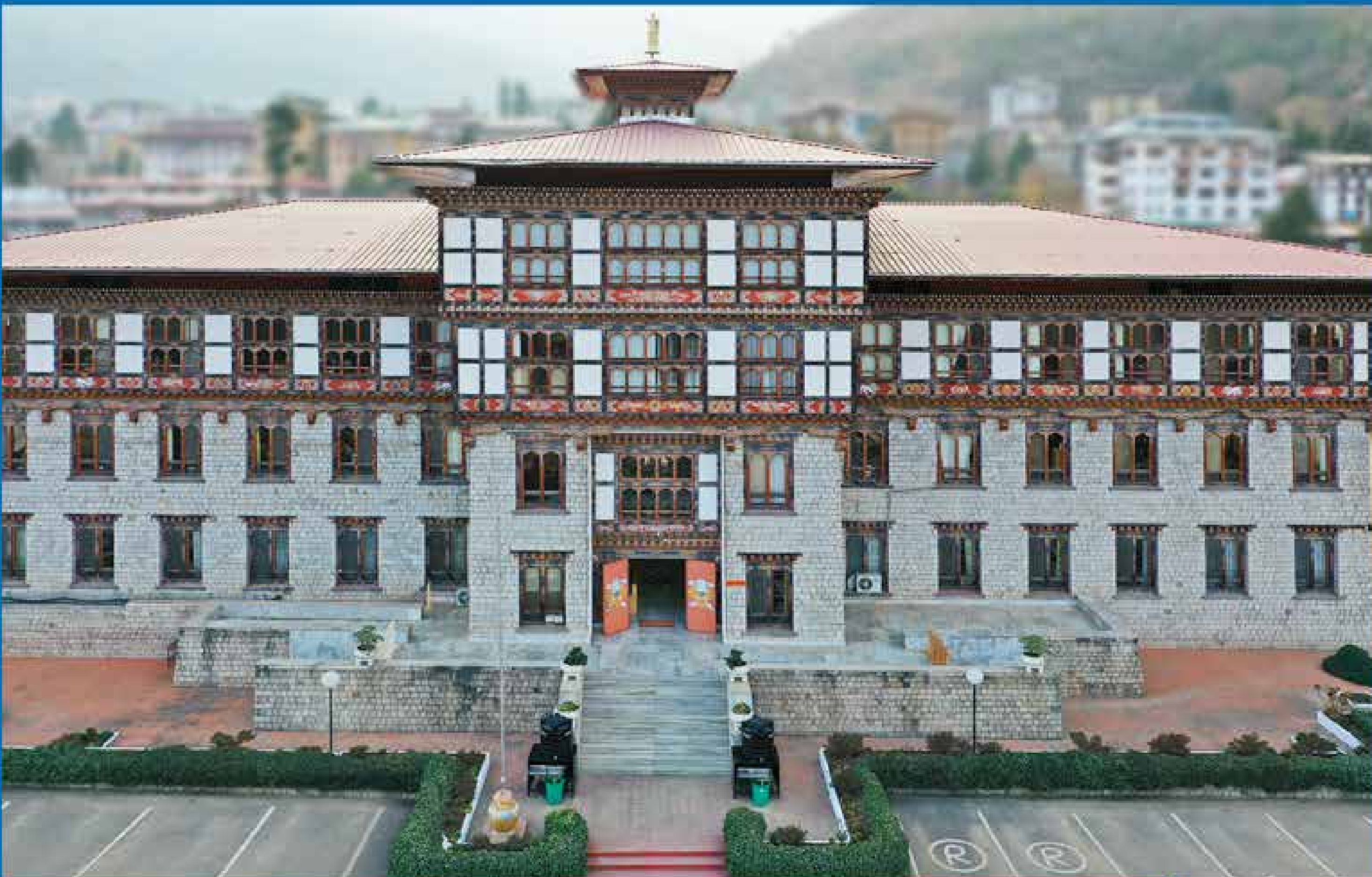
ROYAL MONETARY AUTHORITY OF BHUTAN



ANNUAL REPORT 2020

Annual Report
2020

Preface

This Report reviews macroeconomic developments of the economy during the fiscal year 2019/20. A summary of the medium-term outlook for Bhutan based on the quarterly updates as of October 2020 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 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

Bhutan is truly fortunate to have His Majesty The Druk Gyalpo leading at the forefront and providing invaluable guidance and leadership to effectively manage the crisis.

The COVID-19 pandemic continues to pose unprecedented challenges globally, on both the health and economic fronts. The impact on human lives have been particularly devastating with more than 2.3 million lives lost since the outbreak with continuing threats from the emerging second wave.

Bhutan is truly fortunate to have His Majesty The Druk Gyalpo leading at the forefront and providing invaluable guidance and leadership to effectively manage the crisis. Even before the detection of the first imported coronavirus case in Bhutan, His Majesty had commanded the government to put in place preparedness measures to safeguard and protect the lives and livelihood of our people. With the overall objective of maintaining the "hope and confidence of the people", interventions were guided by the principles of providing timely and inclusive relief support to individuals whose livelihoods were threatened by the pandemic and to ensure business continuity.

Driven by such magnanimous foresight, as the pandemic reached Bhutan in March 2020, His Majesty set up the National Resilience Fund (NRF) of Nu 30 billion to provide the relief grants through the Druk Gyalpo's Relief Kidu (DGRK) constituting monthly subsistence cash allowances to all affected adults displaced from jobs (along with separate allowances for their children) and interest payment support to all the borrowers.

Although Bhutan has been successful in addressing the public health challenges of the pandemic, the impact on the economy is serious. The tourism and hospitality industry in particular has been greatly impacted. As a consequence, economic growth is expected to slump in 2020 with a negative growth of 6.1 percent. Further, allied sectors like manufacturing and construction including construction of major hydropower projects are being hit hard. However, hydropower generation and transmission from the existing projects continue to remain resilient and have shielded the economy from deeper negative consequences.

With rise in food prices from supply chain disruptions during the pandemic, inflation increased to 4.5 percent in June 2020 from 2.7 percent in June 2019.

On the domestic credit front, which is one of the drivers of economic sustainability and resilience, public confidence and drive is still high with favorable growth in money supply of 19.3 percent as of June 2020 driven by a stable growth in the deposit base of the commercial banks. In terms of overall financial soundness and stability, the capital and liquidity of the financial institutions remain comfortable thus far despite increase in the non-performing loans (NPL) from 15 percent in June 2019 to 16.3 percent in June 2020.

On the external front, the trade deficit has improved from 16.9 percent of GDP to 9.8 percent during FY 2019/20, resulting into narrowing of the current account deficit from 21.2 percent of GDP in FY 2018/19 to 12.2 percent in the current fiscal year. As a result, the overall balance of payments for the year has remained positive with a comfortable level of foreign currency reserves at USD 1,343.5 million, adequate to finance 19 months of merchandise imports and 20 months of essential imports. The country's international reserves is an important indicator of economic soundness, stability and resilience especially during economic crises.

However, with the COVID-19 pandemic continuing to cause disruptions, Bhutan's economic outlook remains uncertain. With a young population (with a percentage share of 30.7 percent falling within the age group of 15 to 29 years), rising unemployment is one of the biggest issues for Bhutan. Addressing unemployment, reviving domestic productivity and revitalizing the repressed domestic demand through attuned fiscal, monetary, and cross sectorial interventions will be important national priorities for Bhutan in the next few years. Structural reforms to create employment generating economic activities will be important priorities in the medium to long term.

In order to reduce the economic impact of the pandemic, before the commencement of full economic recovery strategy by the government, continued relief from the Druk Gyalpo's Relief Kidu will be most important to keep the economy afloat.

Access to soft loans, particularly in financing the import of essential goods and also bridging finance for business continuity, has also been very crucial to businesses of all scales during these difficult times, for which RMA has been providing uninterrupted liquidity in the financial system. The financial sector's response in this area included immediate reduction of Cash Reserve Ratio from 10 percent to 7 percent, relaxation of Capital Adequacy Ratio (CAR), deferment of loan repayment with interest rate reduction rebates, and extension of gestation period for projects under gestation.

In consultation with the Ministry of Finance, RMA and the financial sector supported promotion of economic activities in the CSI sector through provision of micro loans for agriculture sector at 2 percent and 4 percent interest rates through the National CSI Development Bank.

With NPLs at around 16.3 percent at the onset of the pandemic, cleaning or resolving the long over due and non-viable NPLs is now the focus and priority of the monetary interventions. As an important part of the Monetary Measures Phase II, the Government has also emphasized the need of an inter-governmental effort to resolve the pending NPLs and in promoting and ensuring clean new loan schemes during and after the pandemic period. With this primary objective, the RMA Board has recently approved a framework for resolving the current accumulated NPLs with the provisions to freeze the interest application and to segregate the non-viable NPLs from the normal loan portfolios through the guidance of a High-Level NPL Committee under the Chairmanship of the Finance Minister.

Going forward, leveraging technological advancements and innovation, digitalization of banking services has been the RMA's top most priority. Initiatives in promoting digital infrastructure for promoting digital payments system (including the digitalization of government payments through RTGS and bulk transfer, instant interbank mobile banking and Bhutan QR Code) were timely and aided the digital delivery of essential financial services in a secure, standardized and reliable manner during these difficult times. Further, launch of the RuPay Card Scheme helped to strengthen cross-border interoperability of RuPay cards at ATMs and Point of Sale terminals in Bhutan and India.

The interconnection of the Bhutan Financial Switch (BFS) with the RuPay network will usher a new era of safe and convenient cross-border banking, ensuring cost effectiveness and deepening the cross-border payments between the two nations. The implementation of a regional payments gateway like RuPay is also a way forward in strengthening the international payments gateway (IPG). The credibility of Bhutan's financial system has been immensely enhanced within the last few years with every stakeholder playing its role under the guidance of the RMA.

As an overall strategy for the 21st Century, embracing the need for a vibrant financial sector to support Bhutan's path to become a developed nation, RMA has begun the task of preparing a 10-year Financial Sector Strategy, largely anchoring on an open digital banking framework with emphasis on Fintech products, strong cyber security, and relevant governing rules and regulations.

Against the backdrop of past and emerging developments, the RMA's actions throughout the year were driven by its ability to work collectively and collaboratively with different financial service providers and Government agencies in moderating the impacts of the pandemic. The RMA's core values are guided by His Majesty's wisdom of remaining as an active, relevant, and trustworthy public institution.

I would like to express my deep appreciation to the Royal Government, the RMA's Board of Directors, and the Management and staff of all financial service providers for the unwavering support and cooperation extended to the RMA in serving the Nation, particularly in times of crisis in the country. I also thank all the staff at RMA for their persistent hard work and dedicated service to the Tsa-wa-sum.

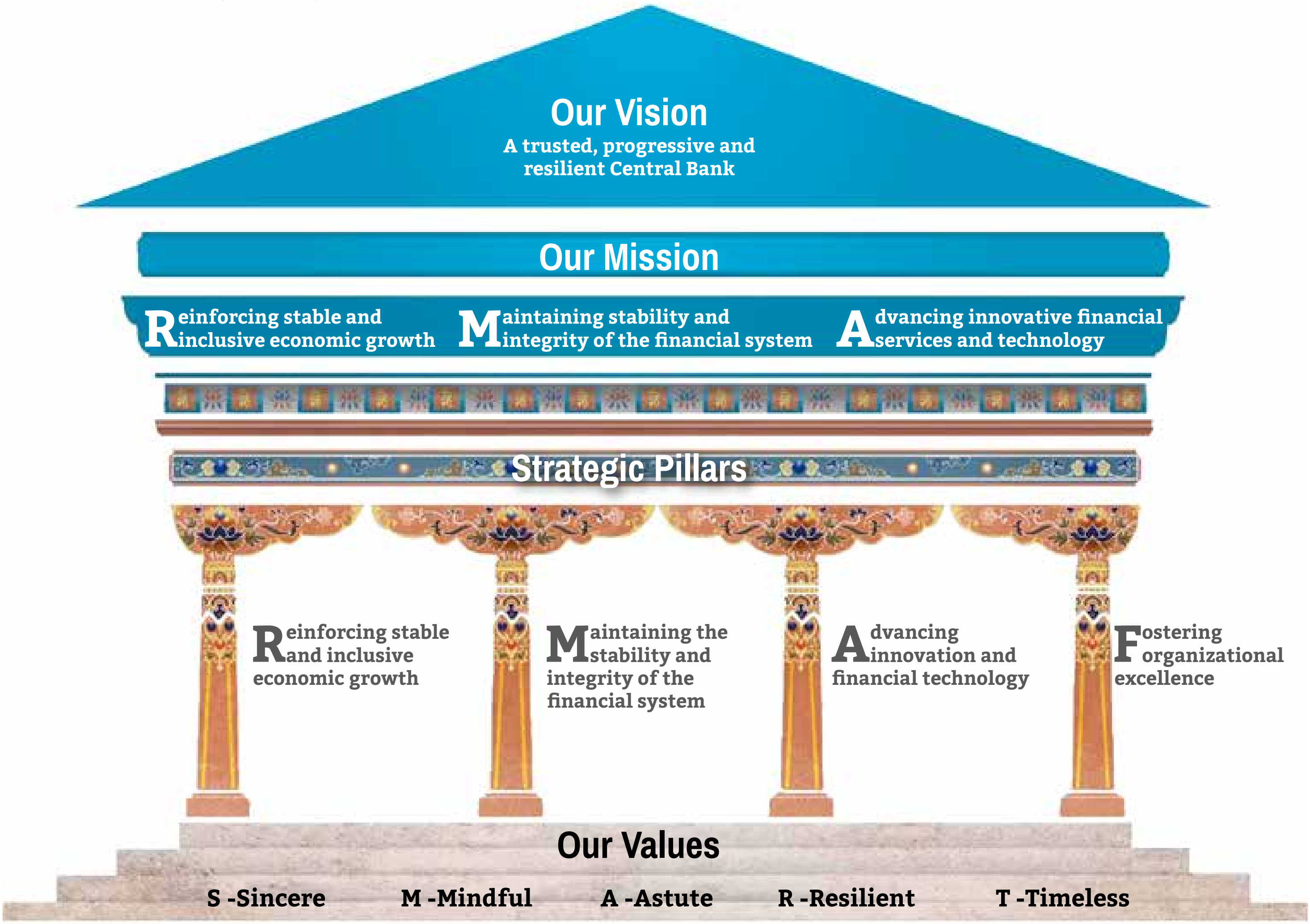
Thank you and Tashi Delek!

(Dasho Penjore)
GOVERNOR

Contents

1

VISION, MISSION, VALUES AND ORGANIZATIONAL STRUCTURE



Our Vision

The vision of RMA is to be a trusted, progressive and resilient Central Bank in fulfilling His Majesty the King's vision of ensuring a successful democracy accompanied by economic transformation based on the foundations of a just, equal and harmonious society.

- A Trusted, Progressive and Resilient Central Bank.

Our Mission

Drawing from the mandates of the RMA Act of Bhutan 2010, the following are the missions:

- Reinforcing stable and inclusive economic growth.
- Maintaining stability and integrity of the financial system.
- Advancing innovative financial services and technology.

Our Values

We are inspired by the SMART principles for Bhutanese people espoused by His Majesty the King and take the privilege to adapt them in our organizational context and adopt them as our core values.

Sincere – We will serve the Nation with utmost sincerity in maintaining sound monetary policy, and promoting stable and efficient financial system. The staff of RMA will conduct their duties with great humility, integrity and unwavering loyalty.

Mindful– We will be mindful of our national responsibility and shall place the overarching national goals at the heart of everything that we do. We will provide stewardship to the financial institutions and shall collectively endeavour to support the Nation in promoting inclusive economic growth through a participatory, responsive and inclusive financial sector.

Astute- We will be astute in our service delivery, leveraging on financial technology to promote innovative, efficient and inclusive financial services to all sections of the society. Our people will demonstrate ingenuity and excellence in their professional conduct through creative, critical and evidence-based problem solving and decision-making skills.

Resilient- We will promote a stable and sound financial sector that is resilient to shocks and risks. The staff of RMA will have foresight and fortitude to respond to the threats to financial stability.

