balances of Royal Government	21	2,195,145	1,365,610
Due to other financial institutions	22	542	542
Total local currency financial liabilities		69,370,225	49,830,631
Other liabilities			
Deferred grants	25	120,185	43,474
Gratuity and other employee benefits	33	124,537	93,637
Others	26	123,297	104,318
Total Liabilities		98,361,922	78,491,172
Equity			
Capital		800,000	800,000
General reserve	27	-	2,000,000
BAS transition reserve	27	138,814	138,814
Revaluation reserve	27	17,809,783	19,533,991
Retained earnings	27	544,529	2,179,392
Other reserves	27	(12,578)	(5,252)
Total Equity		19,280,548	24,646,945
Total Equity and Liabilities		117,642,470	103,138,117

For Dechok & Associates Pvt. Ltd.
Firm License No. 4008504

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 2641177

Date: 30/09/2021
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutar

Dasho Penjore
Chairman

Royal Monetary Authority of Bhutan
Statement of Comprehensive Income

(Amount in Nu. '000)

	Notes	June 30, 2021	June 30, 2020
Foreign currency income and expenses			
Interest income on foreign currency financial ass	28	1,395,400	1,955,433
Interest expense on foreign currency financial liabilities		(590,682)	(660,697)
Gain/(loss) on trading of assets		33,721	-
Net foreign currency income		838,438	1,294,735
Local currency income			
Interest income on local currency financial assets	28	3,415	8,039
Net local currency income		3,415	8,039
Net foreign currency income		841,853	1,302,775
Other income			
Realised gain/(loss) on sale of assets	29	46,918	135,975
Unrealised gain/(loss) of fair value of assets	30	(436,841)	-
Foreign exchange revaluation	31	(1,282,833)	5,354,931
Others	32	4,146	26,170
Net other income		(1,668,610)	5,517,077
Total net operating income		(826,757)	6,819,851
Expenses			
Cost of banknote printing		(83,038)	(52,060)
Employee benefits	33	(220,627)	(212,185)
Administrative expenses	34	(148,749)	(179,487)
Total operating expenses		(452,415)	(443,732)
Net profit for year		**(1,279,171)**	**6,376,119**
Other Comprehensive Income not to be reclasified to profit or loss in subsequent periods			
Actuarial gain on Staff gratuity Fund		(12,578)	(5,252)
Total Comprehensive Income		**(1,291,749)**	**6,370,867**

Please refer to 35 on profit for distribution

For Dechok & Associates Pvt. Ltd.
Firm License No. 4008504

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 2641177

Date: 30/09/2021
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

9

Statistical Table

Table 1: Gross Domestic Product at Current Prices

Nu in million

Sector	2016	2017	2018	2019	2020	Share of GDP in 2020 (%)
1. Agriculture, livestock, and forestry	20,882.7	23,989.4	26,759.7	28,184.5	32,997.5	19.2
1.1 Crops	11,101.6	12,922.6	14,427.9	15,918.4	18,661.3	10.9
1.2 Livestock	5,789.2	7,050.3	7,463.7	8,113.6	9,881.3	5.8
1.3 Forestry and logging	3,991.9	4,016.5	4,868.2	4,152.4	4,454.9	2.6
2. Mining and quarrying	6,455.1	6,954.6	8,137.8	8,576.8	2,053.7	1.2
3. Manufacturing	11,085.1	11,979.6	12,435.9	12,687.9	10,202.0	5.9
4. Electricity and water	19,909.4	21,766.9	19,602.8	22,657.3	30,485.2	17.8
4.1 Electricity	19,874.3	21,728.2	19,560.2	22,611.2	30,436.0	17.7
4.2 Water supply	35.2	38.7	42.6	46.1	49.2	0.0
5. Construction	24,280.5	26,068.5	23,753.1	20,465.4	16,301.9	9.5
6. Wholesale and retail trade	11,798.3	13,460.0	15,042.1	17,378.5	17,955.0	10.5
7. Hotels and restaurants	2,863.6	3,476.8	4,039.8	4,658.2	1,429.1	0.8
8. Transport, storage, and communication	13,157.7	15,119.5	16,720.1	19,070.7	14,991.4	8.7
9. Financing, insurance, and real estate	10,892.4	11,667.3	12,988.1	13,848.4	13,273.3	7.7
9.1 Finance	7,574.0	7,945.7	9,018.5	9,563.6	8,707.8	5.1
9.2 Real estate	3,176.9	3,408.3	3,593.1	3,833.0	4,115.0	2.4
9.3 Business services	141.4	313.4	376.5	451.9	450.5	0.3
10. Community, social, and personal services	16,352.6	16,347.8	17,341.6	21,959.3	26,841.5	15.6
10.1 Public Administration	11,209.7	11,630.6	11,761.3	13,114.9	16,564.9	9.7
10.2 Education and health	5,142.9	4,717.2	5,580.3	8,844.3	10,276.6	6.0
11. Private social, personal, and recreational services	532.5	654.7	679.2	704.6	445.4	0.3
12. Plus indirect taxes less subsidies	6,863.0	8,086.7	9,839.7	8,370.1	4,597.0	2.7
Gross Domestic Product	145,072.9	159,571.7	167,340.0	178,561.7	171,572.9	100.0
Nominal GDP Growth Rate (%)	**12.9**	**10.0**	**4.9**	**6.7**	**-3.9**	

Source: National Accounts Statistics, 2020, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 2: Gross Domestic Product at Constant Prices

Nu in million

Sector	2016	2017	2018	2019	2020	Growth: 2019 to 2020 (%)
1. Agriculture, livestock, and forestry	6,793.4	6,993.7	7,290.8	7,385.6	7,723.1	4.6
1.1 Crops	2,994.3	3,182.9	3,340.3	3,411.0	3,584.1	5.1
1.2 Livestock	2,246.3	2,345.5	2,507.9	2,576.3	2,694.7	4.6
1.3 Forestry and logging	1,552.7	1,465.3	1,442.6	1,398.3	1,444.3	3.3
2. Mining and quarrying	1,927.3	2,062.3	2,836.9	3,776.0	685.6	-81.8
3. Manufacturing	5,452.9	5,805.0	5,956.4	5,956.1	4,719.6	-20.8
4. Electricity and water	10,478.9	10,079.8	8,578.9	9,618.5	12,040.3	25.2
4.1 Electricity	10,460.6	10,059.7	8,556.7	9,594.5	12,014.7	25.2
4.2 Water supply	18.3	20.2	22.2	24.0	25.6	6.6
5. Construction	10,009.2	10,630.9	9,781.7	8,348.2	6,625.0	-20.6
6. Wholesale and retail trade	5,463.6	6,032.5	6,646.9	7,522.5	6,999.0	-7.0
7. Hotels and restaurants	1,011.1	1,164.8	1,287.2	1,437.2	381.5	-73.5
8. Transport, storage and communication	6,409.8	7,265.1	8,057.2	9,120.5	7,784.1	-14.7
9. Financing, insurance, and real estate	5,553.2	5,755.5	6,399.0	6,618.8	6,032.5	-8.9
9.1 Finance	4,400.5	4,525.8	5,106.0	5,255.4	4,620.5	-12.1
9.2 Real estate	1,094.4	1,106.6	1,149.1	1,195.2	1,253.4	4.9
9.3 Business services	58.3	123.1	143.9	168.2	158.6	-5.7
10. Community, social, and personal services	6,797.8	6,680.8	6,924.6	8,519.5	9,838.1	15.5
10.1 Public administration	4,621.4	4,635.3	4,564.2	4,953.2	5,918.2	19.5
10.2 Education and health	2,176.4	2,045.5	2,360.4	3,566.3	3,919.9	9.9
11. Private social, personal, and recreational services	229.5	277.1	281.4	285.7	172.9	-39.5
12. Plus indirect taxes less subsidies	2,956.0	3,269.6	3,992.8	3,360.9	1,697.8	-49.5
Gross Domestic Product	63,082.6	66,017.0	68,033.9	71,949.4	64,699.5	-10.1
Real GDP Growth Rate (%)	**8.1**	**4.7**	**3.1**	**5.8**	**-10.1**	

Source: National Accounts Statistics, 2020, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 3: Gross Domestic Product by Expenditure at Current Prices

Nu in million

Sectors	2016	2017	2018	2019	2020	Share of GDP in 2020 (%)
Investment	**82,700.5**	**82,896.6**	**79,634.1**	**67,636.4**	**57,903.9**	**33.7**
Private	63,295.6	61,821.3	59,660.4	53,377.4	38,884.9	22.7
Public	18,847.1	21,303.9	19,305.7	13,685.2	19,022.4	11.1
Change in stocks	557.7	-228.7	667.9	573.8	-3.5	0.0
Consumption	**97,443.6**	**110,249.5**	**125,443.7**	**136,371.2**	**142,258.2**	**82.9**
Private	72,382.2	83,434.7	96,800.3	103,768.6	106,379.5	62.0
Public	25,061.4	26,814.8	28,643.4	32,602.6	35,878.7	20.9
Net exports	**-35,071.2**	**-33,574.5**	**-37,737.8**	**-25,445.9**	**-28,589.2**	**-16.7**
Exports	42,966.2	48,004.3	51,570.3	60,602.2	51,109.6	29.8
Imports	78,037.4	81,578.7	89,308.2	86,048.1	79,698.8	46.5
Gross Domestic Product	**145,072.9**	**159,571.7**	**167,340.0**	**178,561.7**	**171,572.9**	**100.0**
GDP Growth rate	**12.9**	**10.0**	**4.9**	**6.7**	**-3.9**	