Timeless- We will endeavour to uphold the timeless values of Tha Damtshi and commit to provide services that are timely and relevant, addressing the need of the hour by leveraging on technology and by being agile, adaptive and flexible to the fast-paced changing environment.

Strategic Pillars

In order to achieve our vision and mission, the RMA's strategic focus and priorities shall be conducted through the following four strategic pillars.

Strategic Pillar 1: Reinforcing stable and inclusive economic growth

This strategic pillar shall be the driving force in realizing His Majesty's vision of ensuring successful democracy accompanied by economic transformation based on the foundation of a just, equal and harmonious society. The strategic focus of the pillar shall be to enhance the livelihood of the youth and the rural population.

Strategic Pillar 2: Maintaining stability and integrity of financial system

As the regulatory body of financial institutions, the RMA has the mandate to ensure the stability and integrity of the financial system. The RMA shall strive to strengthen the corporate governance and regulation of the financial institutions to ensure the trust and confidence of the people in the Central Bank and the financial system.

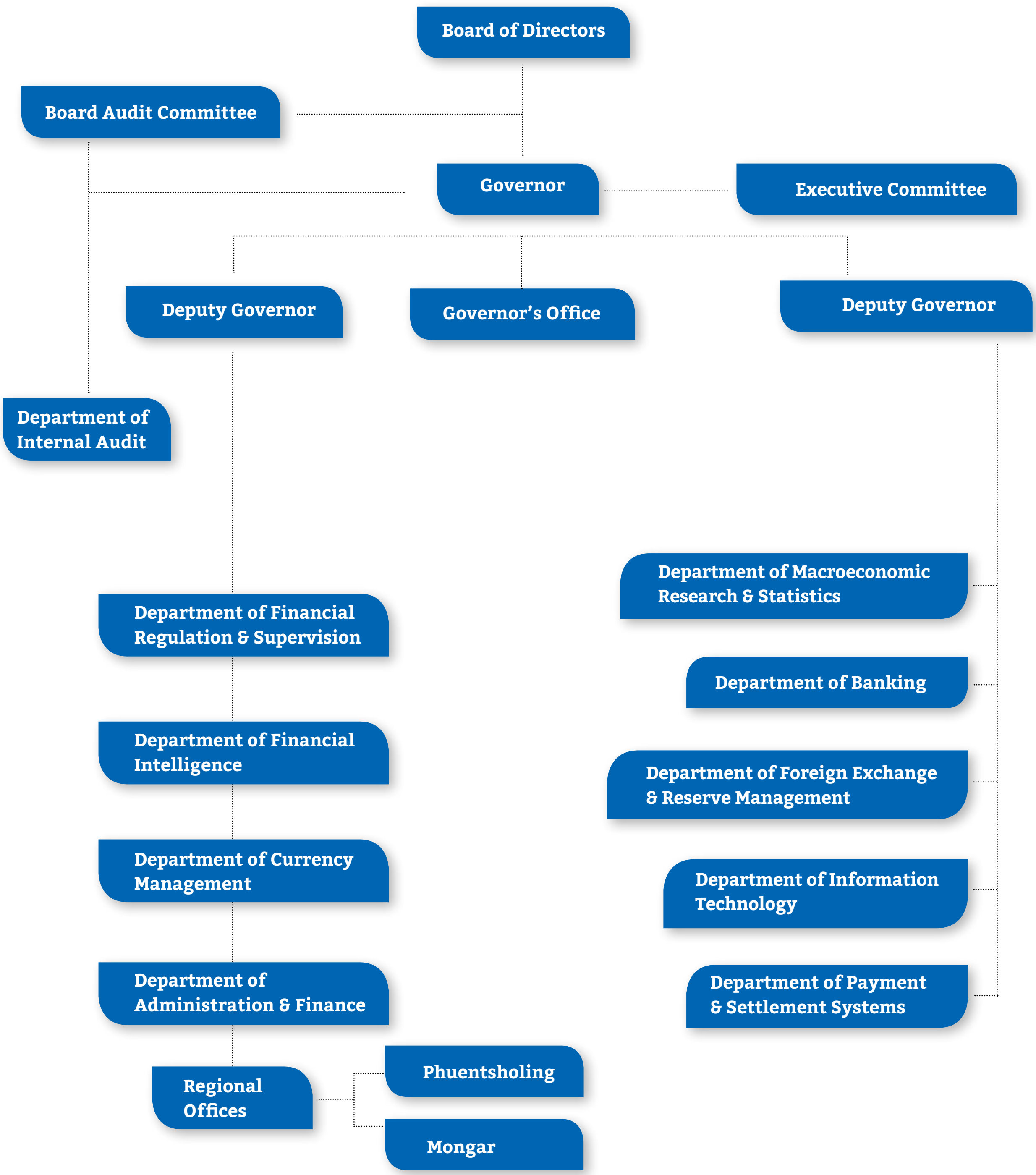
Strategic Pillar 3: Advancing innovation and financial technology

The RMA shall lead the financial sector in adopting and keeping abreast of the latest developments in financial technologies in improving the delivery of efficient and convenient financial services to the public. We shall take advantage of greater network connectivity and mobile penetration throughout the country for expanding financial services to the unreached and un-banked population in an efficient and cost-effective manner.

Strategic Pillar 4: Fostering organizational excellence

We recognize that for the achievement of the above three strategic pillars and the fulfillment of RMA's vision and mission, the efficiency and effectiveness of the organization are critical. To this end, the RMA shall strive for excellence in instituting best organizational systems and management practices; and building highly motivated and knowledge-based talent pool in the organization.

ORGANIZATIONAL CHART



1. Board of Directors

Dasho Penjore was appointed as the Governor of the Royal Monetary Authority of Bhutan in December 2015. Dasho started his career in 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. Dasho Penjore was reappointed for a second five-year term as the Governor of the RMA by His Majesty The Druk Gyalpo on 27th November 2020.

Member

Mr. Nim Dorji is the Secretary of Ministry of Finance. Before he was appointed as the Finance Secretary ,he served as the Director General of Department of Agriculture, MoAF. He holds a Master's degree in Business Administration from the University of Canberra, Australia.

Member

Mr. Thinley Namgyel is the Secretary of Gross National Happiness Commission Secretariat. He has a Master's degree in Business Administration from the University of Canberra, Australia.

Member

Mr. Tashi served as a Zimpon Wogma (Deputy Chamberlain) under His Majesty's Secretariat before he was appointed as the Auditor General by His Majesty The Druk Gyalpo on 28th October 2020.

He is a certified IDI/INTOSAI Training Specialist. After completing his Bachelors of Commerce degree from Sherubtse College, he pursued his studies at the Chartered Institute of Management Accountants in London and obtained an Advanced Diploma in Management Accountants.

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 Currency Management. He holds a Master's degree in Public Administration and Economic Policy Management from Columbia University, USA.

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.

Member

Mrs. Yangchen Tshogyel was appointed as the Deputy Governor of RMA in September 2016. 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.

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

Mr. Dophu Dorji
Director
Department of Currency Management

Mrs. Tshering Dema
Director
Department of Banking

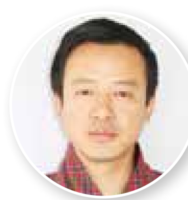
2. Executive Director and Directors

Mr. Gopal Giri
Director
Department of Macroeconomic Research & Statistics

Mrs. Tshering Wangmo
Director
Department of Payment & Settlement Systems

Mrs. Gopi Nepal
Director
Department of Financial Regulation & Supervision

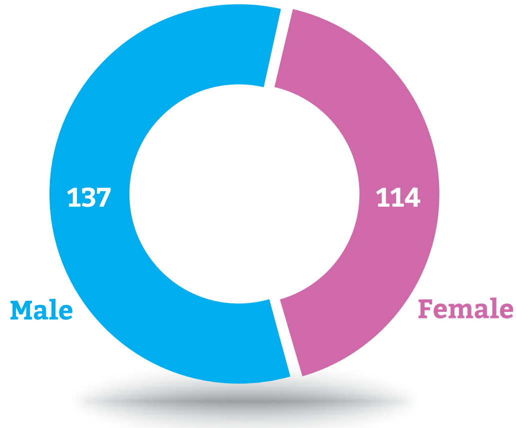
Mr. Sonam Tobgay
Regional Director
Phuentsholing Regional Office



Mr. Sherab Jamtsho
Director
Department of Information Technology

3. Staff Strength

As of September 2020, RMA's total staff strength was 251 (Male:137, Female:114). Of the total, 237 employees were stationed at the Head Office, 10 employees at the Phuentsholing Regional Office and 4 employees at the Mongar Regional Office. During the FY 2019/2020, a total of 45 new employees were recruited at the RMA (Male: 25, Female: 20) and a total of 13 employees separated from the RMA (Male: 10, Female: 3).



Recipients of the Service Medals in 2020

During the year, six staff of the RMA received the service medals (1 life-time service award medal, 2 silver medals and 3 bronze medals).

The RMA extends our sincere appreciation to the senior Directors who separated from the RMA in the year 2020, for their valuable contributions made to the organization.

Mr. Namgay Tshering
Executive Director

Department of Financial Intelligence, joined RMA in 1995.

Mr. Jai Narayan Pradhan
Executive Director

Department of Currency Management, joined RMA in 1987.

Mr. Phub Dorji Tangbi
Executive Director

Department of Internal Audit, joined RMA in 1999.

Launch of RuPay Phase II: Issuance of RuPay Card

In continuation to the RuPay Phase I, His Excellency Shri Narendra Modi, the Hon'ble Prime Minister of India and His Excellency Lyonchhen Dr. Lotay Tshering, the Hon'ble Prime Minister of Bhutan, jointly e-launched the RuPay card issuance by the Bhutan National Bank Limited (BNBL) on 20th November 2020. The RuPay card scheme, being more affordable than other international card schemes, is a cross-border payment initiative between the two countries and is aimed at promoting the use of low-cost digital payment solutions and advance digital financial inclusion.

The launch of RuPay card scheme in Bhutan is made possible by the interconnectivity of the Bhutan Financial Switch (BFS) with India's National Financial Switch (NFS), operated by the National Payment Corporation of India (NPCI).

The transaction initiated with the BNBL-RuPay card from the ATM and/ or PoS) terminals in India will be routed to the NFS of NPCI, which in turn, will be routed to the BFS of RMA. The authenticity of the message will be checked at BFS with message authentication code (MAC) received from the NPCI with the application of a cryptography algorithm. The transaction will be routed to the BNBL financial switch for authentication and authorization. Additionally, the BNBL-RuPay card is EMV chip-based which provides enhanced security and protection against fraudulent transactions. The microprocessor on the EMV chip-card is protected by cryptographic encryption, which prevents the card from cloning.

The BNBL's RuPay debit cards can be accepted at more than 100,000 ATMs and 2 million PoS terminals deployed by the member banks of the National Payments Corporation of India for cash withdrawal, balance inquiry and purchases.

The interconnection of the BFS network with the RuPay network would not only usher in safe and convenient banking, but also help realize cost effective and cashless transactions by streamlining the payment flows into mainstream banking systems, and thereby, enhancing cross-border digital payments between the two nations.

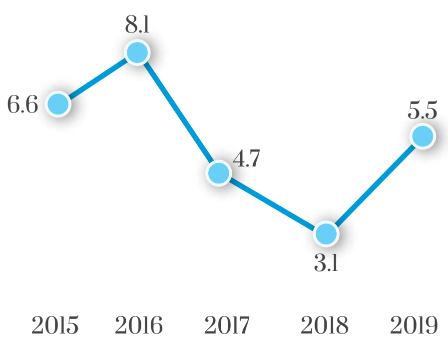
The 1st phase of the project with the acquiring of RuPay cards in Bhutan was launched on 17th August 2019 with 10,428 successful transactions of INR 36.52 million aggregated till date, and the 2nd phase was anticipated on empowering the member banks of RMA, Bhutan to issue RuPay cards to Bhutanese citizens to use in India.

2
MACROECONOMIC HIGHLIGHTS

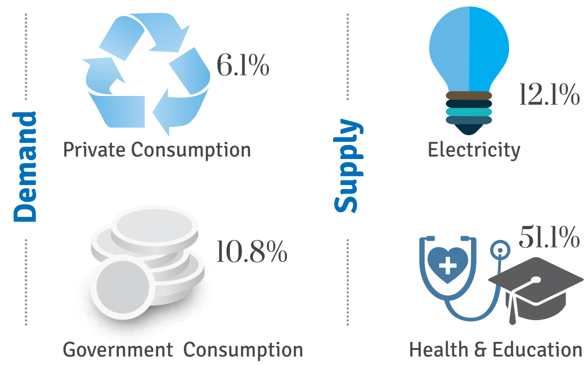
2.1 Key Highlights-FY 2019/20

Domestic economy rebounds from 3.1 percent in 2018 to 5.5 percent in 2019

Real GDP (Growth, %)

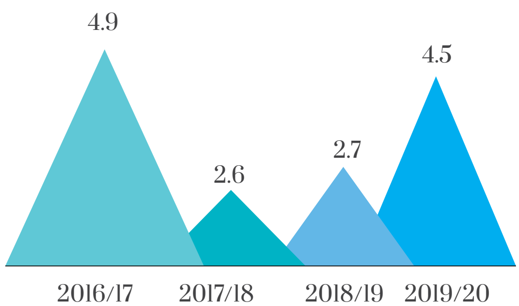


Key Drivers of Economic Growth in 2019

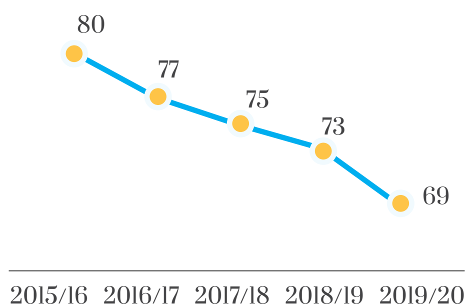


Headline inflation surged to 4.5 percent, driven by rise in food prices in June 2020

Headline Inflation (Growth, %)



Purchasing Power of Ngultrum (2012=100)

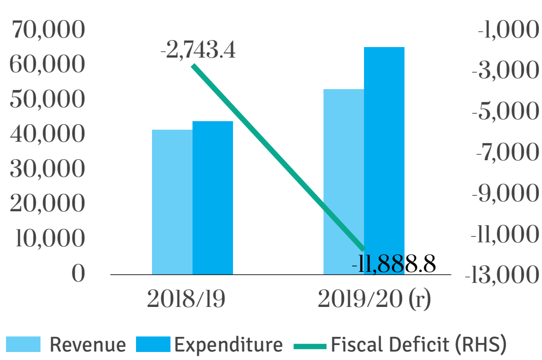


The weight distribution in CPI basket
Food items: 45.3%
Non-food items: 54.7%

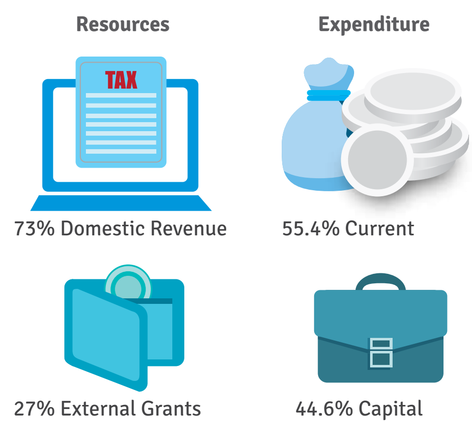
Nu 100 in December 2012 is worth only Nu 69 in June 2020

Fiscal deficit widens in June 2020

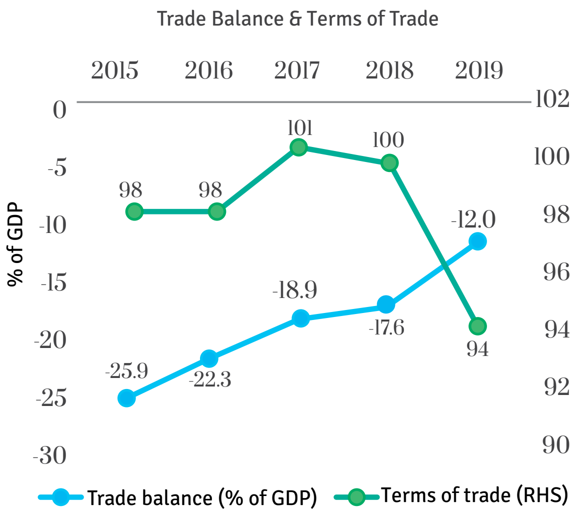
Budgetary Operations (Nu in Million)

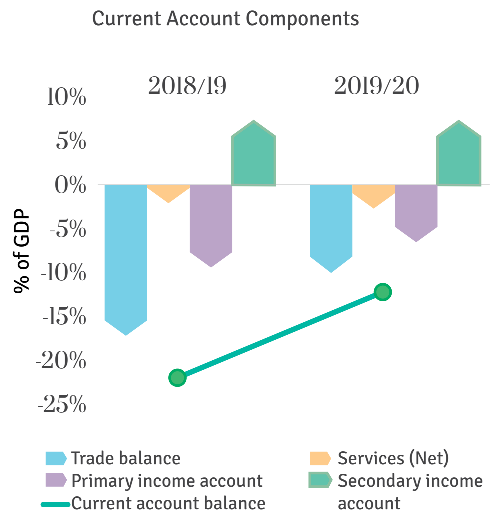


Key Contributors (in % share)

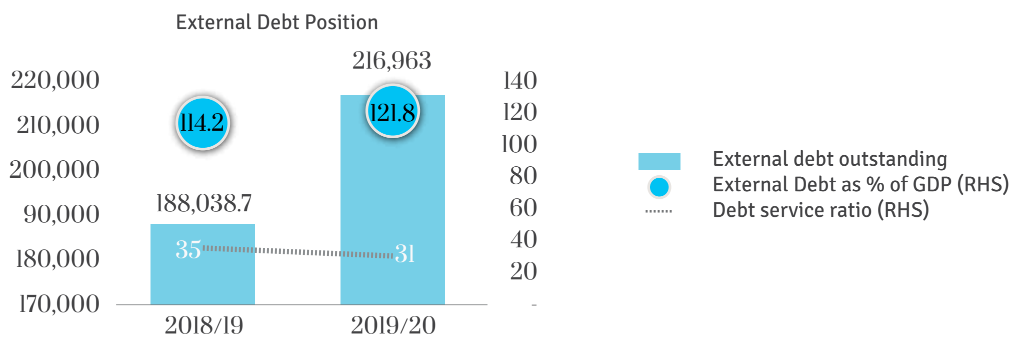


Current account deficit narrowed as the trade imbalance improved

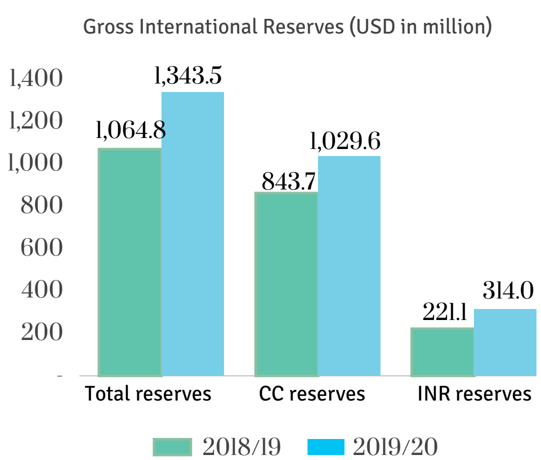


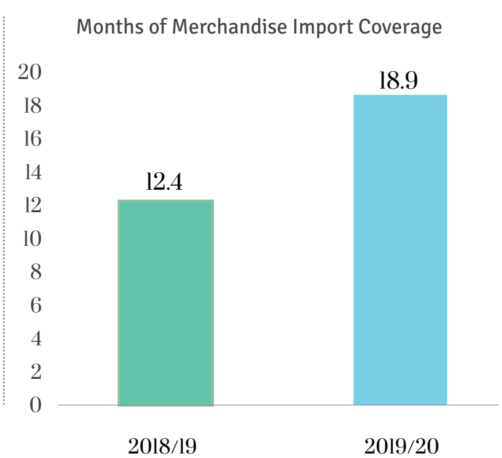


External Debt Outstanding increased on account of increase in Rupee liability (Swap and hydropower loan) and CC loans from multilateral institutions.



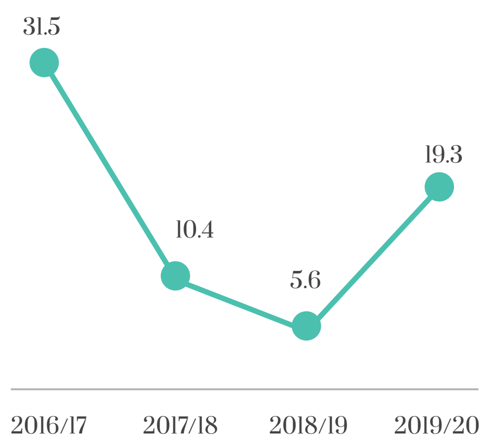
Gross International Reserves are adequate to finance imports



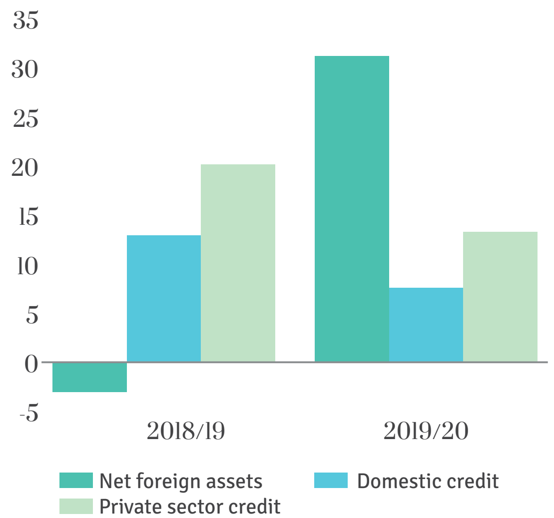


Money supply picked up after slowdown in the preceding years

Money Supply (M2) (Growth, %)

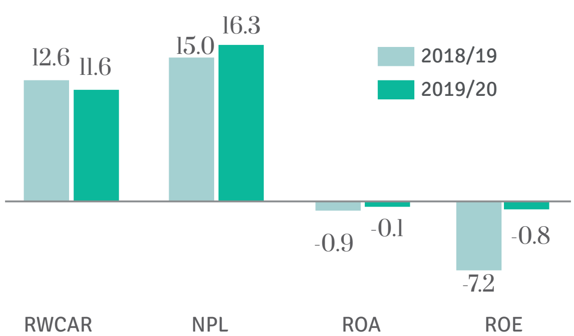


Source of Money Supply (Growth, %)



Financial Service Providers experienced a significant improvement in investment returns

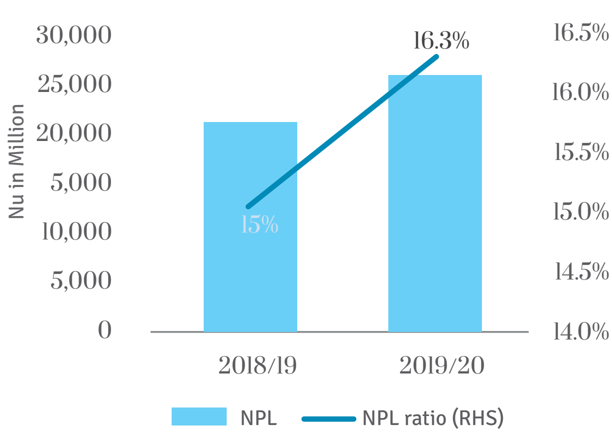
Financial soundness indicators of the FIs (in % share)



RWCAR: Risk weighted capital Adequacy Ratio
NPL: Non-performing loan
ROA: Return on asset
ROE: Return on equity

Persistent rise in NPL becomes a challenge

Non-Performing Loans



Highest Sectoral NPL Share to Total NPL

2.2 Promoting Financial Sector Development: RMA's New Initiatives

2.2.1 Monetary Measures and easing of regulatory requirements in 2020

- Reduction in CRR from 10 percent to 7 percent.
- Provisioning of interest payment support
- Deferment of loan repayment with 1% interest rate rebate for regular repayment during the deferment period
- Extension of gestation period for projects under gestation.
- Concessional term loans in the form of soft bridging loans to businesses.
- Release of capital conservation buffer of 2.5%.
- Provisioning of concessional term based working capital to wholesale distributors, tourism and related business, and manufacturing industries.
- Provision of micro loans for agriculture sector at 2 percent and for CSIs at 4 percent interest rates through the National CSI Development Bank
- Implementation of the Domestic Liquidity Management System

Domestic Liquidity Management System (DLMS)

Implementation of Domestic Liquidity Management System will promote effective liquidity management pratices

Key objectives

Develop a top-notch liquidity management system

Ensure and provide undisrupted liquidity in the Banking system

Build a dynamic action in financial intermediation process

Encourage banks to proactively carry out their liquidity management function based on the need and priority of the economy

Promote domestic money market

Support the development of inter-financial lending operations and develop domestic money market

3 levels of liquidity operations

1. The OLMO shall help to resolve possible systemic or overnight liquidity imbalances of the banks
2. The WLMO shall complement the OLMO in managing the banks liquidity within a time horizon of one week, based on forward looking liquidity flows
3. LTLMO is a longer-term liquidity management tool. The LTLMO shall serve as a liquidity providing or liquidity absorbing facility with a maturity ranging from 30 to 90 days

2.2.2 Other Initiatives

National e-Commerce Portal

During the second Bhutan Economic Forum for Innovative Transformation (BEFIT) held in July 2019, a national e-commerce portal was launched to create an enabling environment for e-market while providing access to the international market for the CSI sector in Bhutan. BoBL currently maintains and operates the portal and since its launch, the RMA has been actively leading initiatives to support and involve relevant stakeholders. Some of the institutions include Bhutan Agriculture and Food Regulatory Authority (BAFRA), Department of Cottage and Small Industry (DCSI), One Gewog One Product (OGOP, Bhutan Standard Bureau (BSB), Bhutan Post and Bank of Bhutan Limited (BoBL).

A live demonstration and testing of the e-commerce portal were conducted during the last stakeholder consultation coordinated by the RMA wherein embassies in Kuwait and Thailand were able to successfully purchase products from the portal. Moreover, people from other locations like New York and Australia were also able to take part in the demonstration through purchase made via the portal. The portal is continuously reviewed to further improve on the quality before it goes live.

Further enhancement and upgradation of the portal has been initiated recently to make it user friendly. The android based mobile app is complete, while it is under review for iOS.

Framework & Rules and Regulations:

- The Private Money Lending Rules and Regulation of Bhutan 2020 were issued to minimize threats to the financial system and enhance the effectiveness of monetary policy and management.
- The Foreign Exchange Rules and Regulations 2020 were issued for effective management of the foreign exchange reserves.
- The Corporate Governance Rules and Regulations 2020 (3rd edition) was issued to promote sound corporate governance in the regulated entities under the jurisdiction of the Authority through the adoption of high standards of corporate governance principles and practices.
- The Payment and Settlement Systems Oversight Framework 2020 was issued to promote the safety and efficiency of payment and settlement systems through effective monitoring, proper assessments, and inducing change.
- The Domestic Liquidity Management Framework was issued.

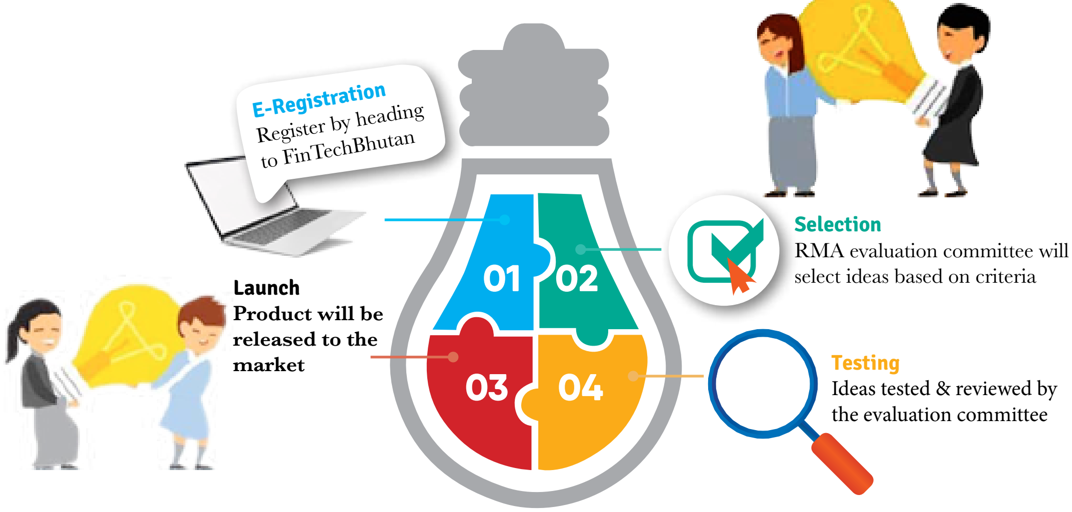
Issuance of Guidelines:

- Anti-Money Laundering and Countering of Financing of Terrorism Guideline for Insurance Companies 2020 was issued to combat money laundering and financing of terrorism.
- The Guideline for Automated Teller Machine and Point of Sale 2020

was issued, setting standards and procedures to ensure smooth, secure, and effective operation of ATM and PoS.

- The Guideline for Bhutan QR Payments 2020 was issued to streamline the procedure for the operation of mobile payments via Bhutan QR.
- Payment Aggregators and Payment Gateways Guideline 2020 was issued, setting minimum standards and procedures to ensure smooth, secure, and effective operation and functioning of Payment Aggregators and Payment Gateways in the country.
- The Foreign Exchange Operational Guideline 2020 was issued to define the limit, terms, and conditions for the permitted operation of foreign exchange transactions by the authorized bank as per the Foreign Exchange Rules and Regulations 2020.
- The Guidelines to support the implementation of the National Credit Guarantee Scheme (NCGS) was issued as a countercyclical policy intervention in response to the COVID-19 Pandemic.
- The Guidelines on the Transfer of Non-Performing Loan Asset, 2020 was issued to decongest the balance sheet of financial institutions, creation of new credit and to revive and rehabilitate the borrowers with existing debt burden.

FinTech Regulatory Sandbox Framework



As an important part of the Digital Financial Sector Roadmap, the RMA introduced the FinTech Regulatory Sandbox Framework in June 2020. The Regulatory Sandbox (RS) enables interested individuals and/or IT firms to test their innovative FinTech ideas, products and solutions within a controlled, well-defined space and duration.

Additionally, it shall help the RMA in developing a deeper understanding of the risks and opportunities from FinTech and implement suitable policies to support innovations.

Centralized Macroeconomic Data Warehouse (DW)

As part of 21st Century Financial Sector Roadmap, the RMA has initiated a project on developing state-of-the-art macroeconomic Data Warehouse (DW) under one of thrust areas of Digital Transformation of Financial Ecosystem.

The main objective of developing centralized macroeconomic DW is to revamp the current practices of data management through centralized data services platform to provide consistent and reconciled business intelligence, which is based on operational data, decision support data, and external data, to all the units within the RMA.

Currently, the RMA collects more than 162 datasets from different data sources – from both regulated and unregulated entities - for the compilation of macroeconomic, monetary and financial statistics. However, the existing manual-based practice of data collection, storing and compilation is contributing to low-quality data and analytics. This is further aggravated by lack of data standardization and harmonization with the information technology systems to process data.

The DW aims to eliminate data silos by creating a single source of data within the organization by automating data processes thereby helping the authority to support evidence-based policy decision and analytical research.