Table 4: Gross Domestic Product by Economic Activity at Constant Prices

Nu in million

Sectors	Year					Share of GDP in 2020 (%)
	2016	2017	2018	2019	2020	
Investment	**34,115.2**	**33,375.5**	**31,609.7**	**26,391.3**	**22,626.2**	**35.0**
Private	26,344.0	25,085.4	23,934.8	20,966.6	15,339.7	23.7
Public	7,536.2	8,380.6	7,417.9	5,216.3	7,287.7	11.3
Change in stocks	235.0	-90.5	257.0	208.4	-1.2	-0.0
Consumption	**43,426.1**	**45,829.7**	**50,854.7**	**55,030.0**	**52,140.4**	**80.6**
Private	33,094.1	35,045.3	39,741.8	42,716.8	39,322.0	60.8
Public	10,332.0	10,784.5	11,112.9	12,313.2	12,818.5	19.8
Net exports	**-14,458.7**	**-13,188.2**	**-14,430.5**	**-9,471.9**	**-10,067.1**	**-15.6**
Exports	17,713.5	18,856.2	19,719.8	22,558.5	17,997.2	27.8
Imports	32,172.3	32,044.4	34,150.3	32,030.4	28,064.3	43.4
Gross Domestic Product	**63,082.6**	**66,017.0**	**68,033.9**	**71,949.4**	**64,699.5**	**100.0**
GDP Growth rate	**8.13**	**4.65**	**3.06**	**5.76**	**-10.1**	

Table 5: Consumer Price Index: Period Average

Items	Weight (%)	2018				2019				2020				2021	
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Food	45.9	96.5	96.5	96.3	98.4	99.6	99.5	99.8	102.2	104.4	108.5	115.1	117.5	121.5	121.5
Non-food	54.1	96.8	97.4	98.3	99.3	99.7	100.1	100.4	100.4	100.5	100.8	102.0	102.2	104.0	106.1
Total	**100.0**	**96.7**	**97.0**	**97.5**	**99.0**	**99.6**	**99.8**	**100.2**	**101.2**	**102.3**	**104.2**	**107.9**	**109.0**	**111.7**	**112.9**
Food	45.9	6.8	5.4	3.8	3.8	3.2	3.1	3.7	3.8	4.9	9.0	15.3	15.0	16.4	12.0
Non-food	54.1	0.4	0.8	1.3	2.6	2.9	2.7	2.2	1.1	0.9	0.7	1.6	1.8	3.5	5.2
Total	**100.0**	**2.9**	**2.6**	**2.3**	**3.1**	**3.0**	**2.9**	**2.7**	**2.3**	**2.7**	**4.4**	**7.7**	**7.7**	**9.2**	**8.3**

Table 6: Summary of Budgetary Operations

Nu in million

Items	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 Provisional
Revenue & Grants	**42,039.3**	**42,673.1**	**52,113.2**	**42,033.3**	**54,603.9**	**59,696.1**
Domestic Revenue	**28,033.8**	**29,713.6**	**36,871.4**	**34,707.7**	**36,218.9**	**35,855.4**
Tax	19,884.6	21,707.0	27,107.9	27,171.1	22,793.0	20,661.8
Non-tax	8,149.2	8,006.6	9,763.5	7,536.5	13,425.9	15,193.7
Other Receipts (Net)	**-884.1**	**-27.2**	**394.7**	**-3,190.9**	**1,959.2**	**8,958.4**
External Grants	**14,889.6**	**12,986.8**	**14,847.1**	**10,516.5**	**15,958.4**	**14,418.0**
GOI	10,721.7	9,882.6	11,200.8	6,484.8	11,444.0	10,282.0
Others	4,167.9	3,104.2	3,646.2	4,031.7	4,981.8	4,479.6
Program	2,340.0	2,125.0	1,700.0	989.5	2,550.0	1,700.0
GOI	1,275.0	2,125.0	1,700.0	850.0	2,550.0	1,700.0
Others	1,065.0	0.0	0.0	139.5	0.0	0.0
Project tied	**12,549.6**	**10,861.8**	**13,147.1**	**9,527.0**	**13,875.8**	**12,597.2**
GOI	9,446.7	7,757.6	9,500.8	5,634.8	8,894.0	8,582.0
Others	3,102.9	3,104.2	3,646.2	3,892.2	4,981.8	4,015.3
Outlay	**43,603.0**	**48,018.0**	**52,658.7**	**44,776.7**	**57,989.2**	**70,835.9**
Total expenditure	**44,688.4**	**49,966.6**	**56,331.4**	**44,054.1**	**57,572.3**	**59,465.9**
Current	22,880.6	24,129.6	27,494.7	27,768.7	33,023.3	31,889.9
Capital	21,807.9	25,837.0	28,836.6	16,285.5	22,046.9	27,576.0
Net Lending	**-1,885.3**	**-2,003.1**	**-2,077.9**	**1,319.2**	**729.2**	**745.6**
Advances/Suspense (Net)	**799.9**	**54.5**	**-1,594.8**	**722.6**	**417.0**	**255.9**
Overall Balance	**-1,563.7**	**-5,344.9**	**-545.5**	**-2,743.4**	**-3,385.4**	**-11,139.8**
Financing	**1,563.7**	**5,344.9**	**545.5**	**2,743.4**	**3,385.4**	**11,139.8**
Net Lending				**1,318.5**	**729.3**	**-745.6**
Recovery				**1,516.1**	**875.8**	**2,404.8**
Lending				**197.6**	**146.5**	**1,659.2**
Net Borrowing	**-1,215.5**	**524.3**	**-102.0**	**1,425.0**	**2,656.1**	**10,394.2**
Borrowing	**1,818.7**	**3,227.7**	**2,718.3**	**3,767.0**	**4,443.7**	**14,131.6**
External	1,818.7	3,227.7	2,718.3	3,432.6	5,303.3	5,212.0
Internal	0.0	0.0	0.0	334.5	737.2	8,919.6
Repayment	**3,034.2**	**2,703.3**	**2,820.4**	**2,342.1**	**1,787.6**	**3,737.3**
External	2,850.3	2,694.1	2,810.5	2,331.5	1,776.2	3,725.1
Internal	183.8	9.2	9.9	10.6	133.8	12.3
Resource Gap	**-2,779.2**	**-4,820.5**	**-647.5**	**-1,318.5**	**-729.2**	**-745.6**

Source: National Budget Report (2021/22) and MFCTC File October Updates, Ministry of Finance. Figures may not add due to rounding. (1) Includes: Net Lending and Advance/Suspense (Net) (2) Financing transactions by definition must equal the budget deficit or surplus on revenue/grant/expenditure which they finance. Negative financing transactions depicts net repayment of b2orrowings or increase in cash or bank balances. (3) Resource Gap.

Table 7: Monetary Survey

Items	2016/17	2017/18	2018/19	2019/20	2020/21
					Nu in million
Broad Money (M2)[1]	**104,113.6**	**114,973.7**	**121,416.7**	**144,890.5**	**180,314.2**
Narrow Money (M1)	60,723.3	66,295.0	69,203.4	85,575.6	101,825.9
Currency Outside Banks	8,787.7	9,234.0	9,744.1	11,782.9	11,874.7
Transferable Deposits	51,935.6	57,061.0	59,459.3	73,792.8	89,951.2
Current Deposits	24,952.2	25,465.2	22,530.4	27,326.5	28,756.1
Saving Deposits	26,983.4	31,595.8	36,928.9	46,466.3	61,195.2
Other Deposits	43,390.3	48,678.6	52,213.4	59,314.8	78,488.3
Time Deposits	41,285.5	46,163.9	51,011.3	58,653.1	77,953.3
Foreign Currency Deposits	2,104.8	2,514.8	1,202.0	661.7	535.0
Factors Affecting M2					
Foreign Assets (Net)	68,186.7	66,006.3	63,920.6	84,090.6	98,552.0
Indian Rupee	18,236.6	6,423.3	5,592.1	6,583.2	-245.1
Convertible Foreign Currency	49,950.1	59,583.0	58,328.5	77,507.4	98,797.2
Net Domestic Assets	35,673.6	48,967.4	57,496.1	60,799.9	81,762.2
Domestic Credit	85,084.8	100,320.5	113,488.2	122,112.9	142,821.3
Claims on Government	2,852.9	5,029.4	2,406.9	-3,840.4	6,403.7
Claims on Other Public Sector[2]	7,046.8	8,306.0	6,230.8	7,140.8	9,856.2
Claims on Private Sector[3]	75,185.1	86,985.1	104,850.5	118,812.5	126,561.4
Other Items Net [4]	49,447.3	51,353.1	55,992.1	61,313.0	61,059.1
Percent Change (y-o-y)					
Broad Money (M2)	**31.5**	**10.4**	**5.6**	**19.3**	**24.4**
Narrow Money (M1)	35.1	9.2	4.4	23.7	19.0
Currency Outside Banks	44.0	5.1	5.5	20.9	0.8
Transferable Deposits	33.7	9.9	4.2	24.1	21.9
Current Deposits	42.0	2.1	-11.5	21.3	5.2
Saving Deposits	26.9	17.1	16.9	25.8	31.7
Other Deposits	26.8	12.2	7.3	13.6	32.3
Time deposits	26.5	11.8	10.5	15.0	32.9
Foreign Currency Deposits	32.5	19.5	-52.2	-44.9	-19.1
Foreign Assets (Net)	0.6	-3.2	-3.2	31.6	17.2
Indian Rupee	149.2	-64.8	-12.9	17.7	-103.7
Convertible Foreign Currency	-17.4	19.3	-2.1	32.9	27.5
Net Domestic Assets	214.1	37.4	17.4	5.7	34.5
Domestic Credit	29.5	17.9	13.1	7.6	17.0
Claims on Government	-151.2	76.3	-52.1	-259.6	266.8
Claims on Other Public Sector [1]	15.4	17.9	-25.0	14.6	38.0
Claims on Private Sector [2]	15.4	15.7	20.5	13.3	6.5
Other Items Net [3]	-9.0	3.9	9.0	9.5	-0.4

1. Excludes figures from non-banks.
2. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations.
3. Claims on Private Sectors includes Claims on NBFIs.
4. Other Items Net Includes money market instruments.

Table 8: Royal Monetary Authority Survey

Nu in million

Items	2016/17	2017/18	2018/19	2019/20	2020/21
Assets					
Foreign Assets	71,820.7	75,194.0	73,116.5	100,449.4	115,271.8
Indian Rupee	23,496.1	18,614.4	17,266.4	26,183.9	19,540.0
Convertible Foreign Currency	48,324.6	56,579.5	55,850.0	74,265.5	95,731.8
Claims on DMBs	578.4	709.3	724.8	759.7	883.9
Claims on Government	-	-	2,500.0	-	-
Claims on Private Sector	36.3	32.0	26.1	21.1	17.3
Claims on NBFIs	-	-	-	-	-
Govt. securities	-	-	-	-	-
Liabilities					
Reserve Money	34,327.9	33,469.8	31,973.9	45,049.7	62,278.0
o/w Currency Outside Banks	8,787.7	9,234.0	9,744.1	11,782.9	11,874.7
Foreign liabilities	7,000.0	13,776.3	14,007.1	21,322.4	21,541.9
Indian Rupee	7,000.0	13,776.3	14,007.1	21,322.4	21,541.9
Covertable foreign currency	-	-	-	-	-
Government Deposits	7,152.2	3,020.4	4,310.1	5,705.2	8,147.4
RMA Bills outstanding	0.0	0.0	0.0	0.0	0.0
Capital Accounts	3,951.5	4,357.7	6,354.7	5,113.0	-248.9
Other Items (Net) [1]	20,003.8	21,311.1	19,721.4	24,039.9	24,454.5
Percent Change (y-o-y)					
Foreign Assets	-7.9	4.7	-2.8	37.4	14.8
Indian Rupee	23.5	-20.8	-7.2	51.6	-25.4
Convertible Foreign Currency	-18.0	17.1	-1.3	33.0	28.9
Reserve Money	23.5	-2.5	-4.5	40.9	38.2
Foreign liabilities	-49.3	96.8	1.7	52.2	1.0
Other Items Net	-12.2	6.5	-7.5	21.9	1.7

1. Other Items (Net) includes money market instruments.

Table 9: Deposit Money Banks Survey

Nu in million

Items	2016/17	2017/18	2018/19	2019/20	2020/21
Assets					
Reserves	25,197.8	23,752.5	21,724.9	30,833.1	49,552.9
Foreign Assets	3,655.4	5,356.8	4,811.2	4,963.6	4,822.2
Indian Rupee	1,740.5	1,585.1	2,332.8	1,721.6	1,756.8
Convertible Foreign Currency	1,914.9	3,771.7	2,478.5	3,242.0	3,065.4
Claims on Government	10,005.2	8,049.8	4,217.0	1,864.8	14,551.1
Claims on Other Public Sector [1]	7,046.8	8,306.0	6,230.8	7,140.8	9,856.2
Claims on Private Sector [2]	75,148.8	86,953.1	104,824.4	118,791.4	126,544.1
Capital Accounts	16,915.4	18,019.3	19,542.3	17,584.0	20,974.0
Other Items Net [3]	8,253.5	7,727.3	9,762.4	12,198.5	15,342.1
Liabilities					
Demand Deposits	51,935.6	57,061.0	59,459.3	73,792.8	89,951.2
Current Deposits	24,952.2	25,465.2	22,530.4	27,326.5	28,756.1
Saving Deposits	26,983.4	31,595.8	36,928.9	46,466.3	61,195.2
Time Deposits	41,285.5	46,163.9	51,011.3	58,653.1	77,953.3
Foreign Currency Deposits	2,104.8	2,514.8	1,202.0	661.7	535.0
Percent Change (y-o-y)					
Reserves	41.1	-5.7	-8.5	41.9	60.7
Foreign Assets	0.3	46.5	-10.2	3.2	-2.8
Claims on Other Public Sector	15.4	17.9	-25.0	14.6	38.0
Claims on Private Sector	15.4	15.7	20.6	13.3	6.5
Capital Accounts	-6.2	6.5	8.5	-10.0	19.3
Other Items Net	48.4	-6.4	26.3	25.0	25.8
Demand Depsoits	33.7	9.9	4.2	24.1	21.9
Current Deposits	42.0	2.1	-11.5	21.3	5.2
Saving Deposits	26.9	17.1	16.9	25.8	31.7
Time Deposits	26.5	11.8	10.5	15.0	32.9
Foreign Currency Deposits	32.5	19.5	-52.2	-44.9	-19.1

1. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations
2. Claims on Private Sectors includes Claims on NBFIs.
3. Other Items (Net) includes money market instruments.

Table 10: Financial Sector Investment by Economic Activity

Nu in million

Economic Sector/Source	2016/17	2017/18	2018/19	2019/20	2020/21
Agriculture	**5,069.5**	**5,632.9**	**6,247.3**	**6,629.6**	**6,603.1**
Bank of Bhutan	41.5	100.7	197.2	212.8	222.5
Bhutan National Bank	0.7	13.0	65.3	83.7	80.7
Bhutan Development Bank Limited	5,003.6	5,508.0	5,969.6	6,251.5	6,219.6
TBank Limited	0.4	0.0	2.4	2.0	1.8
Druk PNB Bank Limited	15.7	2.5	7.7	24.3	21.3
Royal Insurance Corporation of Bhutan	3.4	4.1	1.9	53.3	55.5
Bhutan Insurance Limited	4.1	4.6	3.2	2.0	1.8
Service and Tourism	**20,017.9**	**24,844.2**	**31,523.7**	**39,619.9**	**41,481.6**
Bank of Bhutan	5,648.7	8,463.9	11,784.8	13,872.1	16,266.2
Bhutan National Bank	4,476.8	4,706.5	5,833.9	10,064.8	8,160.5
Bhutan Development Bank Limited	2,948.6	2,886.8	3,055.8	3,387.1	3,706.6
TBank Limited	440.5	559.8	1,084.4	1,447.0	1,756.9
Druk PNB Bank Limited	1,505.0	2,139.9	2,463.5	3,215.2	3,660.1
Royal Insurance Corporation of Bhutan	4,924.6	5,980.0	7,243.0	7,565.7	7,858.2
Bhutan Insurance Limited	73.7	107.3	58.3	67.9	73.2
Manufacturing	**12,767.1**	**13,416.7**	**15,231.8**	**16,957.0**	**19,288.4**
Bank of Bhutan	3,724.2	3,944.3	4,596.3	5,951.4	6,530.5
Bhutan National Bank	4,480.9	4,438.7	4,579.5	3,409.3	4,747.3
Bhutan Development Bank Limited	830.7	1,038.2	972.7	988.5	1,103.2
TBank Limited	197.7	257.9	300.1	317.2	287.3
Druk PNB Bank Limited	1,454.0	1,525.7	2,192.4	2,915.6	3,047.7
Royal Insurance Corporation of Bhutan	1,939.6	2,046.2	2,401.8	3,220.0	3,380.8
Bhutan Insurance Limited	140.1	165.9	189.0	155.1	191.6
Building & Construction	**21,704.9**	**25,405.8**	**32,581.8**	**39,728.3**	**42,330.6**
Bank of Bhutan	6,032.5	7,873.2	12,407.6	15,210.3	15,988.6
Bhutan National Bank	6,962.9	7,727.0	8,811.8	10,632.1	11,481.8
Bhutan Development Bank Limited	2,776.3	3,230.4	3,693.9	4,416.2	4,888.1
TBank Limited	1,329.4	1,909.9	2,625.9	2,966.2	3,079.0
Druk PNB Bank Limited	1,532.3	1,703.8	1,933.9	3,018.3	3,257.3
Royal Insurance Corporation of Bhutan	2,811.9	2,638.8	2,701.5	2,797.5	2,884.1
Bhutan Insurance Limited	259.5	322.6	407.3	687.6	751.7
Trade & Commerce	**13,285.1**	**15,044.1**	**17,719.0**	**17,913.6**	**19,681.6**
Bank of Bhutan	1,320.8	1,985.1	2,425.7	2,911.8	2,785.9
Bhutan National Bank	5,123.4	5,934.1	6,964.7	6,149.3	7,816.0
Bhutan Development Bank Limited	1,637.1	1,587.7	1,515.4	2,046.4	2,119.4
TBank Limited	785.1	761.4	942.6	879.8	864.9
Druk PNB Bank Limited	433.1	839.9	1,411.8	1,569.0	1,765.5
Royal Insurance Corporation of Bhutan	3,801.2	3,695.6	4,159.4	4,074.2	4,061.1
Bhutan Insurance Limited	184.4	240.2	299.3	283.0	268.8