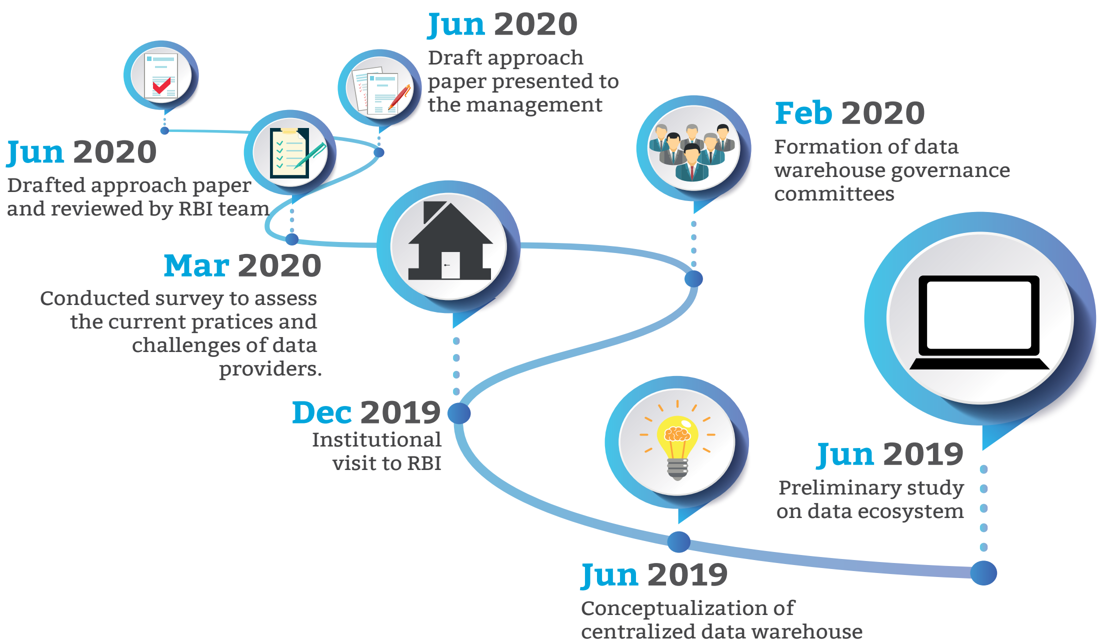
The key activities of the project include; 1) development of technology and design, 2) data protection policy and security guidelines, and 3) human capacity building. The project is currently spearheaded jointly by the Department of Information Technology (DIT) and Department of Macroeconomic Research and Statistics (DMRS) in the RMA with close collaboration with other relevant data providers and agencies.

Towards implementation of the project, the following preliminary activities on the project were carried out by the DW team:

1. Developed DW Approach Paper that outlines a comprehensive strategic roadmap for development of the DW.
2. Conducted Diagnostic Survey on the data providers to assess and review the current data gaps, challenges and expectations.
3. Submitted DW Project Proposal Report to the Asia Development Bank (ADB) for techinical and financial assistance.

The key project milestones achieved until 2020:

The project is in the final stage of securing financial assistance from the ADB on the implementation of core solution cost and support in technical assistance who will draw up the data protection and security policy. The project is extended over three years and expected to complete by 2023.



Development of High Frequency Economic Indicators

As a central bank, one of the key functions at the RMA is to make timely and informed policy decisions based on data-driven. A comprehensive compilation of macroeconomic and monetary data from various sectors of the economy is done at the Department of Macroeconomic Research and Statistics so that the policies framed are based on credible and reliable data. However, a concern that was especially accentuated during the COVID-19 pandemic, is the lack of high frequency macroeconomic data.

The initiative undertaken by the RMA to develop High Frequency Economic Data in collaboration with the South Asia Regional Training and Technical Assistance Center (SARTTAC), IMF and other key stakeholders will help to address the existing gaps in terms of timeliness, periodicity and coverages. The exercise focuses on developing high frequency key economic indicators to address the existing gaps.

While doing this, with the monthly administrative data available at the RMA and other agencies have been used to check whether there is a close correlation with corresponding actual economic data of the Annual National Accounts . Other data sources have also been explored and collection of historical monthly data for all the sectors have also been initiated to ehhance the quality of data.

The benchmarking method has been used for selection of indicators. Each sectors' indicators are benchmarked, taking the data levels from the annual accounts and movements from the monthly indicators.

After the assessment and selection of indicators, the data will be seasonally adjusted and will be further reviewed and tested for reliability and significance using statisitcal tools.

2.3 Selected Macroeconomic Indicators

Indicator	2015/16	2016/17	2017/18	2018/19	2019/20
GDP Growth and Prices (percent change)					
GDP at Constant (2000) Price (a), (b)	6.6	8.1	4.7	3.1	5.5
Inflation - June end (b)	3.6	4.9	2.5	2.7	4.5
Government Budget (Nu in Million) (c)					
Total Revenue and Grants	42,039.3	42,673.1	52,113.2	42,949.1	53,105.6
of which: Foreign Grants	14,889.6	12,986.8	14,847.1	8,262.9	16,423.5
Total Expenditure*	44,688.4	48,018.0	56,331.4	46,724.9	57,472.3
of which: Current Expenditure	22,880.6	24,129.6	27,494.7	29,105.5	35,523.6
Overall Balance	-1,563.7	-5,344.9	-545.5	-3,775.5	-4,366.8
(in percent of GDP)	-1.2	-3.7	-0.3	-2.0	-2.4
Money and Credit (percent change, end of period)					
Broad Money, M2	15.8	31.5	10.4	5.6	19.3
Credit to Private Sector	14.7	15.4	15.7	20.5	13.3
Interest Rates (end of period)					
One Year Deposits	4.0-6.5	5.0-6.0	5.0-5.75	4.75-6.50	4.75-6.0
Lending Rate	11.7-15.0	8.0-14.0	9.9-13.0	7.94-14.0	7.94-14.0
Government Treasury Bills	5.5	0.7	2.5	4.3	2.1
Balance of Payments (Nu in Million)					
Trade Balance(Goods)	-35,519.1	-31,149.2	-27,200.7	-28,338.6	-17,529.0
With India	-28,878.4	-24,303.8	-25,478.9	-26,322.6	-15,896.7
Current Account Balance	-41,367.3	-35,926.1	-30,087.5	-35,430.2	-21,789.5
(In percent of GDP)	-32.2	-24.8	-18.9	-21.2	-12.2
With India	-38,312.6	-34,006.5	-34,034.3	-38,643.1	-26,644.2
(In percent of GDP)	-29.8	-23.4	-21.3	-23.1	-15.0
RGOB Loans	30,052.8	13,078.4	18,530.6	18,094.5	26,271.9
Of which: India(including accrued interest on Hydro)	42,017.9	12,933.4	24,756.3	23,805.1	31,169.0
Errors and Omissions	-2,013.3	6,245.0	-4,996.4	-240.4	653.4
Overall Balance	12,584.5	-1,565.3	4,857.2	-1,517.0	26,246.1
(In percent of GDP)	9.8	-1.1	3.0	-0.9	14.7
External Indicators (end of period)					
Gross Official Reserves in millions of USD	1,118.8	1,103.8	1,111.3	1,064.8	1,343.5
Reseves in months of merchandise imports	12.9	12.6	13.8	12.4	18.9
External Debt outstanding (USD millions)	2,315.6	2,505.4	2,642.1	2,728.4	2,872.7
External Debt (percent of GDP)	119.5	114.7	107.8	112.4	121.8
CC debt outstanding (USD millions)	609.0	663.2	699.8	720.1	830.8
CC debt (percent of GDP)	31.4	30.4	28.5	29.7	35.2
Rupee debt outstanding (INR millions)	115,393.8	118,770.1	133,190.7	138,409.4	154,218.0
Rupee debt (percent of GDP)	89.8	81.9	83.5	82.7	86.5
Debt-Service Ratio (d)	14.4	24.8	23.4	34.9	30.9
Memorandum Items					
(Nu in Million unless otherwise indicated)					
Nominal GDP (a), (b)	128,534.6	145,072.9	159,571.7	167,340.0	178,201.9
Ngultrum per USD (fiscal year average)	66.3	66.4	65.1	70.6	72.5
Money Supply, M2 (end of period)	79,162.7	104,113.6	114,973.7	121,416.7	144,890.5
Money Supply, M1 (end of period)	44,933.6	60,723.3	66,295.0	69,203.4	85,575.6
Counterparts (Nu in Million)					
Foreign Assets (Net)	67,815.6	68,186.7	66,006.3	63,920.6	84,090.6
Domestic Credit	65,692.7	85,084.8	100,320.5	113,488.2	122,112.9
Claims on Private Sector	65,157.2	75,185.1	86,985.1	104,850.5	118,812.5
Components (Nu in Million)					
Currency Outside Banks	6,101.7	8,787.7	9,234.0	9,744.1	11,782.9
Transferable Deposits	38,831.9	51,935.6	57,061.0	59,459.3	73,792.8
Other Deposits	34,229.1	43,390.3	48,678.6	52,213.4	59,314.8
Reserve Money, M0 (end of period)	27,802.9	34,327.9	33,469.8	31,973.9	45,049.7
of which: Banks' Deposits	18,132.0	22,798.9	21,201.5	19,427.9	30,414.0
Money Multiplier (M2/M0)	2.8	3.0	3.4	3.8	3.2
Income Velocity (GDP/M2)	1.6	1.4	1.4	1.4	1.2
Unemployment Rate (a)	2.5	2.1	2.4	3.4	2.7

a) GDP and Unemployment figures are on a calendar year basis (eg: entry under 2019/20 is for 2019).
b) Source: National Statistics Bureau
c) Data for 2018/19 are revised estimates.
d) Debt service payments in percent of exports of goods and services.

* Total expenditure includes net lending and other payments.

3
ECONOMIC REVIEW

3.1 Real Sector

Hydroelectricity and social sector were the key drivers of GDP growth in 2019.

GDP recorded a growth of 5.5 percent in 2019, compared to 3.1 percent in 2018. The growth was largely contributed by the hydropower, and education and health sectors. The commissioning of the Mangdechhu hydro power project combined with favorable hydrological conditions supported the revival of the hydropower sector from negative 14.9 percent in 2018 to 12.1 percent in 2019.

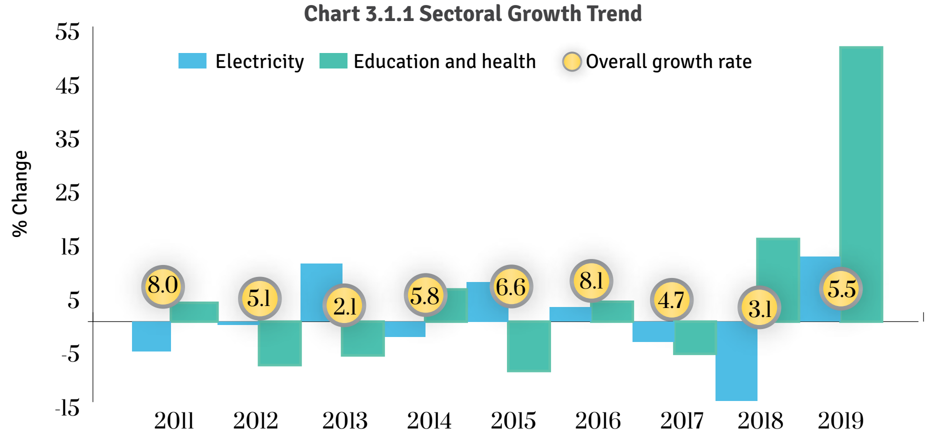
Likewise, the health and education sector witnessed an increase of 51.5 percent in 2019, compared to 15.4 percent in 2018.

During the FY 2019/20, Government expenditure on education and health was the second highest in terms of share constituting about 15.1 percent of the total expenditure, driven by the higher revision of pay and allowances in this sector.

Prior to the onset of the COVID-19 pandemic, the higher growth in tourist arrivals (15.1% increase from 2018 to 2019) has resulted in the growth of trade and restaurant (12.9%), and transport and communications (13.2%) sectors. The value addition in the construction sector declined significantly from negative 8 percent in 2018 to negative 14.7 percent in 2019. This decline was mainly on account of fall in public investment. The government construction comprises of 23.6 percent of the GVA of construction sector, while the remaining was attributed to private and public corporations. Similarly, public administration witnessed a negative growth of 2.8 percent, while there has been a modest growth of 0.3 percent in the financial services.

The manufacturing sector growth also contracted to negative 0.1 percent in 2019 from 2.6 percent in 2018, largely on account of weak domestic demand, particularly due to fall in the growth of construction sector combined with falling external demand. This was particularly disposed to higher concentration of exports in few selected manufacturing goods which

Chart 3.1.1 Sectoral Growth Trend



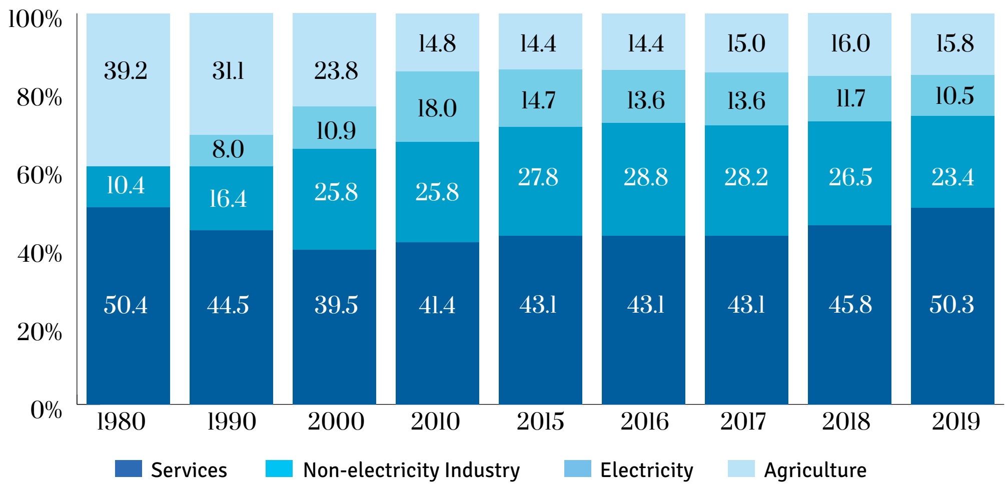
are dependent on selected markets. However, mining and quarrying sector experienced continued substantial growth at 33.1 percent due to higher demand from neighboring countries for mines and mineral products such as boulders and dolomites.

Following previous trends, the service sector constituted the highest share of

manufacturing and construction) constituted 23.4 percent with the second highest share, followed by agriculture sector with 15.8 percent and electricity with 10.5 percent.

Domestic demand is driven by consumption growth with increased current expenditure of the Government as well as higher private consumption.

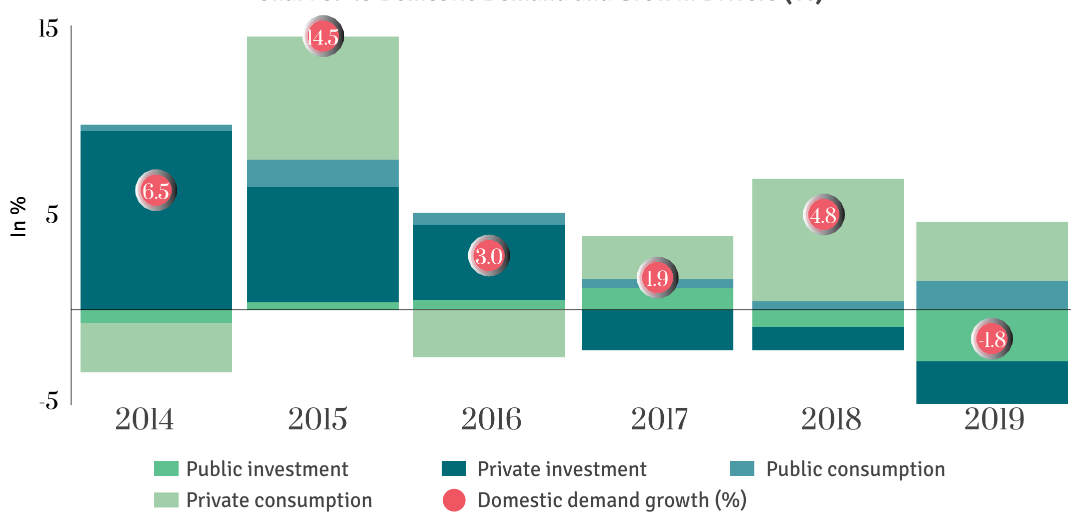
Chart 3.1.2 Sectoral share of GDP: Economic Transformation



GDP with 50.3 percent in 2019. Despite marginal growth in primary and secondary sectors, the service sector continued to drive the GDP growth in 2019. Non-electricity industry (mining,

In 2019, government and private consumption accelerated with a growth of 10.8 percent and 6.1 percent respectively.