Transport (Heavy + Light)	**5,003.5**	**6,297.5**	**6,747.6**	**6,279.7**	**6,716.5**
Bank of Bhutan	1,008.9	1,841.8	2,076.9	1,817.9	1,802.0
Bhutan National Bank	1,334.4	1,753.4	1,884.2	1,881.2	1,934.9
Bhutan Development Bank Limited	1,193.5	1,144.9	1,036.9	1,010.8	1,378.3
TBank Limited	251.2	222.3	206.1	209.1	230.4
Druk PNB Bank Limited	134.4	160.9	157.9	142.1	134.0
Royal Insurance Corporation of Bhutan	644.0	587.2	696.3	623.9	641.1
Bhutan Insurance Limited	437.1	586.9	689.3	594.8	595.8
Personal Loans	**13,636.6**	**12,811.0**	**13,816.9**	**14,279.6**	**14,770.8**
Bank of Bhutan	5,463.3	5,480.1	5,597.0	6,306.6	6,255.8
Bhutan National Bank	1,295.0	1,207.3	1,270.8	1,175.7	1,395.1
Bhutan Development Bank Limited	2,972.3	2,407.4	2,458.2	2,349.7	2,451.8
TBank Limited	914.7	1,057.6	1,508.2	1,698.6	1,766.3
Druk PNB Bank Limited	532.0	324.3	725.4	687.4	909.2
Royal Insurance Corporation of Bhutan	2,399.6	2,250.6	2,176.1	1,925.3	1,869.4
Bhutan Insurance Limited	59.7	83.6	81.3	136.3	123.1
Loan Against Shares	**432.7**	**214.2**	**553.1**	**417.9**	**390.2**
Bank of Bhutan	32.8	0.1	17.7	16.9	16.6
Bhutan National Bank	0.0	0.0	0.0	0.0	0.0
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	138.8	37.1	314.6	353.4	329.2
Druk PNB Bank Limited	98.8	89.3	117.5	1.1	0.7
Royal Insurance Corporation of Bhutan	111.2	45.4	57.1	17.4	15.8
Bhutan Insurance Limited	51.0	42.4	46.2	29.1	27.8
Government (Short term loans)	**515.2**	**445.3**	**855.4**	**0.0**	**0.0**
Bank of Bhutan	0.0	0.0	461.5	0.0	0.0
Bhutan National Bank	515.2	445.3	394.0	0.0	0.0
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	0.0	0.0	0.0	0.0	0.0
Druk PNB Bank Limited	0.0	0.0	0.0	0.0	0.0
Royal Insurance Corporation of Bhutan	0.0	0.0	0.0	0.0	0.0
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Credit Card	**10.4**	**15.9**	**23.0**	**15.4**	**45.5**
Bank of Bhutan	6.0	12.8	20.2	12.3	42.8
Bhutan National Bank	4.4	3.0	2.4	3.0	2.7
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	0.0	0.0	0.0	0.0	0.0
Druk PNB Bank Limited	0.0	0.0	0.0	0.0	0.0
Royal Insurance Corporation of Bhutan	0.0	0.0	0.4	0.1	0.0
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Others	**2,615.7**	**3,592.7**	**4,295.7**	**3,207.7**	**3,112.0**
Bank of Bhutan	668.3	857.7	1,040.1	1,067.1	1,014.2
Bhutan National Bank	331.1	384.8	406.2	476.7	426.1
Bhutan Development Bank Limited	508.5	823.2	1,037.6	662.6	548.5
TBank Limited	379.1	791.5	1,064.3	157.0	316.1
Druk PNB Bank Limited	235.6	219.1	192.5	86.9	84.5
Royal Insurance Corporation of Bhutan	459.9	487.7	527.8	735.2	697.8
Bhutan Insurance Limited	33.2	28.8	27.1	22.3	24.8
Total	**95,058.6**	**107,720.4**	**129,595.4**	**145,048.7**	**154,420.2**

Table 11: Deposit Base of Commercial Banks by Sector

Nu in million

Items	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Total Deposits	**73,061.0**	**95,325.9**	**105,739.6**	**111,672.6**	**133,107.6**	**168,439.5**
Individuals	46,976.4	65,663.9	73,851.6	74,013.5	84,503.7	107,739.1
Govt. Corps.	8,746.7	8,716.4	10,901.5	14,987.3	18,870.6	23,991.1
Govt. Others	17,337.9	20,945.7	20,986.6	22,671.9	29,733.3	36,709.4
Demand deposits	**38,831.9**	**51,935.6**	**57,061.0**	**59,459.3**	**73,792.8**	**89,951.2**
Individuals	29,482.1	47,724.0	51,135.0	47,587.9	57,140.1	68,244.0
Govt. Corps.	3,724.0	920.9	1,352.4	2,417.3	4,302.8	5,155.1
Govt. Others	5,625.7	3,290.8	4,573.7	9,454.1	12,350.0	16,552.0
Time Deposits	**34,229.1**	**43,390.3**	**48,678.6**	**52,213.4**	**59,314.8**	**78,488.3**
Individuals	17,494.25	17,939.88	22,716.6	26,425.6	27,363.7	39,495.0
Govt. Corps.	5,022.64	7,795.54	9,549.1	12,570.0	14,567.8	18,835.9
Govt. Others	11,712.22	17,654.90	16,412.9	13,217.8	17,383.4	20,157.3
% of total deposits						
Individuals	64.3	68.9	69.8	66.3	63.5	570.9
Govt. Corps.	12.0	9.1	10.3	13.4	14.2	127.1
Govt. Others	23.7	22.0	19.8	20.3	22.3	194.5
Demand deposits	**53.1**	**54.5**	**54.0**	**53.2**	**55.4**	**476.7**
Individuals	40.4	50.1	48.4	42.6	42.9	361.6
Govt. Corps.	5.1	1.0	1.3	2.2	3.2	27.3
Govt. Others	7.7	3.5	4.3	8.5	9.3	87.7
Time Deposits	**46.9**	**45.5**	**46.0**	**46.8**	**44.6**	**415.9**
Individuals	23.9	18.8	21.5	23.7	20.6	209.3
Govt. Corps.	6.9	8.2	9.0	11.3	10.9	99.8
Govt. Others	16.0	18.5	15.5	11.8	13.1	106.8

Source: Commercial Banks

Table 12: Annual Overall Balance of Payments Estimates

Nu in million

Items	2016/17	2017/18	2018/19	2019/20 Revised	2020/21 Provisional
A. CURRENT ACCOUNT	**-34,605.2**	**-30,087.5**	**-35,431.7**	**-27,712.5**	**-21,777.6**
Goods and Services	-34,406.9	-29,479.1	-31,904.2	-29,321.4	-20,852.2
Goods: Net (Trade Balance)	**-31,149.2**	**-27,200.7**	**-28,338.6**	**-22,726.4**	**-12,429.5**
Exports (fob)	36,872.0	39,231.7	42,951.6	46,862.8	53,099.9
Imports (fob)	68,021.2	66,432.4	71,290.2	69,589.2	65,529.4
Services	**-3,257.7**	**-2,278.5**	**-3,565.6**	**-6,595.0**	**-8,422.7**
Credit	10,623.7	12,428.1	11,902.5	9,611.2	1,637.7
Debit	13,881.4	14,706.6	15,468.2	16,206.2	10,060.4
Primary Income	**-11,827.2**	**-13,799.2**	**-15,589.7**	**-10,749.04**	**-11,306.48**
Credit	1,999.0	2,413.6	2,640.4	2,117.9	1,600.0
Debit	13,826.1	16,212.8	18,230.1	12,867.0	12,906.5
	1,243.7	1,325.2	764.4	8,582.2	10,507.4
Secondary Income	**11,628.9**	**13,190.9**	**12,062.3**	**12,358.0**	**10,381.2**
Credit	13,256.5	15,019.1	14,232.5	13,871.4	13,389.8
o.w. Budgetary grants	6,415.8	6,204.9	6,999.3	6,807.6	5,717.1
Debit	1,627.7	1,828.2	2,170.2	1,513.3	3,008.6
B. CAPITAL ACCOUNT	**12,391.6**	**11,884.0**	**8,769.1**	**10,373.2**	**7,415.2**
o.w. Budgetary grants for investment *	3,532.3	7,348.0	4,088.0	6,436.1	6,147.8
o.w. Grants for hydropower development	8,859.2	7,736.0	4,681.1	3,937.2	1,267.4
**C. FINANCIAL ACCOUNT ** **	**-9,571.9**	**-39,789.7**	**-9,712.8**	**-27,252.16**	**-4,655.79**
Direct Investment in Bhutan: net incurrence of liabilities	-2,956.9	510.6	918.5	-621.3	352.8
o.w. Equity capital	-492.6	602.8	754.4	67.4	306.2
Other Investment	**-18,673.5**	**-35,327.0**	**-7,389.6**	**-28,992.30**	**-2,696.33**
Other Investment: net acquisition of financial assets	1,196.0	56.6	2,110.2	3,472.2	-2,088.4
Other Investment: net incurrence of financial liabilities	19,869.6	35,383.6	9,499.8	32,464.5	607.9
o.w. RGOB loans ***	24,406.1	20,100.2	16,356.9	26,708.4	15,078.9
o.w. Other loans	-5,874.7	13,457.1	-6,268.4	7,071.8	-14,277.3
D. Net Errors & Omissions	**12,594.2**	**-16,652.9**	**19,260.0**	**10,179.2**	**3,441.0**
E. Overall Balance	**-47.5**	**4,933.4**	**2,310.2**	**20,092.2**	**-6,265.5**
F. Reserve Assets	**-47.5**	**4,933.4**	**2,310.2**	**20,092.2**	**-6,265.5**

* 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

Nu in million

Items	2016/17	2017/18	2018/19	2019/20 Revised	2020/21 Provisional
A. CURRENT ACCOUNT	**-34,006.5**	**-34,034.3**	**-38,659.9**	**-25,996.54**	**-21,903.98**
Goods and Services	-28,105.4	-27,204.5	-29,022.5	-18,936.1	-13,196.9
Goods: Net (Trade Balance)	**-24,303.8**	**-25,478.9**	**-26,322.6**	**-15,895.5**	**-9,117.1**
Exports (fob)	32,637.1	31,713.5	33,804.0	40,975.6	46,878.9
Imports (fob)	56,940.8	57,192.4	60,126.6	56,871.1	55,996.0
Services	-3,801.7	-1,725.5	-2,699.9	-3,040.6	-4,079.8
Credit	2,887.2	4,627.8	3,741.0	3,362.1	1,097.3
Debit	6,688.9	6,353.3	6,440.9	6,402.7	5,177.1
Primary Income	-12,798.7	-13,584.8	-15,544.5	-11,335.0	-11,091.1
Credit	1,157.2	1,327.0	1,021.8	880.3	886.8
Debit	13,955.9	14,911.7	16,566.2	12,215.3	11,977.9
o.w. Interest on hydropower loans *	1,243.7	1,325.2	764.4	8,582.2	10,507.4
Secondary Income	6,897.6	6,755.0	5,907.0	4,274.6	2,384.0
Credit	8,179.8	7,840.4	7,153.9	4,897.9	3,788.4
o.w. Budgetary grants	4,566.5	3,600.9	4,410.5	4,666.1	3,593.2
Debit	1,282.1	1,085.4	1,246.9	623.3	1,404.4
B. CAPITAL ACCOUNT	**12,337.7**	**11,862.2**	**8,709.7**	**10,346.6**	**7,073.4**
o.w. Budgetary grants for investment **	3,478.5	7,326.2	4,028.6	6,409.4	5,806.0
o.w. Grants for hydropower development	8,859.2	4,536.0	4,681.1	3,937.2	1,267.4
C. FINANCIAL ACCOUNT * **	**-7,105.5**	**-37,807.9**	**-8,799.7**	**-20,457.1**	**-552.2**
Direct Investment in Bhutan: net incurrence of liabilities	63.7	14.2	188.8	51.0	221.2
o.w. Equity capital	0.0	1.9	39.0	37.7	227.0
Portfolio Investment					
Other Investment	-13,186.6	-33,841.6	-7,206.2	-21,524.9	1,275.6
Other Investment: net acquisition of financial assets	943.1	-1,366.1	1,851.2	3,400.7	-2,263.7
Other Investment: net incurrence of financial liabilities	14,129.7	32,475.5	9,057.4	24,925.6	-3,539.3
o.w. Hydropower loans (incl. accrued interest)*	20,585.2	18,156.4	14,660.6	17,689.8	10,486.7
o.w. Other loans	-6,716.8	13,993.8	-6,029.4	7,236.1	-14,277.3
D. Net Errors & Omissions	**12,762.0**	**-17,113.4**	**21,019.1**	**2,385.7**	**9,293.6**
E. Overall Balance	**-1,801.3**	**-1,477.6**	**-131.4**	**7,192.7**	**-4,984.8**
F. Reserve Assets	**-1,801.3**	**-1,477.6**	**-131.4**	**7,192.7**	**-4,984.8**

* 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.