Chart 3.1.3 Domestic Demand and Growth Drivers (%)



On the other hand, the investment level has declined with a negative growth of 16.5 percent, mainly attributed to minimal capital budget allocation at the beginning of the 12th Five Year Plan (FYP).

The absence of initiation of new hydro power plants is also one of the factors that contributed to fall in private investment.

Trend analysis indicates that investment has declined continuously from 2016, a decrease of 11.2 percentage points compared to 2018. However, productivity of capital has improved in 2019 as the Investment Capital Output Ratio (ICOR) decreased to 7.4 from 15.7 in 2018[1].

On the external front, an increase in exports that off-set the decline in imports resulted in the improvement of trade balance with a growth rate of 32.4 percent in 2019. Overall, the Gross National Income (GNI) per capita expanded by 5.4 percent in nominal terms to Nu 218,475.35 in 2019 from Nu 207,362.18 in 2018, reflecting a continued improvement in the income level.

Chart 3.1.4 Supply & Demand Gap: Trade Deficit

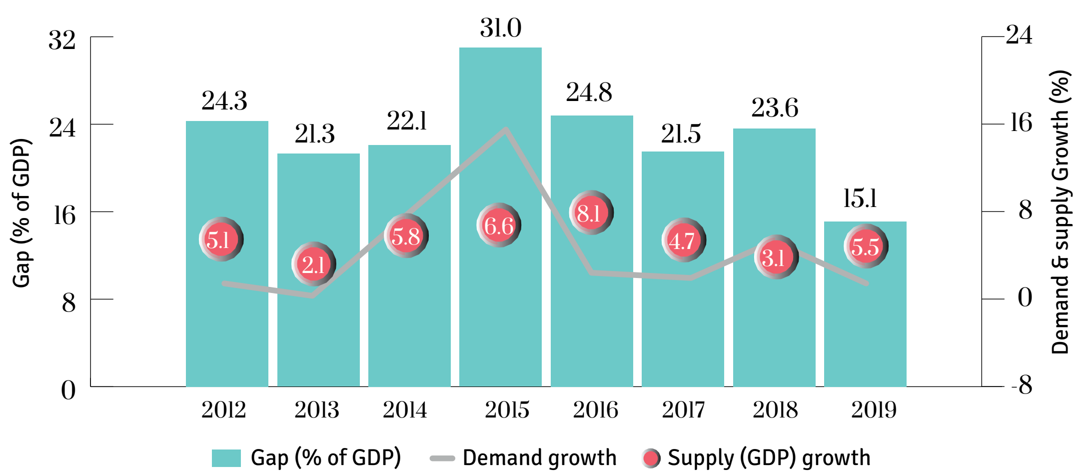
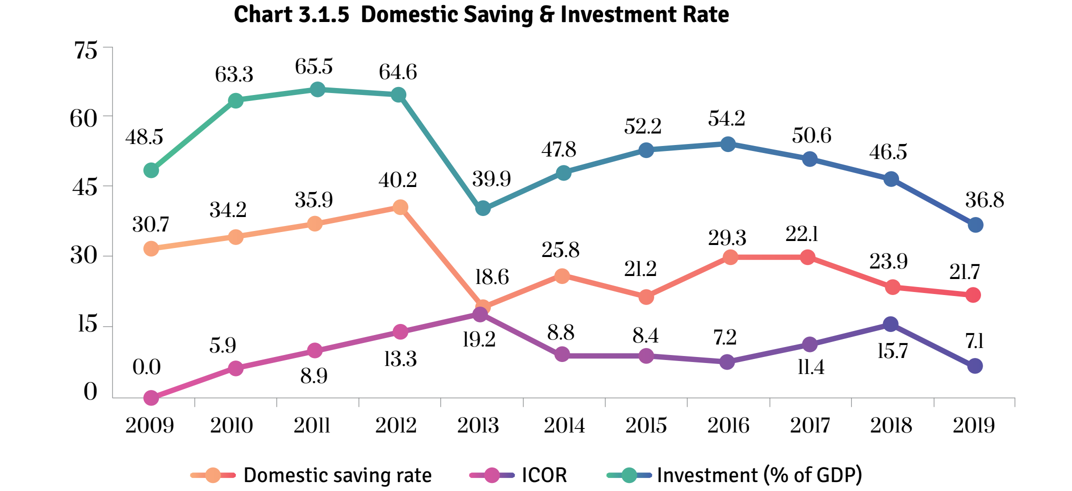


Chart 3.1.5 Domestic Saving & Investment Rate



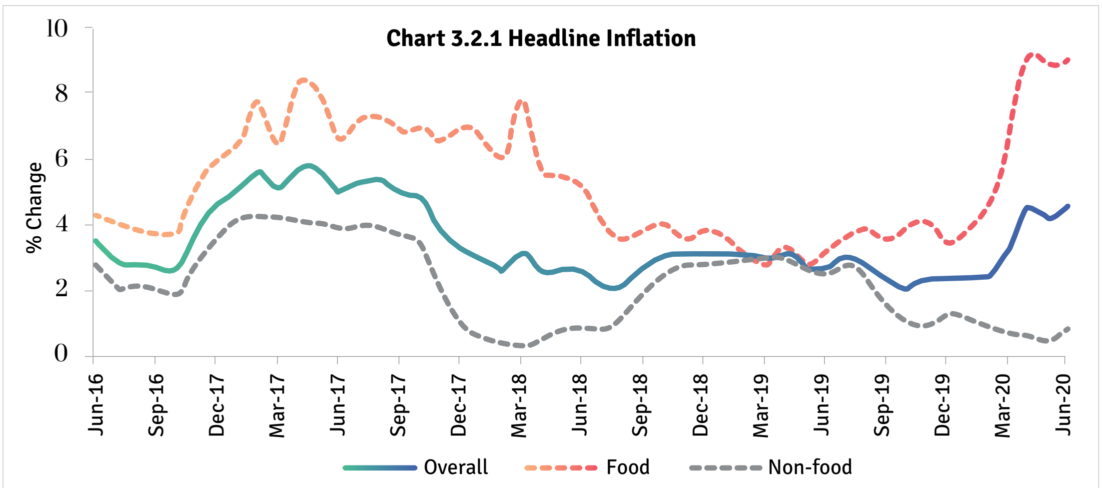
[1] The ICOR is the ratio of investment to growth. Higher the ICOR, lesser the productivity of capital and vise versa.

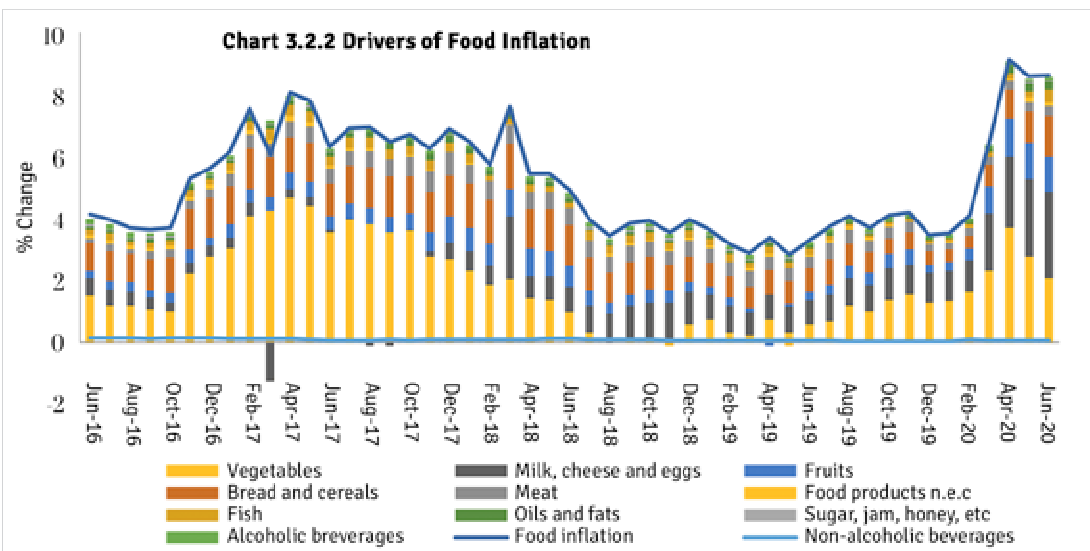
3.2 Inflation

Headline inflation surged to 4.5 percent, driven by rise in food prices in June 2020.

The annual headline inflation rose to 4.5 percent in June 2020 from 2.7 percent in June 2019. The increase in inflation is attributed to rise in food inflation from 3.1 percent in June 2019 to 8.9 percent in June 2020, on account of prolonged economic disruptions due to the COVID-19 pandemic. On the other hand, the non-food inflation fell steadily from 2.6 percent in 2019 to 0.9 percent in June 2020, mainly due to decline in prices in transport and communication.

A large share of consumer demand for goods and services are met from external supply, constituting about 52 percent of the consumption basket. Imports from India in particular constitute more than three fourth of total imports. With the increasing COVID-19 infection cases in the region and the temporary restriction on imports of goods and services, the economy experienced an inflationary pressure from the region, particularly from India. As a result, the economy





witnessed an increase of 2.3 percentage points in the imported inflation in June 2020 from the previous year.

Amidst low domestic supply along with higher imported inflation, food inflation up-ticked by a large margin in June 2020. The main drivers of food inflation were the prices of milk, cheese, and eggs, with a 16.4 percent inflation rate in June 2020, compared to a 4.6 percent inflation in June 2019. This was followed by the increase in the prices of fruits, fish and vegetables with inflation rates of 15.8 percent, 13.6 percent and 10.9 percent, respectively.

On the other hand, the non-food inflation declined to 0.9 percent in June 2020 from 2.6 percent in June 2019, mainly contributed by the fall in prices of communication (-6.4%), followed by recreation (-0.3%) and transport (-0.3%). Decline in the communication prices was attributed to drop in data charges for mobiles, while, the demand for recreation and transport fell due to the COVID-19 containment measures.

With more than half of the consumer

Chart 3.2.3 Drivers of Non-Food Inflation

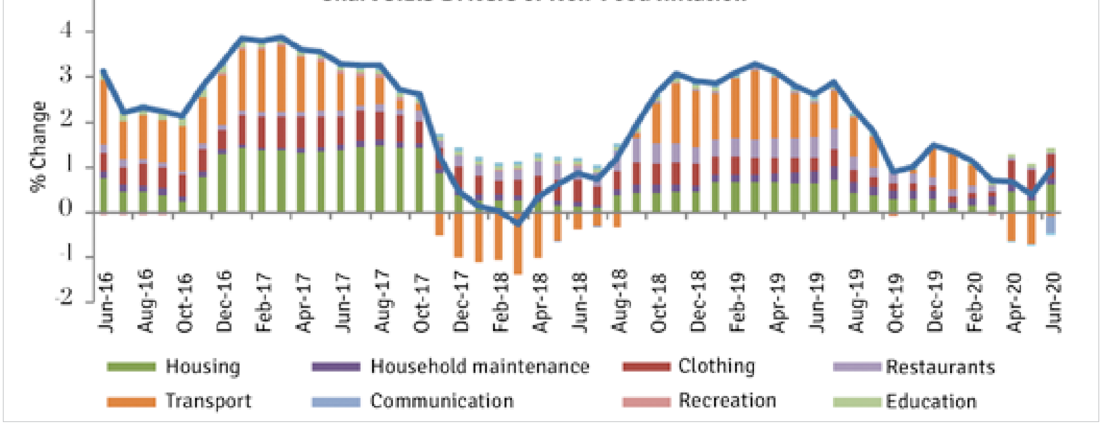
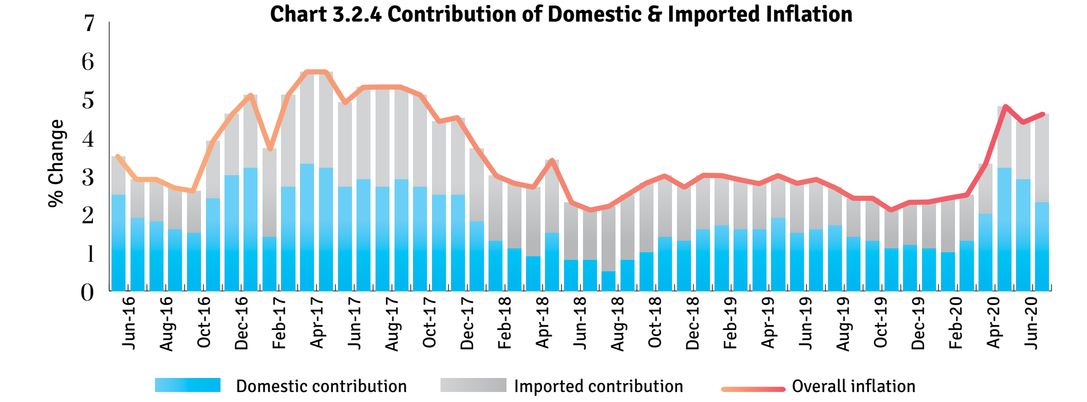
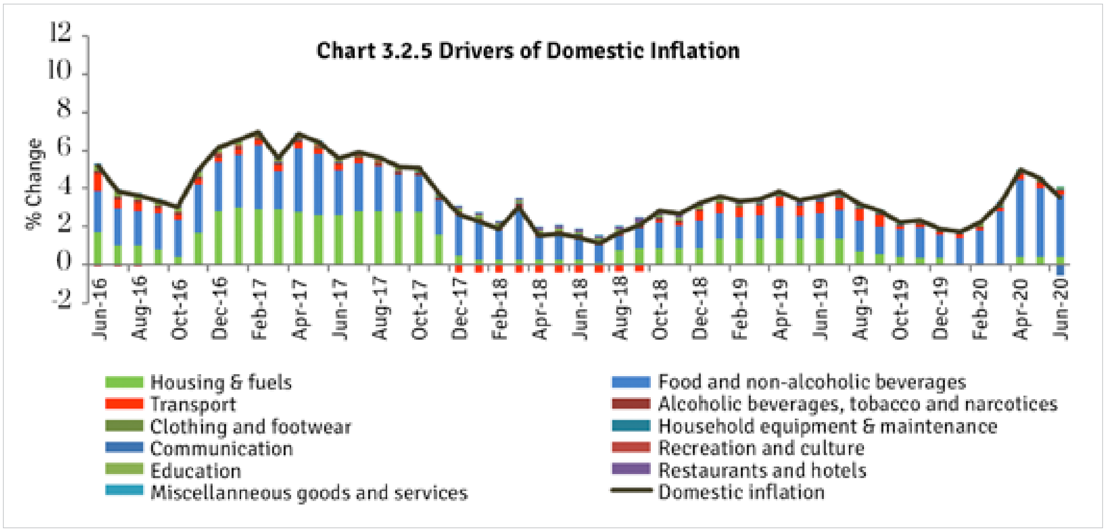


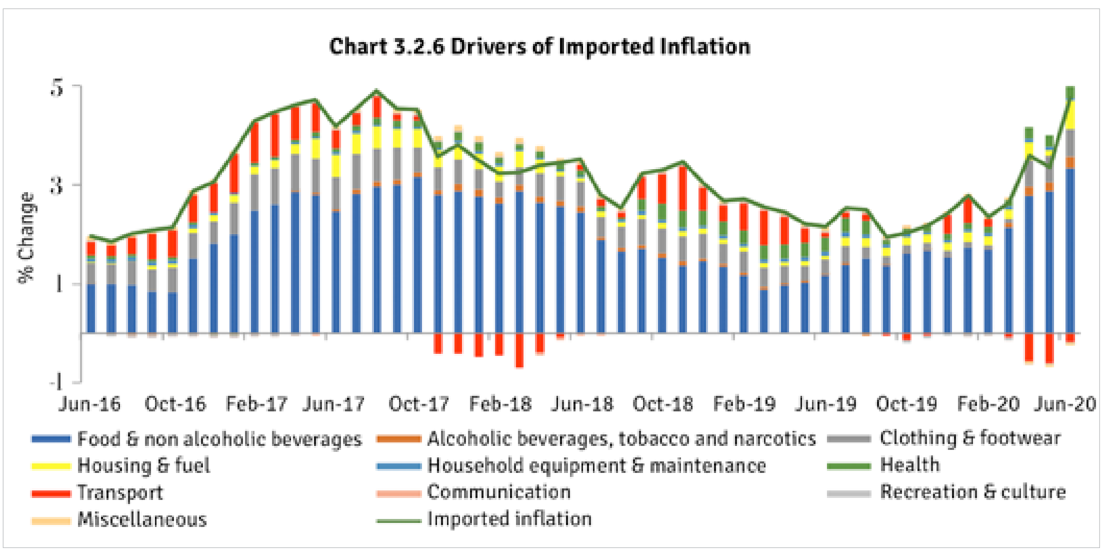
Chart 3.2.4 Contribution of Domestic & Imported Inflation