Note on historical revisions: 1) Revisions in FY 2010/11 and FY 2011/12 are largely on account of revised figures for accrued interest on hydropower loan (affecting the primary income and financial accounts). 2) For FY 2012/13, imports and trade credits (assets & liabilities) were revised.

The Net Errors and Omissions figure in FY 2012/13 can be largely attributed to the sale of USD 200 million for Indian Rupees in the year. Since the re-composition of reserves between the US dollar and the Rupees took place at the end of the fiscal year and a majority of the sales proceeds were not immediately used to meet payment obligations, Indian Rupee reserves registered a huge increase in the fiscal year. Because the counter-entry is in the BOP with COTI statement (where a corresponding decrease in dollar assets were registered), the NEO figure in the BOP with India has resulted as a large and positive figure. There was a similar re-composition of reserves in 2011/12 as well but the Indian Rupees were used up immediately within the fiscal year to settle payment obligations.

Table 14: Annual Balance of Payments Estimates with Countries Other than India

Nu in million

Items	2015/16	2016/17	2017/18	2018/19	2019/20 Revised	2020/21 Provisional
A. CURRENT ACCOUNT	**-2,129.8**	**-598.7**	**3,946.8**	**3,228.3**	**-1,715.9**	**126.4**
Goods and Services	-6,057.1	-6,301.5	-2,274.6	-2,881.7	-10,385.3	-7,655.4
Goods: Net (Trade Balance)	**-6,640.7**	**-6,845.4**	**-1,721.7**	**-2,016.0**	**-6,830.9**	**-3,312.4**
Exports (fob)	2,919.2	4,234.9	7,518.3	9,147.6	5,887.2	6,221.0
Imports (fob)	9,559.9	11,080.4	9,240.0	11,163.6	12,718.1	9,533.4
Services	583.6	543.9	-552.9	-865.8	-3,554.4	-4,342.9
Credit	6,788.2	7,736.4	7,800.4	8,161.5	6,249.1	540.4
Debit	6,204.6	7,192.5	8,353.3	9,027.3	9,803.5	4,883.4
Primary Income	417.9	971.5	-214.4	-45.3	586.0	-215.3
Credit	805.6	841.7	1,086.6	1,618.6	1,237.6	713.2
Debit	387.8	-129.8	1,301.0	1,663.9	651.6	928.5
	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Income	3,509.5	4,731.3	6,435.9	6,155.3	8,083.4	7,997.1
Credit	3,958.8	5,076.8	7,178.8	7,078.7	8,973.4	9,601.4
o.w. Budgetary grants	1,274.0	1,849.3	2,604.0	2,588.7	2,141.4	2,124.0
Debit	449.3	345.5	742.9	923.4	890.0	1,604.3
B. CAPITAL ACCOUNT	**546.0**	**53.8**	**21.8**	**59.5**	**26.7**	**341.8**
o.w. Budgetary grants for investment *	546.0	53.8	21.8	59.5	26.7	341.8
C. FINANCIAL ACCOUNT **	2,433.5	0.0	3,200.0	0.0	0.0	0.0
Direct Investment in Bhutan: net	**-1,919.7**	**-2,466.4**	**-1,981.8**	**-913.1**	**-6,795.09**	**-4,103.56**
incurrence of liabilities	-244.8	-3,020.5	496.4	729.7	-672.3	131.6
o.w. Equity capital	593.7	-492.6	600.9	715.4	29.7	79.2
Portfolio Investment						
Other Investment	-2,164.5	-5,487.0	-1,485.4	-183.4	-7,467.4	-3,971.9
Other Investment: net acquisition of financial assets	140.5	252.9	1,422.7	259.0	71.6	175.3
Other Investment: net incurrence of financial liabilities	2,304.9	5,739.9	2,908.1	442.4	7,538.9	4,147.2
o.w. RGOB loans	1,579.4	3,820.9	1,943.8	1,696.3	9,018.5	4,592.2
o.w. Other loans	606.5	842.1	-536.6	-239.0	-164.3	0.0
D. Net Errors & Omissions	**2,305.2**	**-167.8**	**460.5**	**-1,759.2**	**7,793.6**	**-5,852.5**
E. Overall Balance	**2,641.0**	**1,753.8**	**6,411.0**	**2,441.7**	**12,899.4**	**-1,280.7**
F. Reserve Assets	**2,641.05**	**1,753.76**	**6,410.97**	**2,441.66**	**12,899.43**	**-1,280.70**

* 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 15: Composition of Imports from Countries Other than India

Nu in million

Sl	Import Category	2016	2017	2018	2019	2020	%Share in Total	Annual % change
1	Live Animals & Animal Products	107.6	109.7	121.3	93.3	31.6	0.2	-66.2
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	84.0	85.8	56.2	63.4	65.0	0.4	2.5
3	Animal or Vegetable Fats & Oils	8.90	2.8	149.2	193.6	1.8	0.01	-99.1
3.1	Palm Oil (Crude & Other)	7.2	0.0	146.5	189.8	-	-	-100.0
4	Processed Foods & Beverages	482.2	618.5	666.3	693.5	568.8	3.7	-18.0
5	Mineral Products inc. oils & fuels	351.8	99.2	515.4	527.9	365.4	2.4	-30.8
6	Products of Chemical & Allied Industries	427.3	456.8	709.1	1,028.3	852.6	5.6	-17.1
6.1	Medicines / Pharmaceutical Products	50.9	96.20	128.5	842.9	105.3	0.7	-87.5
6.2	Photographic / Cinematographic goods	0.89	11.0	1.0	0.3	8.8	0.1	29.9
7	Plastic & Rubber Products	832.2	758.4	679.0	576.0	261.9	1.7	-54.5
8	Wood and Wood Products	28.0	27.6	31.5	73.5	63.6	0.4	-13.4
9	Wood Pulp Products	173.1	123.32	118.7	203.8	78.9	0.5	-61.3
10	Textiles, Footwear & Hats/Headgear	280.4	305.4	335.6	277.7	408.5	2.7	47.1
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	68.2	76.8	105.0	72.1	59.3	0.4	-17.7
11.1	Ceramic Products	17.3	33.6	42.3	22.0	28.7	0.2	30.2
12	Pearls and Products of Precious/ Semi-precious Metal & Stones	39.5	41.6	19.9	42.6	64.9	0.4	52.3
13	Base Metals and Articles of Base Metal	856.8	838.9	457.7	728.4	594.5	3.9	-18.4
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	6,021.0	7,887.1	5,298.2	4,661.6	4,031.7	26.4	-13.5
14.1	Magnetic Discs & Media (recorded/ unrecorded)	199.4	339.2	172.1	33.9	169.9	1.1	401.2
15	Transport Vehicles & Aircraft and Engines & Parts	1,613.0	996.4	963.5	2,446.7	6,865.9	45.0	180.6
16	Optical, Photographic, Cinematographic & Measuring Equipment	478.3	357.5	1,005.4	473.6	676.0	4.4	42.8
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	7.8	0.9	0.1	0.8	0.04	0.0	-95.4
18	Miscellaneous Manufactured Products	215.3	236.9	301.8	296.5	267.7	1.8	-9.7
	TOTAL	**12,075.1**	**13,023.5**	**11,533.5**	**12,453.1**	**15,258.3**	**100.0**	**22.5**

Table 16: Composition of Exports to Countries Other than India

Nu in million

Sl	Export Category	2016	2017	2018	2019	2020	%Share in Total	Annual% change
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,342.9	1,259.4	1,287.4	1,383.1	1,063.6	22.4	-23.1
1.1	Oranges	425.6	470.8	349.7	521.5	279.9	5.9	-46.3
1.2	Apples	39.7	21.9	8.3	17.6	-	-	-100.0
1.3	Cardamoms	708.5	552.6	613.0	606.0	657.6	13.9	8.5
2	Processed Foods & Beverages	19.8	5.3	16.0	24.6	21.3	0.5	-13.6
3	Mineral Products inc. oils & fuels	1,206.0	2,219.0	3,944.1	5,229.4	3,321.3	70.0	-36.5
3.1	Limestone & other calcereous stone	169.4	319.02	326.2	422.7	253.9	5.4	-39.9
3.2	Dolomite	205.6	241.60	202.2	242.2	67.6	1.4	-72.1
3.3	Bituminous Coal	-	5.00	219.1	83.6	3.9	0.1	-95.3
4	Products of Chemical & Allied Industries	263.6	134.10	258.5	63.7	31.5	0.7	-50.6
5	Plastic & Rubber Products	2.3	0.01	0.62	35.6	0.0	0.0	-99.9
6	Wood and Wood Products	3.9	0.36	11.40	22.4	1.8	0.0	-92.1
7	Wood Pulp Products	1.1	0.41	2.16	0.2	0.0	0.0	-97.3
8	Textiles, Footwear & Hats/ Headgear	2.9	2.0	0.1	0.6	1.0	0.0	69.2
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	5.26	0.64	10.68	0.9	0.1	0.0	-86.4
10	Articles of Precious/Semi-precious Metals	-	-	-	-	0.0	0.0	-
11	Base Metals and Articles of Base Metal	353.2	2,054.1	3,703.1	899.2	294.8	6.2	-67.2
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	0.0	-	-	-	-	-	-
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	-	-	-	-	-	-	-
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	1.6	3.4	6.4	8.5	6.9	0.2	-18.4
14	Miscellaneous Manufactured Products	3.2	0.5	2.9	8.8	0.1	0.0	-98.7
	TOTAL	**3,205.7**	**5,679.1**	**9,243.4**	**7,677.0**	**4,742.5**	**100.0**	**-38.2**

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	2016	2017	2018	2019	2020	%Share in Total	Annual %change
1	Live Animals & Animal Products	2,713.7	2,690.2	2,679.9	2,893.7	2,817.7	5.5	-2.6
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	3,757.0	3,738.1	3,572.2	3,957.8	4,876.7	9.5	23.2
3	Animal or Vegetable Fats & Oils	1,032.2	1,129.4	1,199.4	1,241.8	1,505.9	2.9	21.3
4	Processed Foods & Beverages	2,306.0	2,375.9	2,354.7	2,455.8	2,826.7	5.5	15.1
5	Mineral Products inc. oils & fuels	12,423.9	13,963.5	16,106.0	14,675.4	10,804.8	21.0	-26.4
6	Electricity	173.0	74.94	295.00	206.0	181.0	0.4	-12.1
7	Products of Chemical & Allied Industries	2,129.6	2,098.0	2,269.8	2,517.5	2,259.5	4.4	-10.2
7.1	Medicine / Pharmaceutical Products	297.2	262.5	303.8	503.7	339.3	0.7	-32.6
8	Plastic & Rubber Products	1,807.81	2,105.7	2,642.9	2,873.4	2,439.2	4.7	-15.1
9	Wood and Wood pulp products	1,868.3	2,330.1	3,306.6	2,922.6	2,883.7	5.6	-1.3
9.1	Wood and Wood Products	1,183.7	1,585.4	2,504.6	2,106.9	2,321.4	4.5	10.2
9.2	Wood Pulp Products	684.67	744.8	802.0	815.7	562.4	1.1	-31.1
10	Textiles, Footwear & Hats/ Headgear	826.77	874.3	879.0	827.8	1,192.8	2.3	44.1
11	Articles of Stone, Plaster,	905.1	1,111.3	1,314.1	1,390.2	883.8	1.7	-36.4
11.1	Cement, Asbestos, Ceramics & Glass Ceramic Products	316.2	329.3	429.1	513.2	317.5	0.6	-38.1
12	Pearls and Products of Precious/Semi-precious Metal & Stones	0.28	0.8	0.9	1.7	1.3	0.0	-24.7
13	Base Metals and Articles of Base Metal	6,298.4	6,876.5	7,389.2	8,163.2	5,872.2	11.4	-28.1
14	Machinery, Mechanical/ Electrical Appliances & Equipment and Parts	12,198.0	9,302.1	9,233.7	7,308.6	8,488.4	16.5	16.1
14.1	Magnetic Discs & Media (recorded/unrecorded)	13.97	19.4	44.1	16.1	41.55	0.1	158.4
15	Transport Vehicles & Aircraft and Engines & Parts	5,758.7	4,268.7	5,807.8	4,104.9	3,109.10	6.1	-24.3
16	Optical, Photographic, Cinematographic & Measuring Equipment	497.2	449.8	403.6	356.5	400.0	0.8	12.2
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.04	0.02	1.42	4.8	0.13	0.0	-97.2
18	Miscellaneous Manufactured Products	588.8	583.5	652.0	757.2	835.9	1.6	10.4
	TOTAL	**55,284.7**	**53,972.7**	**60,108.1**	**56,659.0**	**51,378.9**	**100.00**	**-9.32**

Table 18: Composition of Exports to India

Nu in million

Sl	Export Category	2016	2017	2018	2019	2020	%Share in Total	Annual% change
1	Live Animals & Animal Products	12.9	20.9	50.5	1.9	8.1	0.02	318.1
1.1	Raw Hides & Skins	-	-	-	-	-	-	-
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1,535.7	1,562.7	1,101.5	1,577.2	1,241.1	2.9	-21.3
2.1	Potatoes	542.1	458.7	492.9	2.8	-	-	-100.0
3	Animal or Vegetable Fats & Oils	9.7	9.5	265.0	150.4	0.5	0.0	-99.7
3.1	Palm Oil	-	-	-	-	-	-	-
4	Processed Foods & Beverages	1,067.4	1,010.7	1,043.70	1,165.5	909.9	2.1	-21.9
5	Mineral Products inc. oils & fuels	4,646.5	4,683.2	4,959.9	7,904.8	3,382.9	7.8	-57.2
6	Electricity	13,032.1	11,983.5	10,578.0	16,237.0	27,523.0	63.3	69.5
7	Products of Chemical & Allied Industries	1,714.7	1,722.1	1,128.9	804.0	482.7	1.1	-40.0
8	Plastic & Rubber Products	678.2	783.7	559.0	528.9	214.1	0.5	-59.5
9	Wood and Wood Pulp Products	318.2	255.9	488.0	255.8	125.9	0.3	-50.8
9.1	Wood Pulp Products	14.7	19.2	20.60	17.9	6.6	0.02	-63.4
10	Textiles, Footwear & Hats/ Headgear	1.1	2.4	0.40	2.7	0.9	0.0	-65.9
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	150.2	113.0	68.50	19.7	6.5	0.01	-67.1
12	Base Metals and Articles of Base Metal	8,874.6	9,459.0	11,905.0	11,132.6	9,613.6	22.1	-13.6
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	3.2	4.7	16.10	24.1	0.2	0.0	-99.2
14	Transport Vehicles & Aircraft and Engines & Parts	-	0.1	-	-	-	-	-
15	Optical, Photographic, Cinematographic & Measuring Equipment	-	-	0.20	0.1	2.9	0.01	3,198.3
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.3	-	0.30	0.7	-	-	-100.0
17	Miscellaneous Manufactured Products	7.5	6.7	4.8	4.5	1.2	0.00	-72.8
	TOTAL	**32,052.4**	**31,618.1**	**32,169.8**	**39,809.5**	**43,513.4**	**100.0**	**9.3**

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

					Nu In million
Item	**2016**	**2017**	**2018**	**2019**	**2020**
Exports					
India	32,052.4	31,618.1	32,169.8	39,809.5	43,513.4
Bangladesh	2,398.0	3,486.3	5,948.4	6,095.4	3,955.0
Nepal	152.4	321.2	525.1	427.8	358.9
Italy	27.0	428.2	917.9	506.9	169.4
Vietnam	26.2	50.2	43.9	73.8	46.6
Turkey	0.1	96.1	102.5	100.3	42.9
Japan	22.1	103.9	49.0	47.1	39.6
UAE	0.0	35.4	90.2	2.2	39.1
United Kingdom	0.2	9.5	8.4	34.9	20.0
Hongkong	77.2	138.5	104.9	36.4	12.6
Netherlands	51.2	351.0	550.3	67.8	8.0
Belgium					7.3
Spain	40.6	16.8	68.4	38.2	6.2
Thailand	171.2	33.6	52.3	28.7	5.9
United States	122.0	29.3	11.2	28.9	5.4
Germany		186.8	423.2	34.4	3.6
Luxembourg	5.1			15.5	3.4
Taiwan	0.3	3.5	14.6	7.54	3.1
Switzerland	7.6	56.1	0.4	0.3	2.7
Singapore	104.6	63.0	100.0	42.0	2.6
Others		187.3	110.3	86.4	10.4
Total Exports	**35,258.1**	**37,214.6**	**41,290.5**	**47,484.1**	**48,256.1**
Imports					
India	55,284.7	53,972.7	60,108.1	56,659.0	51,378.9
France	407.4	66.2	54.3	1,605.6	6,270.3
China	1,476.2	1,609.9	1,613.7	1,809.4	2,133.8
Thailand	1,486.7	1,262.1	1,050.2	974.2	1,270.7
Singapore	1,206.3	1,066.0	1,486.2	1,213.1	1,044.3
Germany	407.7	577.3	340.5	287.9	682.8
Bangladesh	218.2	329.2	454.0	625.2	440.5
Japan	1,298.9	1,655.0	783.9	636.8	377.2
UAE	306.6	372.1	401.7	126.2	357.1
United States	360.9	224.1	254.7	230.5	196.8
Malaysia	175.1	48.5	143.6	214.1	195.5
United Kingdom	112.1	220.8	205.6	71.8	189.7
Italy	444.3	181.8	103.8	29.9	174.7
Australia	58.7	37.9	31.9	854.8	126.5
South Korea	1,262.7	2,592.2	1,665.0	133.5	125.1
Hong Kong	179.1	154.6	172.8	349.0	114.0
Indonesia	97.2	56.3	163.8	81.4	103.5
Vietnam	40.0	107.3	91.0	47.2	100.1
Netherlands	111.0	60.2	70.5	68.2	83.7
Austria	41.0	179.0	160.6	2,682.2	74.8
Others1)	2,385.1	2,223.0	2,286.2		479.9
Total Imports	**67,359.8**	**66,996.0**	**71,641.6**	**68,699.8**	**65,919.9**