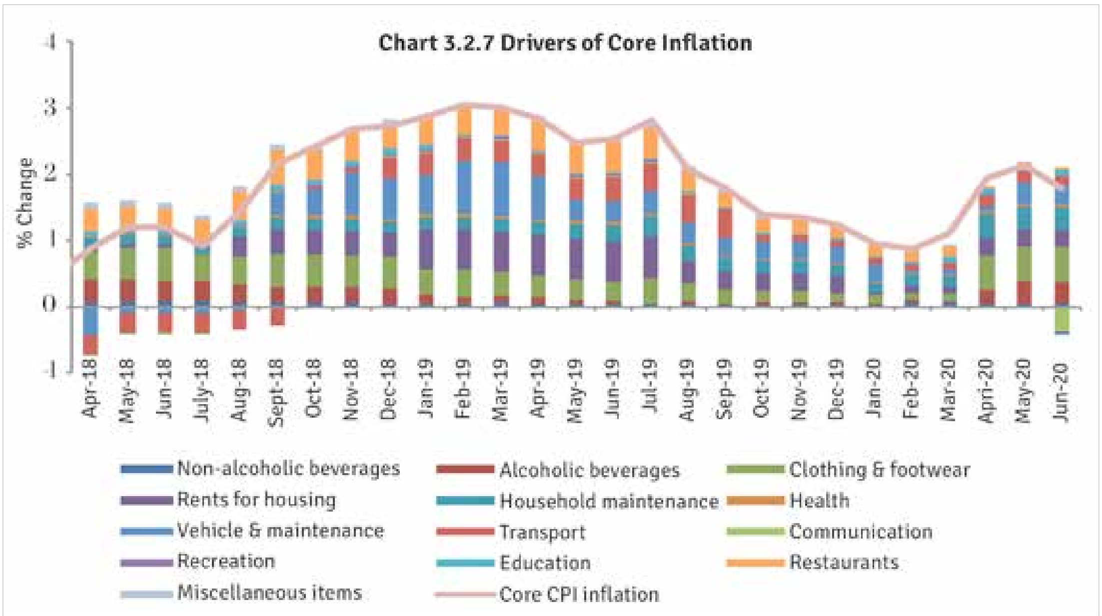


demand for goods and services being met through imports, the inflationary pressure from regional trading partners have a huge impact on the inflation in the domestic economy. The contribution of the domestic inflation in June 2019 towered that of the imported inflation by 0.5 percentage points. However, a change in this trend can be observed in June 2020 where they both have an equal 2.3 percent contribution to the overall inflation.

Food and non-alcoholic beverages are the primary drivers of domestic inflation with a contribution of 4.5 percent in June 2020, compared to 2.1 percent in 2019, followed by housing and fuels and transportation contributing 0.2 percent each. Imported



inflation was mostly influenced by the increase in prices of food and non-alcoholic beverages with an absolute contribution of 3.3 percent.
Core inflation (excluding food and fuel) slowed down to 1.8 percent in June 2020 from 2.6 percent in June 2019, mainly contributed by reduction in communication prices, followed by restaurant and housing rent. Decline in the communication prices was attributed to drop in data charges for mobiles. Similarly, the grant of Kidu and monetary measures encouraged house owners to voluntarily consider waiving off housing rent during the pandemic, neutralizing the rise of prices in the housing sector.



3.3 Employment

The unemployment rate declined to 2.7 percent in 2019 from 3.4 percent in the previous year. However, it is expected to increase in 2020 with rise in uncertainity of COVID-19.

The economic disruption due to the pandemic had a major impact on the labor market. The increasing number of overseas returnees, displacement of employees and growing number of new graduates in the job market has aggravated the unemployment challenges.

As per the Population and Housing Census of Bhutan 2017, the estimated population for 2019 was 741,674, about 1 percent growth from 2018, of which 52.2 percent are male and 47.8 percent are female. In 2019, a total of 162,063 potential workers remained economically inactive, as against 185,594 in 2018. The most common cited reasons for being economically inactive in 2019 were in studies and training (43.1%), followed by house and family duties (27.6%) and old age (14.5%).

During the period, the labor force participation rate (LFPR) increased to 66.4 percent from 62.6 percent in the previous year, influenced by higher number of graduates joining the labor force. There was a varying degree of LFPR in gender as well as geographical location. While the male LFPR was higher

Chart 3.3.1 Labour Force Participation Rate (LFPR) and Unemployment Rate

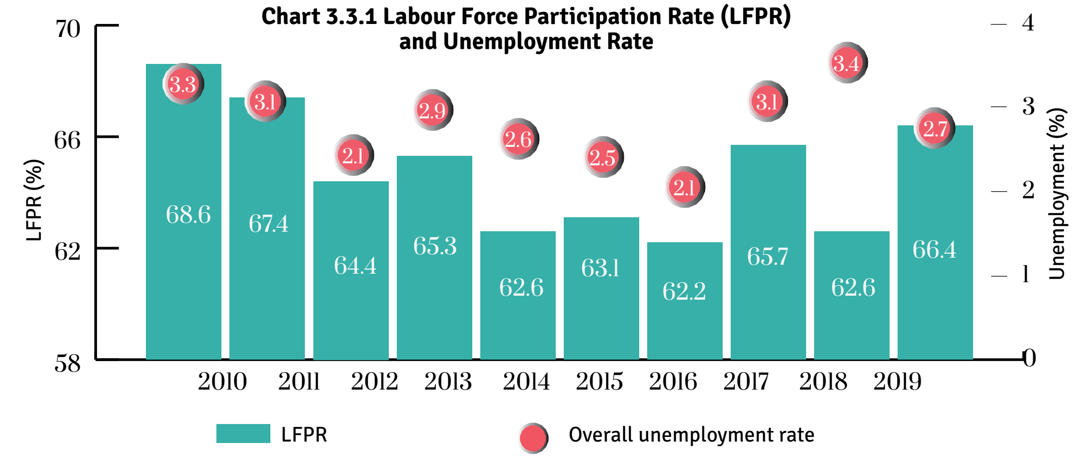
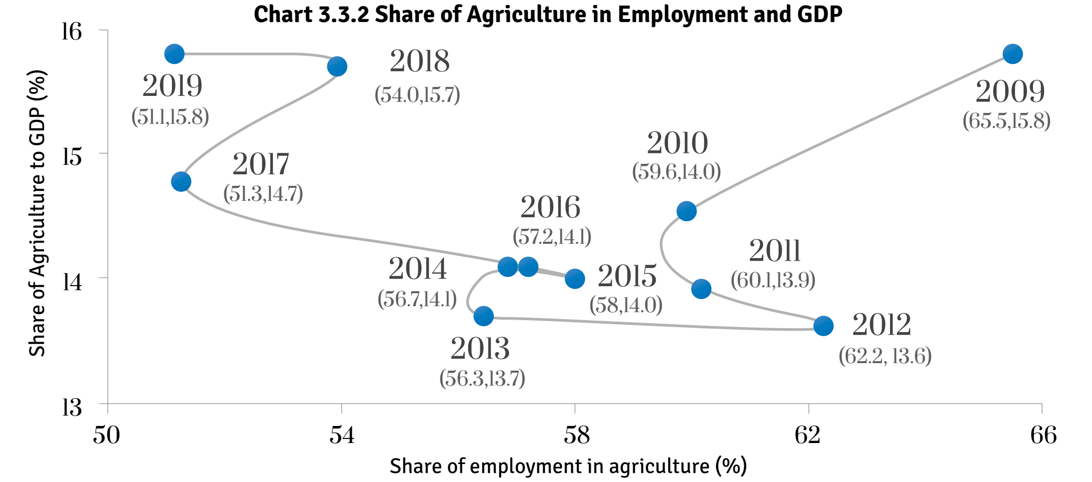
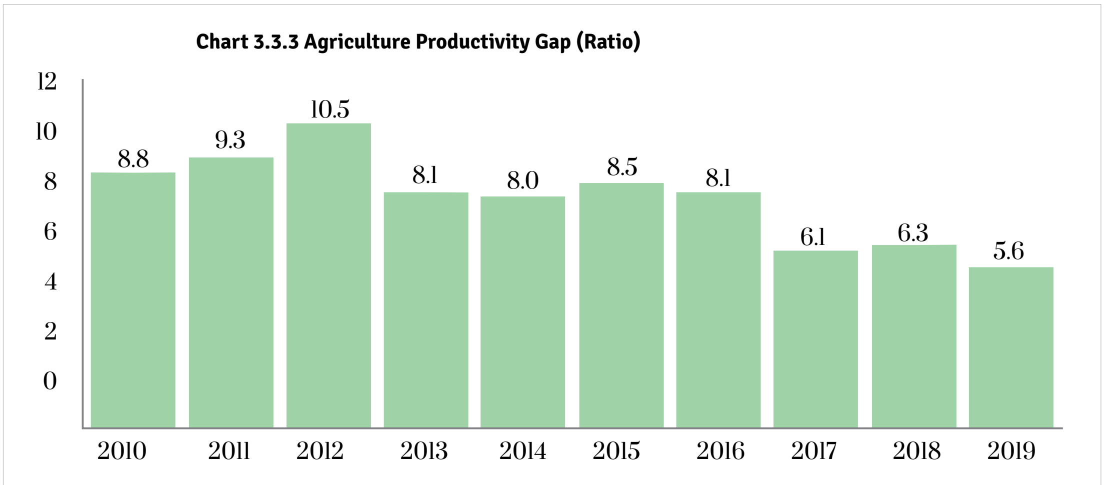


Chart 3.3.2 Share of Agriculture in Employment and GDP





in the urban areas (75.5%), the female LFPR was higher in the rural areas (67.0%). The male LFPR in the rural area was 70.0 percent and the female LFPR in the urban area was 49.5 percent. Overall labor force participation is concentrated in the rural areas as the labor force in the rural areas is mostly engaged in the agriculture sector. While the higher economically inactive population in the urban areas are engaged in performing household and family duties.

The agriculture sector continues to absorb a majority of the workforce in the labor market. As of 2019, 51.1 percent of the working population are employed in the agriculture sector, of which 71.2 percent are from the rural areas.

Similarly, from the total of 34.9 percent working population in the service sector, 72.9 percent are from the urban areas. In the industry sector, 23.3 percent of the working populations (10,148) are from the urban areas. Despite 2.1 percent growth in agriculture production owing to lower productivity, the share employment in the agriculture sector declined from 54.1 percent in 2018 to 51.1 percent in 2019.

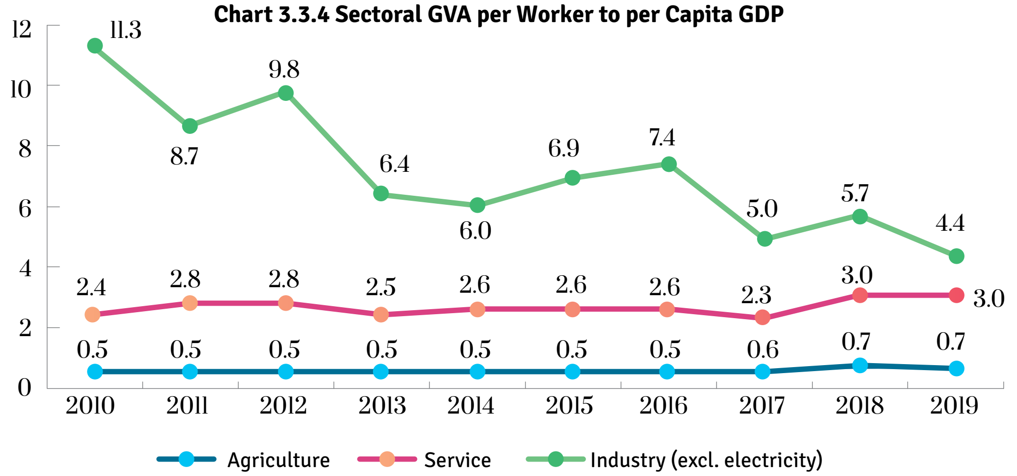
As in the past, labor productivity in the industry and the service sectors is still higher than the agriculture sector, reflecting a high-income disparity amongst these sectors. Currently, the average income earned by a worker in the industry and the service sectors is Nu 354 and Nu 604 per hour, respectively, while it is only Nu 67 per hour in the agriculture sector.

Over the years, there has been a swift decrease in the agriculture productivity gap. In 2019, the gap decreased to 5.6 percent from 6.3 percent in 2018. This indicates that with constant economic transformation from agriculture to industry and service sectors, the allocation of employment from lower productive agriculture sector to other sectors with higher productivity has been improving.

The relative income of the employees by sector (measured in terms of sectoral GVA per employee vis-à-vis per capita GDP) shows income disparity amongst the sectors. Despite constant improvement in labor productivity in agriculture sector, the GVA per capita in agriculture is still about 40 percent below the average GDP per capita in 2019. During the period, the drop-in production in construction and manufacturing sector has resulted to decline in GVA per capita in industry (excluding electricity) by 17 percent in 2019. The higher growth in service sector has simultaneously enhanced GVA per capita of services by 5.5 percent which is 4 times higher than the GVA per capita in the agriculture sector.

Financial constraints have been cited as one of the main reasons for being underemployed, as there are a large number of people who want to work additional hours for extra income. Of the total 22,361 underemployed, almost 97.6 percent are willing to work for additional income. Policy interventions to promote efficiency in utilizing the human resources and improving the payroll, and working conditions could

Chart 3.3.4 Sectoral GVA per Worker to per Capita GDP



Moreover, rate of underemployment was recorded at 7.2 percent in 2019 from 6.1 percent in 2018[2]. This indicates a higher level of mismatch of skills vis-a-vis the area of work and underutilization of the ability and experience of the workers in the economy.

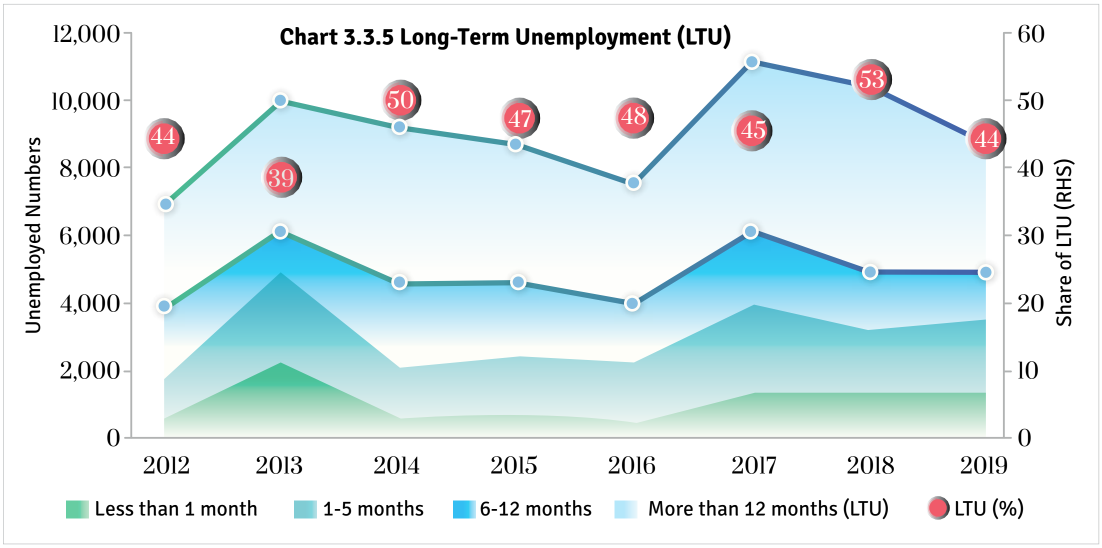
The underemployment condition is observed to be higher in the rural areas (91.6%) than in urban areas (8.4%), while in terms of gender, it is higher among males (74.7%) than females (25.3%).

bring down the underemployment rate.