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 Million					USD million					
	2016/17	2017/18	2018/19	2019/20	2020/21	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1. Convertible Currency Debt	**42,759.0**	**47,990.2**	**49,629.3**	**62,744.9**	**68,596.4**	**609.0**	**663.2**	**699.8**	**720.1**	**830.8**	**922.7**
Public	**40,824.9**	**45,932.9**	**47,643.5**	**60,705.4**	**66,569.3**	**599.0**	**633.2**	**669.8**	**691.3**	**803.8**	**895.4**
World Bank	13,475.7	17,058.7	18,936.3	24,354.8	27,225.0	185.0	209.0	248.8	274.8	322.5	366.2
IFAD	2,276.0	2,491.4	2,464.5	2,731.2	2,835.2	36.1	35.3	36.3	35.8	36.2	38.1
ADB	17,700.5	18,997.0	19,869.2	26,340.0	29,831.6	253.1	274.5	277.0	288.3	348.8	401.3
Govt of Austria	4,315.5	4,139.7	3,497.2	3,108.5	2,707.7	72.7	66.9	60.4	50.7	41.2	36.4
Govt. of Denmark	-	-	-	-	-	0.7	0.0	0.0	-	-	-
JICA	2,593.7	2,742.6	2,876.3	3,189.0	3,057.0	44.3	40.2	40.0	41.7	42.2	41.1
Deutsche Investition (Hydropower)	463.6	503.7	-	-	-	7.0	7.2	7.3	-	-	-
SDF				981.9	912.8					13.0	12.3
Private	**1,934.1**	**2,057.3**	**1,985.8**	**2,039.6**	**2,027.2**	**10.0**	**30.0**	**30.0**	**28.8**	**27.0**	**27.3**
2. Rupee Debt	**118,770.1**	**133,190.7**	**138,409.4**	**154,218.0**	**169,546.9**	**1706.6**	**1842.2**	**1942.3**	**2,008.3**	**2,041.9**	**2,280.5**
Hydropower debt	111,770.1	119,452.8	124,432.8	132,940.7	148,004.9	1,503.7	1,733.6	1,741.9	1,805.5	1,760.2	1,990.8
Chukha	-	-	-	-	-	0.0	0.0	0.0	-	-	-
Kurichhu	-	-	-	-	-	0.0	0.0	0.0	-	-	-
Tala	2,013.9	671.3	-	-	-	49.6	31.2	9.8	-	-	-
Punatsangchhu-I	44,543.7	46,043.7	46,673.7	48,274.5	48,274.5	629.2	690.9	671.4	677.2	639.2	649.3
Punatsangchhu-II	35,982.2	39,182.2	41,804.5	46,732.2	50,632.2	406.5	558.1	571.4	606.6	618.7	681.0
Mangdechhu	29,230.3	32,706.6	34,397.0	35,088.4	45,952.6	418.4	453.4	476.9	499.1	464.6	618.1
Nikachhu Project		849.1	1,557.6	2,845.7	3,145.7			12.4	22.6	37.7	42.3
Other									-	-	-
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0	103.5	108.6	102.1	101.6	92.7	94.2
RBI Swap	-	6,737.9	6,976.6	14,277.3	14,541.9	99.3	0.0	98.3	101.2	189.0	195.6
Total (CC + Rupee)	**161,529.1**	**181,180.9**	**188,038.7**	**216,963.0**	**238,143.30**	**2315.6**	**2505.4**	**2642.1**	**2,728.4**	**2,872.7**	**3,203.2**
Convertible Currency Debt											
As a % of Total Debt						**26.3**	**26.5**	**26.5**	**26.4**	**28.9**	**28.8**
Rupee Debt											
As a % of Total Debt	**73.5**	**73.5**	**73.6**	**71.1**	**71.2**						
Total Loans in % of GDP	**111.3**	**113.5**	**112.4**	**121.8**	**138.8**						
Nominal GDP (Calendar Year)	145,072.9	159,571.7	167,340.0	178,201.9	171,572.9						
Exchange Rate											
Ngultrum/USD exchange rate	64.5	68.6	68.9	75.5	74.3						

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 calendar year GDP figures for all ratios to the GDP. Hydropower debt excludes accrued interest.
Source: Department of Public Accounts, Royal Monetary Authority of Bhutan & private sector enterprises.

Table 21: External Debt Indicators

External Debt Indicators	2016/17	2017/18	2018/19	2019/20	2020/21
Total Outstanding (USD millions)	**2,505.4**	**2,642.1**	**2,728.4**	**2,872.7**	**3,203.2**
Convertible Currency (USD millions)	663.2	699.8	720.1	830.8	922.7
Indian Rupee (in millions)	118,770.1	133,190.7	138,409.4	154,218.0	169,546.9
Debt/GDP ratio *					
Total	**108.6**	**110.1**	**112.4**	**121.8**	**138.8**
Convertible Currency loan	28.8	29.2	29.7	35.2	40.0
Indian Rupee loan	79.9	80.9	82.7	86.5	98.8
Total	**24.8**	**23.0**	**34.8**	**31.1**	**38.1**
Convertible Currency loan	16.8	15.2	18.8	21.7	47.9
Indian Rupee loan	27.4	26.3	42.2	33.7	36.7
GDP (Nu in Millions)	**148,678.9**	**164,627.9**	**167,326.8**	**178,201.9**	**171,572.9**

* Based on calendar year GDP figures. Example, the 2014 GDP figure is used to calculate the ratio for 2014/15.

** Debt service payments as a percent of the export of goods and services. The total debt service ratio represents the total debt service payments (i.e. on convertible currency & Rupee loans) as a percentage of the total export earnings (from India & other countries). Convertible currency debt service ratio is the debt servicing on convertible currency loans as a percentage of the export earnings from countries other than India. Similarly, the Indian Rupee debt service ratio is the debt servicing on Indian Rupee loans as a percentage of the export earnings from India. The debt service ratio for the latest period is calculated based on the previous year's export of goods and services.

Table 22: Rupee Debt Indicators

Millions of Indian Rupees

	2016/17	2017/18	2018/19	2019/20	2020/21
Total INR Debt Outstanding	**118,770.1**	**133,190.7**	**138,409.4**	**154,218.0**	**169,546.9**
Hydropower Debt	**111,770.1**	**119,452.8**	**124,432.8**	**132,940.7**	**148,004.9**
Tala	2,013.9	671.3	-	-	48,274.5
Punatsangchhu- I	44,543.7	46,043.7	46,673.7	48,274.5	50,632.2
Punatsangchhu- II	35,982.2	39,182.2	41,804.5	46,732.2	45,952.6
Mangdechhu	29,230.3	32,706.6	34,397.0	35,088.4	3,145.7
Nikachhu Project	**7,000.0**	849.1	1,557.6	2,845.7	**21,541.9**
Non-hydropower Debt	7,000.0	**13,737.9**	**13,976.6**	**21,277.3**	7,000.0
GOI Line of Credit	-	7,000.0	7,000.0	7,000.0	14,541.9
RBI Swap	-	6,737.9	6,976.6	14,277.3	-
Dungsam Cement Corp Ltd	**9,802.3**	-	-	-	**17,613.9**
Debt Service Payments	8,059.4	**9,556.0**	**15,858.1**	**14,937.2**	15,669.8
Principal	1,742.8	7,749.4	14,522.6	14,049.4	1,944.1
Interest		1,806.5	1,335.5	887.8	
Debt Service Ratio (%)	**27.4**	**26.4**	**42.2**	**33.7**	**36.7**
Interest Payments / Export of	4.9		3.6	2.0	4.1
Goods & Services (INR)		5.0			
Principal Repayments / Exports of Goods & Services (INR)	22.6	21.4	38.7	31.7	32.7
Debt Outstanding/GDP (%)	81.8	83.5	84.1	86.5	98.8

Source: Department of Public Accounts & RMA

Table 23: Gross International Reserves (*)

Items	2016/17	2017/18	2018/19	2019/20	2020/21
1. Rupee Reserves (INR in million)	**21,092.4**	**16,111.2**	**15,237.5**	**23,713.7**	**21,295.8**
Royal Monetary Authority of Bhutan	19,433.1	14,534.3	12,924.0	22,011.7	19,540.0
Bank of Bhutan Limited	1,075.9	363.2	460.9	523.4	590.1
Bhutan National Bank Limited	212.2	514.6	867.8	379.3	335.3
T Bank Limited	122.4	480.0	630.9	550.4	726.8
Druk PNB Limited	248.8	193.7	342.8	238.9	87.0
Bhutan Development Bank Limited		25.3	11.1	10.0	16.7
2. Convertible Currency Reserves (USD in Million)	**776.6**	**876.3**	**843.7**	**1,029.6**	**1,269.7**
3.Total Reserves (USD in million) (1+2)	**1,103.8**	**1,111.3**	**1,064.8**	**1,343.5**	**1,556.2**
4. Exchange rates used	**64.5**	**68.6**	**68.9**	**75.5**	**74.3**
5. Months of Merchandise Imports (2)					
Total Reserves	**12.6**	**3.8**	**12.4**	**18.9**	**21.1**
Rupee Reserves	4.4	3.4	3.0	5.0	4.6
Convertible Currency Reserves	54.2	78.0	62.5	122.1	118.8
6. Months of Imports (Merchandise + Services) (2)					
Total Reserves	**10.4**	**11.3**	**10.1**	**15.3**	**18.3**
Rupee Reserves	4.0	3.0	2.7	4.5	4.2
Convertible Currency Reserves	32.9	41.0	34.6	58.1	78.7

(*) Excludes cash in hand of commercial banks.
(1) Convertible currency reserves of RMA have been revised in 2013 to exclude the US dollar pledge on any outstanding overdraft as of each reference period. Reserves also exclude (from July 2007 onwards) the local currency component of Bhutan's IMF Quota and the Kuwait Fund Investment; (2) Imports on fob basis. Figures differ from previous publications due to revision in import figures- data for 2015/16 onwards are based on provisional import figures for 2015/16 and are subject to change.

10
Chronology, Acronyms, and Abbreviations

Chronology and Major Developments in the Financial Sector

2018

- Implemented the Reserve Management Policy with effect from 1 January 2018.
- Implemented the Whistle Blowing Policy as proposed on 29 December 2017.
- The RMA Board endorsed the adoption of the BAS in Accounting Policy from 1 January 2018.
- Signed a Memorandum of Understanding with Royal Bhutan Police and Civil Society Organizations Authority on 20 February 2018.
- Launched Druk MicroFin, an integrated MFI and CSI banking platform, on 16 May 2018.
- Approved the Amended Regulation for establishment of commercial banks and RENEW's proposal for establishment of DMFI (RENEW Microfinance Private Ltd) on 22 May 2018.
- Received the Country Award from the Child Youth Finance International (CYFI) for Regional Winner- Asia & the Pacific, and Certificate for the Global Finalist- Asia & the Pacific for Global Money Week 2018 held during the 7th Global Inclusion Awards 2018.
- Implemented Rules and Regulations for Insurance & Reinsurance Companies in Bhutan on 1 July 2018, and the Corporate Governance Rules and Regulations 2018 on 1 July 2018.
- Opened the INR Exchange Counter at the Department of Immigration Office in Phuentsholing on 6 July 2018.
- Signed a Memorandum of Understanding with Financial Intelligence Unit, India, on 26 July 2018 during the 21st Annual Meeting of Asia Pacific Group in Kathmandu, Nepal.
- Issued the Rules and Regulations for Cottage and Small Industries Bank.
- Bhutan Care Credit Microfinance Project was licensed on 14 August 2018 as the fourth MFI.
- Introduced exchange counter at Mongar Regional Office on 1 September 2018.
- Jointly conducted workshop on the Modernization of Monetary Policy Frameworks in Bhutan, India, and Nepal on 10 and 11 September 2018 in Paro.
- The RMA successfully closed accounts for the financial year 2017/18 and transferred a surplus of Nu 1,550.24 million to the RGoB on 3 October 2018.
- Launched "Jabchor"- a platform to help youth nurture and grow their business ideas through access to equity financing on 13 December 2018.
- The RMA signed a Memorandum of Understanding with the Royal Education Council for financial literacy curriculum integration on 31 December 2018.

2019

- The RMA signed the MoU with Tourism Council of Bhutan and the Department of Immigration, MoHCA, for cooperation in the exchange of information relating to Financial Intelligence on money laundering associated predicate offences and terrorist financing on 12 June 2019.
- Issued license to Microfinance Bhutan Private Limited as a Deposit Taking Microfinance Institution on 18 June 2019.
- The second BEFIT 2019, with the theme "Catalyzing CSIs to Drive Bhutan's Economic Diversification", was held from 16-18 July 2019.
- The Royal Securities Exchange of Bhutan was licensed to operate the first "Bhutan Crowd Funding Portal" by the RMA during BEFIT 2019.
- The Hon'ble Finance Minister, Lyonpo Namgay Tshering, launched the e-PEMS and GIFT payment systems on 22 July 2019 in Thimphu.
- His Excellency Shri Narendra Modi, Prime Minister of India, and His Excellency Dr. Lotay Tshering, Prime Minister of Bhutan, jointly launched the RuPay card scheme in Thimphu on 17 August 2019.
- The RMA signed the MoU on Anti-Money Laundering Council with FIU-Philippines and FIU-Malaysia between 18-23 August 2019 during the APG Annual Meeting 2019 held in Canberra, Australia.
- The RMA handed over its highest annual surplus of Nu 3.01 billion for FY 2018/19 to the RGoB on 11 October 2019.
- The Beneficial Ownership Guideline for Reporting Entities 2019 was issued.
- The AML/CFT Risk Based Framework for Banks 2019 was issued.
- The Fund Management Rules and Regulations 2019 was issued.

2020

- The following guidelines, regulations, and frameworks were issued in 2020:
  - The Payment and Settlement Systems Oversight Framework 2020
  - Anti-Money Laundering and Countering of Financing of Terrorism Guideline for Insurance Companies 2020
  - The Private Money Lending Rules and Regulation of Bhutan 2020
  - Guideline for Automated Teller Machine and Point of Sale 2020
  - Guideline for Bhutan QR Payments 2020
  - Payment Aggregators and Payment Gateways Guideline 2020
  - Foreign Exchange Rules and Regulations 2020
  - Foreign Exchange Operational Guideline 2020
  - Corporate Governance Rules and Regulations 2020 (3rd edition)
  - Guidelines on the implementation of National Credit Guarantee Scheme
  - Guidelines on the Transfer of Non-Performing Loan Asset 2020
  - The Domestic Liquidity Management Framework was implemented on 2 November 2020
- With the onset of the Covid-19 pandemic, the RMA reduced the CRR by 100 basis points from 10 percent on 17 March 2020.
- On 27 April 2020, the Cash Reserve Ratio was further reduced from 9 percent by 200 basis points to 7 percent.
- Two phases of monetary measures (I and II) were announced to cushion the impact of the Covid-19 pandemic.
- The RMA transferred Nu 2,001 million as surplus to the Royal Government of Bhutan on 29 October 2020.

2021

- The Monetary Measures phase III was announced to further cushion the impact of the COVID-19 pandemic.
- On 12 May 2021, in a bid to encourage remittance inflows, the RMA announced the launch of a cash incentive scheme for Bhutanese working overseas.
- On 13 July 2021, the RMA and the National Payments Corporation of India rolled out the third phase of the project on the cross-border interoperable QR code payment linkage between Bhutan and India.
- The KUEN-Phen Financing was launched on 16 August 2021 to promote innovative and inclusive finance for greater socio-economic benefits. The KUEN-Phen is a crowd-funding platform spearheaded by RMA in collaboration with the RSEBL and BCCL.
- The soft launch of the National E-Commerce Portal took place on 17 August 2021. The portal is an initiative of the RMAB in collaboration with the MoEA and the BoBL to enhance access to international market for local "Made in Bhutan" products.
- The 'Druk Nguldrel-Lamtoen—2030' was launched by His Excellency Lyonpo Namgay Tshering on 25 August 2021 at the RMA.
- The following guidelines, regulations, and policies were issued during the FY 2020/21:
  - Anti-Money Laundering and Countering of Financing of Terrorism Guideline for Money Services Business 2021
  - Guidelines on Segregation of Non-Performing Loans into Viable and Non-Viable Loans 2021
  - Guidelines on Foreclosure and Write-off of Non-Performing Loans 2021
  - Data Residency Policy for Payment Systems Data 2021
  - Rules & Regulations for the Registered Private Money Lenders 2021

ACRONYMS

ADB	Asian Development Bank
AML	Anti-Money Laundering
ATM	Automated Teller Machine
API	Application Programming Interface
AI	Artificial Intelligence
A2F	Access to Finance
BAOWE	Bhutan Association of Women Entrepreneurs
BCCL	Bhutan Care Credit Limited
BDBL	Bhutan Development Bank Limited
BIL	Bhutan Insurance Limited
BIT	Business Income Tax
BNBL	Bhutan National Bank Limited
BoBL	Bank of Bhutan Limited
BOP	Balance of Payments
BHIM	Bharat Interface for Money
BPC	Bhutan Power Corporation
BOLTS	Bhutan Online Land Tax Payment System
BIS	Bank for International Settlements
CAR	Capital Adequacy Ratio
CBDC	Central Bank Digital Currency
CC	Convertible Currency
CiC	Currency in Circulation
CIT	Corporate Income Tax
COTI	Countries Other Than India
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSI	Cottage and Small Scale Industries
CIF	Cost Insurance and Freight
CFT	Combating the Financing of Terrorism
CCR	Core Capital Ratio
CD	Credit to Deposit
DGRK	Druk Gyalpo's Relief Kidu
DLMS	Domestic Liquidity Management System
DPNBL	Druk PNB Bank Limited
DD	Demand Deposits
DPG	Domestic Payment Gateway
D-KYC	Druk-Know Your Customer
e-PEMS	Electronic Public Expenditure Management System
ECP	Economic Contingency Plan
FDI	Foreign Direct Investment

FI	Financial Institution
FSP	Financial Service Provider
FY	Fiscal Year (July-June)
FEIF	Fixed Equated Installment Facility
FOB	Free on Board
FD	Fixed Deposit
GDP	Gross Domestic Product
GIFT	Global Interchange for Financial Transaction
GIR	Gross International Reserve
GoI	Government of India
GVA	Gross Value Added
GNI	Gross National Income
GNPL	Gross Non-Performing Loan
G2C	Government to Citizen
IIP	International Investment Position
INR	Indian Rupee
IPS	Interest Payment Support
IPG	International Payment Gateway
ICOR	Investment Capital Output Ratio
LFS	Labor Force Survey
LFPR	Labor Force Participation Rate
LTV	Loan-to-Value
LTU	Long-Term Unemployment
LAFD	Loan Against Fixed Deposit
M0	Reserve Money/Monetary Base
M1	Narrow Money
M2	Broad Money/Money Supply
MBPL	Microfinance Bhutan Pvt. Limited
MFI	Microfinance Institutions
MLR	Minimum Lending Rate
MM	Monetary Measure
NCGS	National Credit Guarantee Scheme
NCSIDB	National CSI Development Bank
NFA	Net Foreign Assets
NPL	Non-Performing Loan
NPPF	National Pension and Provident Fund
NRF	National Resilience Fund
NGO	Non-Government Organization
NRDCL	Natural Resources Development Corporation Limited
PIT	Personal Income Tax
PoS	Point of Sale

PAT	Profit After Tax
QR	Quick Response
REER	Real Effective Exchange Rate
RHS	Right Hand Side
RICBL	Royal Insurance Corporation of Bhutan Limited
RS	Regulatory Sandbox
RMA	Royal Monetary Authority
RSEBL	Royal Securities Exchange of Bhutan Limited
RBI	Reserve Bank of India
RGoB	Royal Government of Bhutan
RD	Recurring Deposit
RENEW	Respect, Educate, Nurture and Empower Women
SDR	Special Drawing Rights
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunications
SLR	Statutory Liquidity Ratio
T-Bank	Tashi Bank
TD	Term Deposits
WAP	Working Age Population
WLMO	Weekly Liquidity Management Operation
Y-o-Y	Year on Year

Statistical Abbreviations and Symbols

e	estimated
p	provisional
r	revised estimates
-	the figure is zero or less than half the final digit shown or the item does not exist or the figure is not available
.	the figure is unknown or is not meaningful or is not to be published
---	change within a time series, causing a break in continuity

Note: Discrepancies in the totals are due to rounding.

Readers' feedback on the Annual Report

Dear Reader(s),

We welcome comments or suggestions that will help us improve the content and format of the Annual Report. Please contact us at the following address:

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Thank you.