Higher employment in the industry and service sectors are generally driven by new opportunities in manufacturing and public administration. Additionally, the proportion of male in both industry and service sectors are higher than female. Furthermore, the concentration of employment in industry and services is higher in the urban with 23.3 percent and 72.9 percent respectively. This is mainly because the major occupation

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

Long-term unemployment is falling but it may short-live with COVID-19 pandemic.



such as managers, professionals and technicians, service and sales, craft and trade related works are in huge demand in the urban areas. As reported in the Labor Force Survey 2019, the percentage of employed persons with lower to higher secondary (39.3%), diploma (3.8%), bachelor and master degrees (19.4%) are higher in the urban than in rural areas.

According to the LFS 2019, out of the total 8,698 unemployed persons, the share of long-term unemployment rate decreased from 52.7 percent in 2018 to 43.8 percent in 2019. It is largely attributed to higher unemployment share in age-group of 18-24 who have recently completed their studies. The long-term unemployment rate to the total labor force in 2019 was 1.2 percent, compared to 1.8 percent in 2018. The rate was higher for females (1.4%) than males (1.0%) and higher in the urban areas (2.1%), compared to rural areas (0.8%). Despite the drop in long-term unemployment rate, it is still a major concern as it is mostly associated with cyclical and structural unemployment-mismatch of skills supplied and demanded in the job market.

Moving forward, longer-term unemployment conditions may worsen if the COVID-19 pandemic persists and there are no alternative policy options to address the existing challenges faced by the domestic labor market. In light of these challenges, research and development in the educational tools and enforcing integration of various skill enhancing can be one of the contributing factors in boosting overall labor productivity.

BOX 3.3.1

YOUTH UNEMPLOYMENT

Youth unemployment has received special attention by the policy makers during the past few years in Bhutan. Given Bhutan's youth concentrated demographic structure, the youth unemployment rate continues to remain consistently at a higher level, ranging from 7.3 percent to 15.7 percent over the past decades.

The youth unemployment rate in 2019 stood at 11.9 percent, recording a reduction of 3.8 percentage points from the previous year as compared to the global unemployment rate of 15.4 percent (World Bank, 2020). Combined with the labor market distortions created by the COVID-19 pandemic, the country is expected to have a large share of the working-age population over the longer term. From the year 2020 to 2030, the working-age population is projected to increase from 68 percent to 70.8 percent.

The reasons for the growing youth unemployment in the country can be attributed to the following factors:

1. **An increase in the number of youths in the labor market has had an adverse effect on the rate of youth unemployment.** According to the National Statistics Bureau (NSB), the likelihood of being unemployed decreased by 21 percent with one unit increase in age. This indicates that working experience is an important factor in the labor market when compared to educational attainment. The statistics further indicates that higher educational attainment has downturned the employment level. The skills that the education and training systems provide does not match the skills required in the job market. There is no adequate program for on-job training or entrepreneurship that would help prepare youths to gain more experience and skills ahead of entering the labor market.

2. **The slow and less diversified economic growth in the country is not being able to keep up with the fast-growing numbers of youths entering the labor force.** Most of the educated youths tend to look for white-collar jobs that pay them well. As there are very limited sectors in the labor market, the number of unemployed youths keeps rising due to their unwillingness to take up blue-collared jobs.

3. **The LFPR in the country has been declining over the years. Over the last decade, the proportion of youth in the labor force declined from 16.7 percent in 2010 to 9.6 percent in 2019.** The decrease in youth participation in the labor force market has been one of the major reasons for the increasing youth unemployment. There are huge number of youths delaying their entry into the labor force due to their enrollments in tertiary education. With the increasing number of working-age population over the years, the country must come up with an appropriate strategy for creating more job opportunities to reduce youth unemployment.

To mitigate the factors influencing the dynamics of the youth unemployment rate, innovative strategies need to be thought out and implemented. Some of the recommended strategies are as follows:

A) **Entrepreneurial and Internship programs-A platform for business investors to connect with entrepreneurs:** The current education system in most parts of the world is set up in a way that teaches youth how to be an employee instead of an employer. With a limited number of job vacancies combined with a high number of job seekers, it is difficult for all the youth to be employed. Therefore, the youth must be exposed to various entrepreneurial skills and hands-on training programs. There should be more platform where youth with entrepreneurial passion connect and work with one another in a safe failure environment. This platform can either be entrepreneurial seminars (where experienced and successful entrepreneurs can talk to the youth), engaging entrepreneurial programs, or providing space where youth's business ideas can be pitched to investors. In order to equip the youth with necessary skills, the Ministry of Education can make it mandatory for high school or undergraduate students to pursue internships during their vacation. This will not only allow the youth to have working experience and gain skills for jobs, but also help them to understand the job market scenario.

B) **Problem of Information Asymmetry on Job Opportunities:** It has also been difficult for the youth job seekers to find vacancies of their interest. Currently the job vacancies are not advertised well in the job market. Therefore, having a secured platform will help job seekers to have the flexibility of searching for jobs of their choice. At the same time, it would be easier for organizations to inform their job openings to the public as well.

C) **Making Blue-Collared Jobs More Attractive and Rewarding:** In the current job market, there is a surplus of potential job seekers vis-à-vis job availability. This is because most of the job seekers prefer white-collared jobs. As there are not enough white-collared jobs that suffice every potential employee, most of the job seekers are left without jobs. For those who are not employed, blue-collared jobs are not attractive to them. If the wages for blue-collared employees is increased by a decent amount, more people, especially youth, would start finding blue-collared jobs more attractive in the labor market.

3.4 Government Finance

Fiscal deficit remains elevated at 6.2 percent of GDP during FY 2019/20.

The disruption of economic activities due to the national lockdown has invariably impacted the implementation of capital work and also led to deterioration in revenue position of the Government. In the last five years, the Government expenditure grew on average at 5 percent, except in the FY 2018/19 which recorded the lowest at Nu 44,054.13 million.

However, with the increase in current expenditure in the FY 2019/20, the total government expenditure rose to Nu 64,615.47 million. During the FY 2019/20, the total government expenditure increased by 5.6 percent from the approved budget of Nu 61,197.31 million. Of the total expenditure, 55.4 percent were related to

Chart 3.4.1 Trends in Government Expenditure

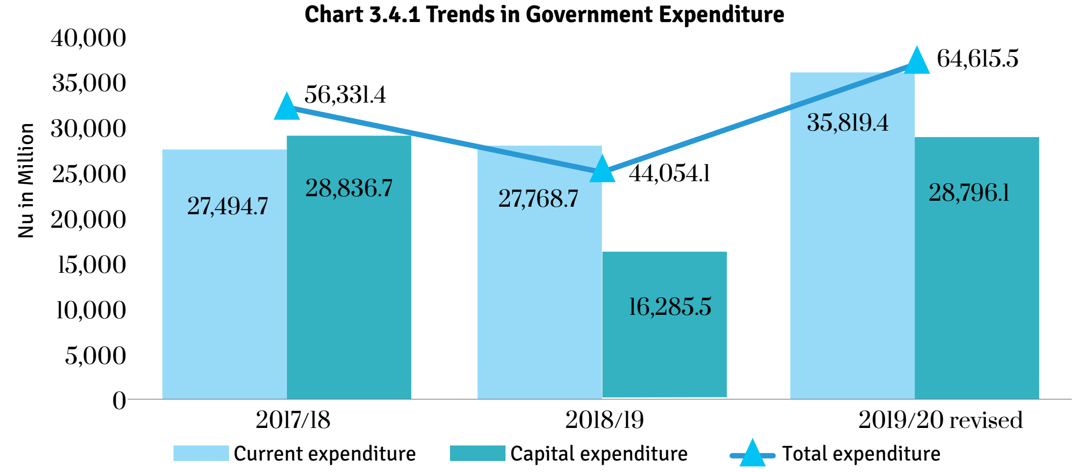
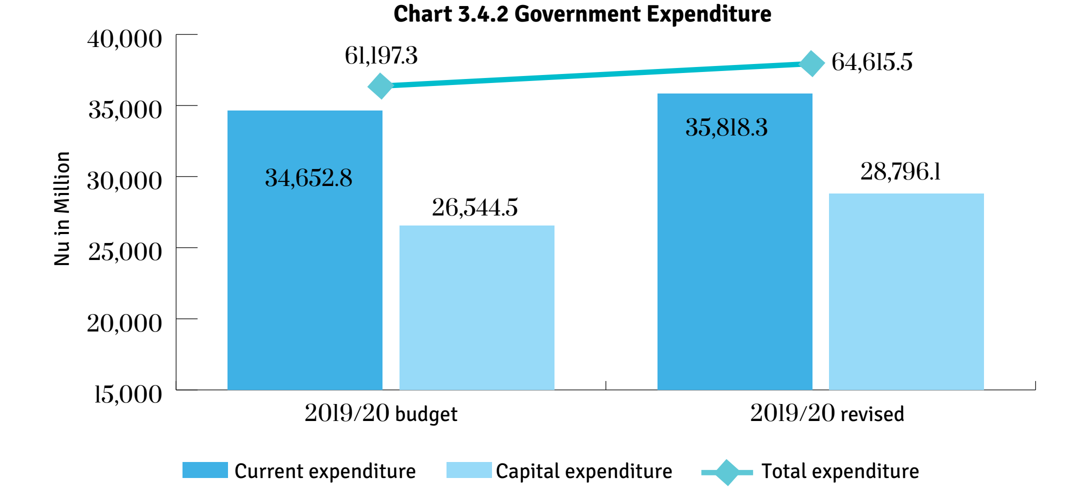


Chart 3.4.2 Government Expenditure

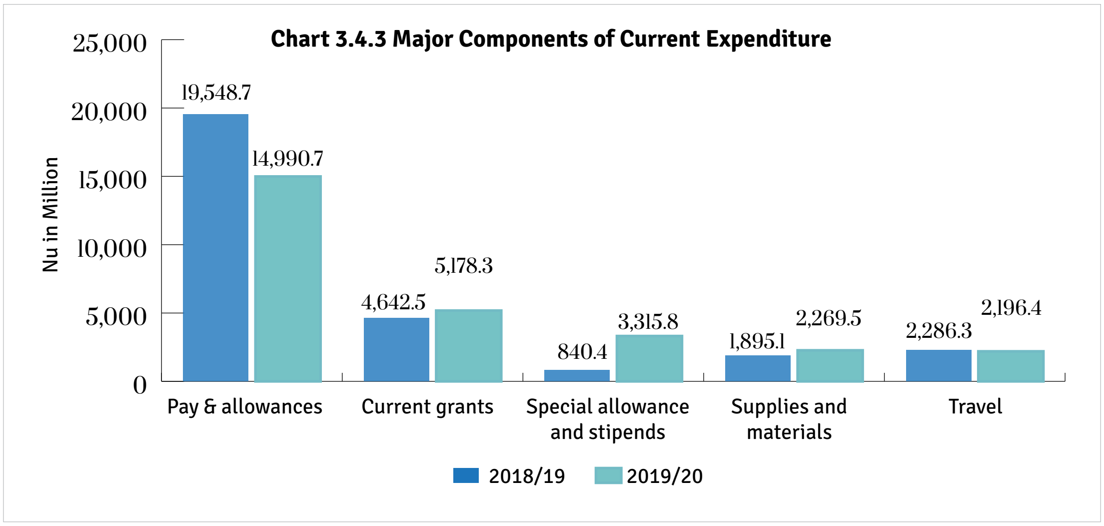


current expenditure and the remaining 44.6 percent were accounted to capital spending.

With a similar trend, the current expenditure outlay increased by 28.9 percent during the FY 2019/20 to Nu 35,819.3 million, on account of provisions for pay and allowances (42.4%), followed by current grants (14.6%) and special allowance and stipends (9.4%). In terms of capital expenditure, major budget was allocated for structures (60.1%), followed by capital grants (12%) and, for plant and equipment (9.1%).

In terms of total expenditure by economic sector, social sector (education and health) constituted the highest share with 25.8 percent, followed by cultural service sector with 14.6 percent.

Furthermore, with the outbreak of the pandemic, the Government has provided budget appropriation of Nu 1,358.12



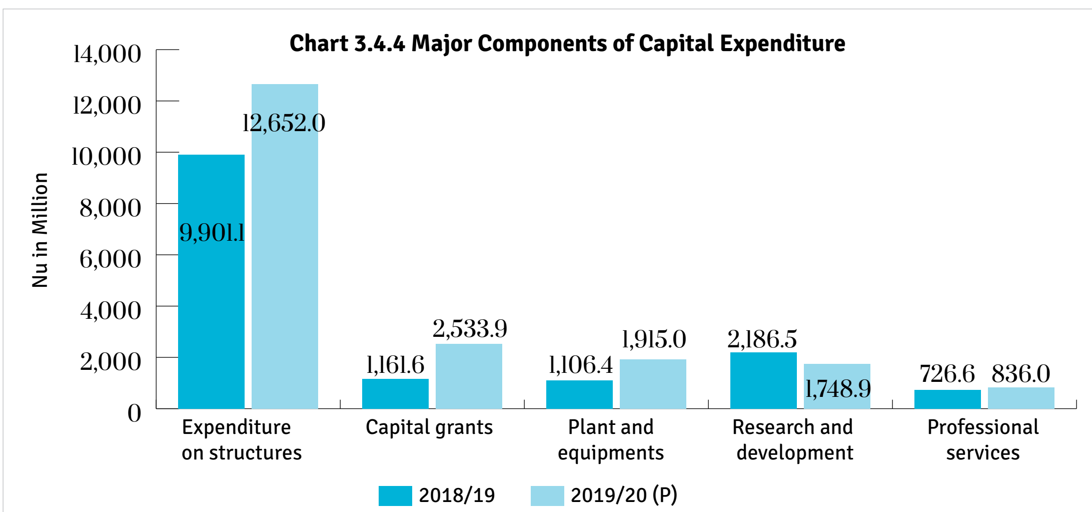


Chart 3.4.5 Current Expenditure by Economic Sector

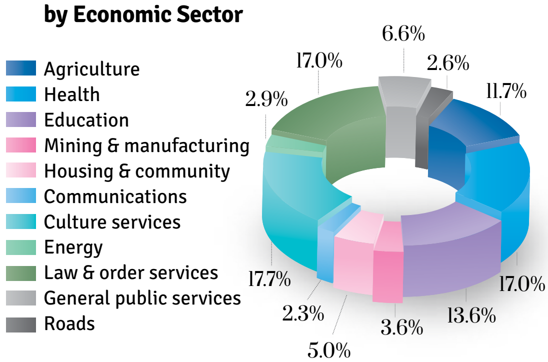
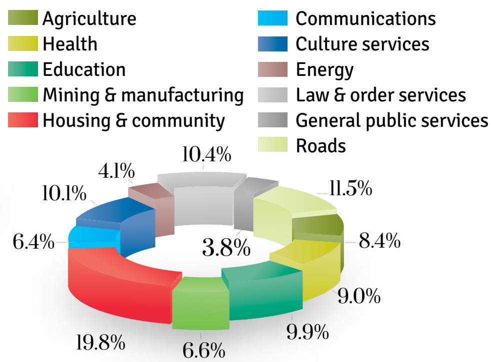
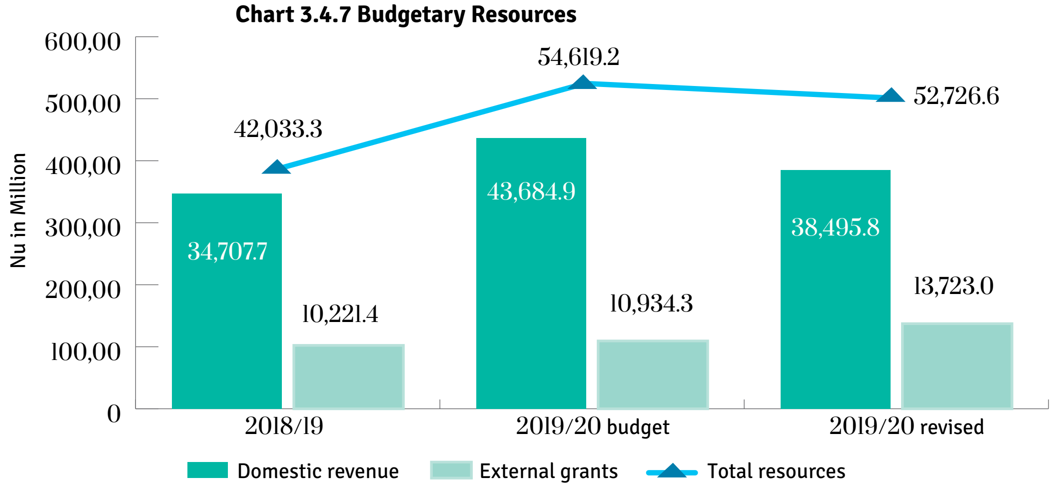


Chart 3.4.6 Capital Expenditure by Economic Sector



million for stocking of essential food items, fuel and other related activities. Of the total current expenditure, 17.7 percent of expenditure were related to culture services, followed by law and order and, health sectors which accounted for 17.0 percent each. In terms of capital expenditure, housing and community sector constituted the highest share at 19.8 percent, followed by road sector at 11.5 percent and law and order with 10.4 percent.

Chart 3.4.7 Budgetary Resources



The total resources for FY 2019/20 have been revised to Nu 52,726.62 million, which was an increase of 25.4 percent from the previous year, and lower by Nu 1,892.56 million as initially approved.

During the FY 2019/20, the domestic revenue increased by 10.9 percent from Nu 34,707.7 million in FY 2018/19. The domestic revenue includes internal grants of Nu 385.82 million. The contribution of tax revenue which constitutes 62.7 percent of total domestic revenue decreased by 16.3 percent in FY 2019/20 due to tax deferal following the COVID-19 pandemic.

With travel restrictions and disruptions in economic activities due to the pandemic, sales tax collection from hotels, tourism receipts, airport tax, Corporate Income Tax (CIT) and Business Income Tax (BIT) from tourism related business dropped sharply.

Implementation of fiscal measures in response to the pandemic has also impacted revenue collection. Thus, 17 percent of the total tax revenue from estimated Personal Income Tax (PIT), 5 percent from CIT and 5 percent from sales tax has to be forgone by the Government. However, the commissioning of the Mangdechhu hydropower project and favorable hydrological conditions have offset the fall in revenue collection.

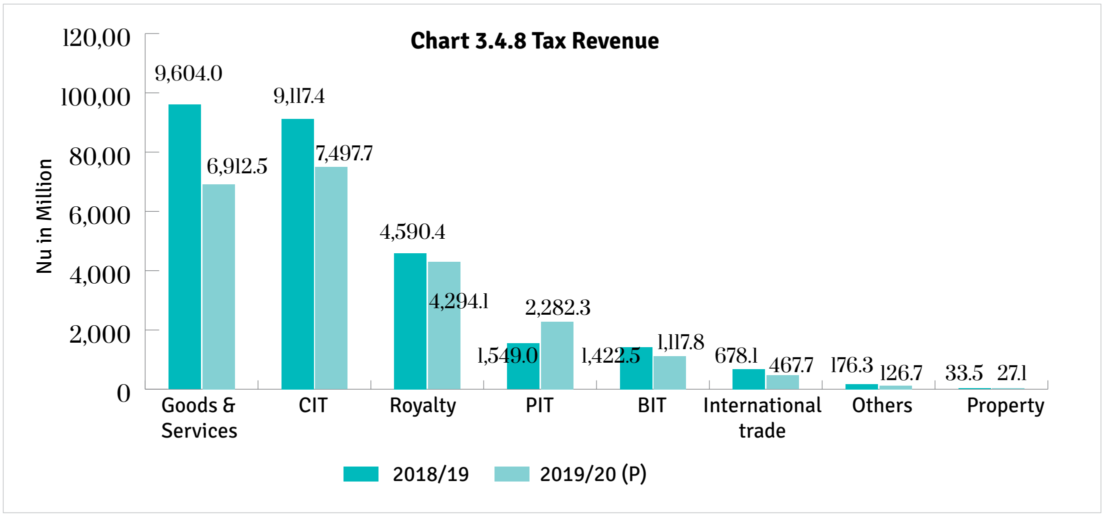


Chart 3.4.8 Tax Revenue

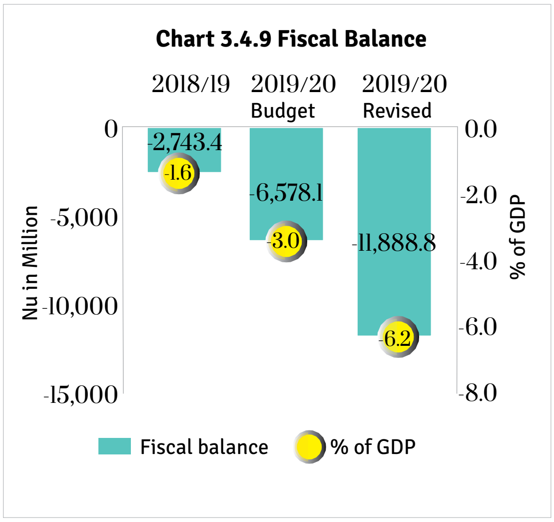
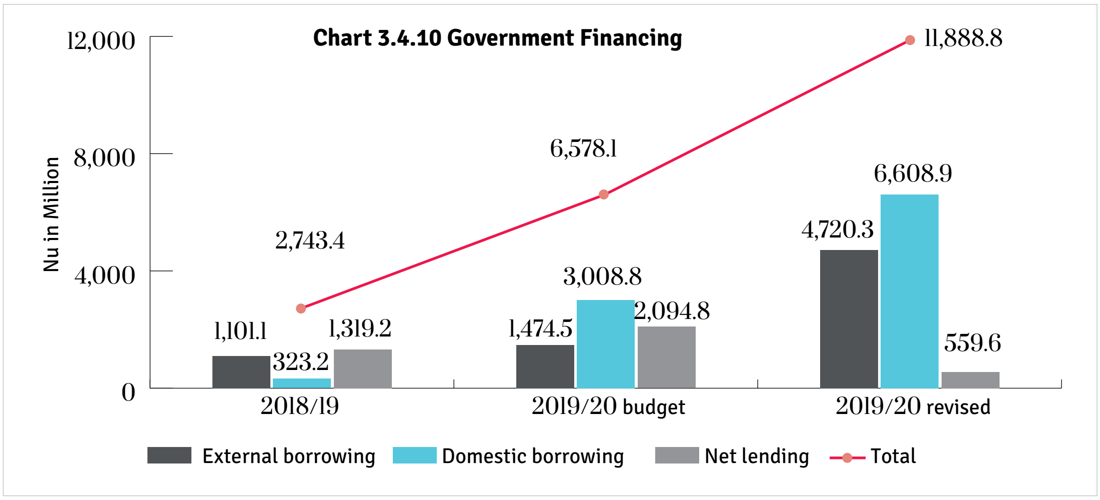


Chart 3.4.9 Fiscal Balance

As a result, the fiscal deficit during the FY 2019/20 stands at 6.2 percent of GDP, higher by 4.6 percentage points as compared to the previous fiscal year.

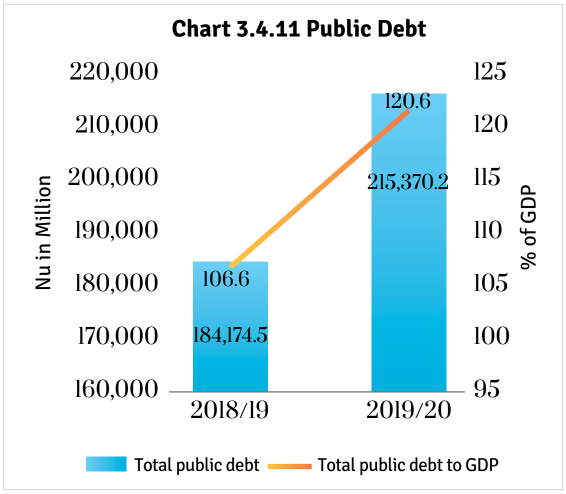
During the FY 2019/20, the budgetary borrowing has been revised upward to Nu 11,888.85 million, a significant increase by 80.7 percent from the approved budget. This was mainly attributed to rise in external borrowing, which has increased to Nu 4,720.3 million from Nu 1,474.5 million of the approved budget. However, net lending

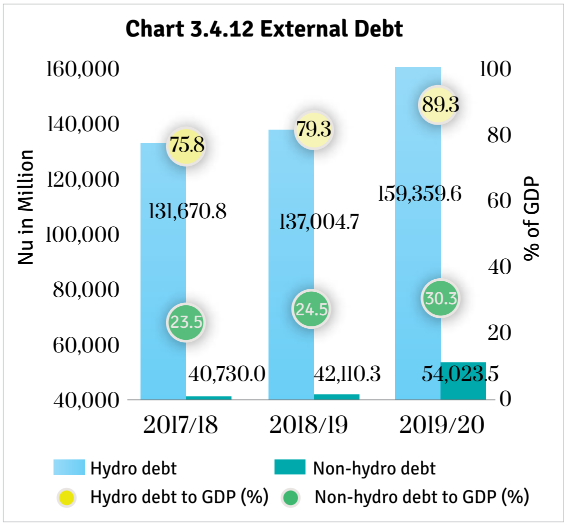


has decreased to Nu 559.58 million. Of the total fiscal deficit, 41.7 percent was financed through external borrowings mainly from multilateral financial institutions (including the WB, ADB, IFAD and JICA) and remaining 58.3 percent was from the domestic market through issuance of Treasury Bills and long-term Government bonds.

The public debt for the FY 2019/20 stood at Nu 215,370.17 million, of which the domestic debt accounted to Nu 1,987.07 million and external debt to Nu 213,383.1 million[3]. More than 99 percent of the public debt constitutes the external debt and remaining constitutes of domestic debt.

In terms of total external debt, 74.7 percent were hydro related, equivalent to 89 percent of GDP and remaining 25.3 percent were non-hydro debt. Although the public debt has increased, the external debt remains within the stipulated threshold in line with the Public Debt Policy 2016.





[3]Public debt includes Government and Government guaranteed debt. Due to the difference in treatment of debt components by the RMA and the Government, the figures may vary.

3.5 External Sector

Current account deficit improved to 12.2% of GDP in FY 2019/20 from 21.2% in the previous year.

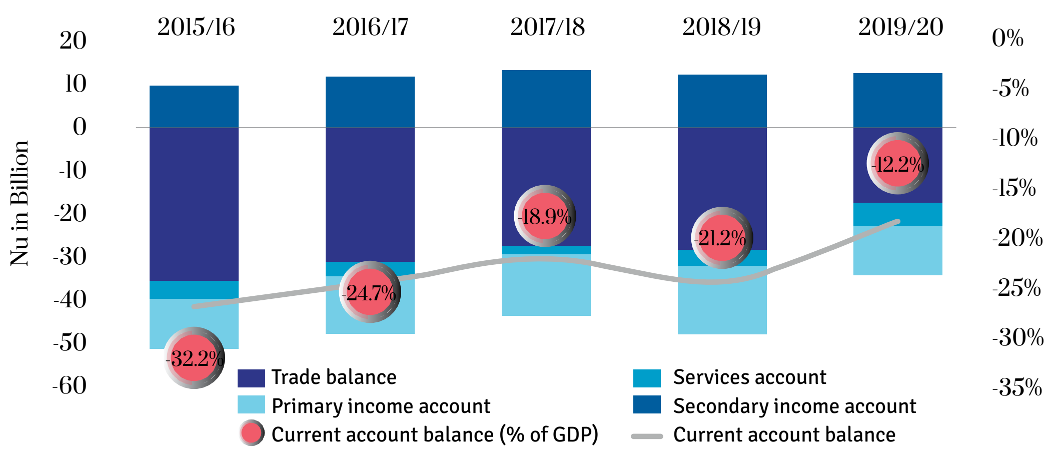
A major highlight of the sector during the FY 2019/20 was the record high overall balance of payments due to fall in trade deficit, driven by higher electricity exports and lower merchandise imports combined with increase in net capital and financial inflows. The fall in import is one of the consequences of the vast spectrum of unprecedented government interventions, exercised for the COVID-19 outbreak. The development was further aided by an increase in net-inflows in the form of incurrence of liabilities during the review period.

The current account deficit contracted in FY 2019/20 to 12.2 percent of GDP from 21.2 percent in FY 2018/19. Contraction in deficit was attributed to reduction in trade deficit and net payments of primary income, followed by growth in secondary income receipts.

In the trade account, the deficit decreased by 38.1 percent, due to increase in merchandise exports of Nu 47,056.96 million, against a lower merchandise imports of Nu 64,585.92 million. The merchandise imports fell to its lowest since FY 2015/16 (Nu 68,308.43 million). The merchandise imports decreased by Nu 6,704.28 million (9.4%) compared to Nu 71,290.20 million in the FY 2018/19.

The hydropower export has increased by 106.3 percent during the review period from FY 2018/19, with the commercial operation of Mangdechhu hydroelectric project since June 2019. Nevertheless, excluding Mangdechhu hydropower project, the hydro export growth in FY 2019/20 still remained elevated at 18.1 percent, mainly on account of improvement of overall hydrological conditions.

Chart 3.5.1 Components of Current Account Balance



The primary income deficit has narrowed by 26.2 percent to Nu 11,511.35 million in FY 2019/20, as compared to Nu 15,588.26 million in FY 2018/19. This development was attributed to decrease in interest payments on external debt, GoI treasury bills, and fall in reinvested earnings payment. Net receipts in the secondary income account recorded an increase of 2.5 percent in FY 2019/20 to Nu 12,358.02 million, owing to 36.3 percent fall in remittances payment to India[4] and non-life insurance claims payment (-48.7%).

Amongst the economic impacts of COVID-19 pandemic, the service sector has been confronted with unprecedented challenges. Strategies to combat the pandemic through community lockdowns, travel and mobility restrictions have severely disrupted the service sector. The services account deficit deteriorated by 43.2 percent due to 4.1 percent decrease in services import against 18.3 percent decrease in services export.

On the receipt side, total services receipt was recorded at Nu 9,727.88 million during June 2020 as compared to Nu 11,902.54 million in the previous year. Travel receipts which accounted for 63.1 percent of total services receipts declined by 27.5 percent, largely driven by lower business and personal travel receipts during the review period. Receipts from transport services also decreased slightly to 0.3 percent, due to fall in airport services to foreign travelers. On the other hand, total payments on services recorded a decrease by 4.1 percent, amounting to Nu 14,835.08 million during the review period. The decrease was influenced by fall in services import relating to maintenance and repair, telecommunications, computer and information, financial and personal travel.

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

Nu in Million	2016/17		2017/18		2018/19		2019/20	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise trade statistics as provided by DRC [1]	**23,915.5**	**68,688.1**	**27,740.6**	**65,726.7**	**27,593.2**	**66,742.1**	**24,382.5**	**63,655.9**
Adjustments								
+ Hydropower exports [2]	12,956.5	-	11,118.7	-	10,988.8	-	22,674.5	-
+ Goods procured in ports by carriers [3]	-	1,090.4	-	1,824.3	-	2,158.0	-	1,642.6
+ Informal Trade at the Border	-	1,089.5	-	1,144.0	-	1,201.2	-	1,034.2
+ Net exports of goods under merchanting	-		-	-	-	-	-	-
- CIF/FOB adjustment for COTI	-	2,846.8	-	2,262.6	-	2,308.8	-	1,827.8
Total goods on a balance of payments basis	**36,872.0**	**68,021.2**	**38,859.2**	**66,432.4**	**38,582.0**	**67,792.5**	**47,057.0**	**64,505.0**

This table shows the additional components added to the trade data sourced from the Department of Revenue & Customs to arrive at the total goods export and import in the balance of payments presentation. (1)Excluding hydropower exports. (2)Sourced from respective power plants. (3)Includes refuelling & others at stations abroad by carriers.

[4] Grants for budgetary support are separately classified into secondary income and capital account, with grants for investment purposes to finance fixed capital formation are classified in the capital account. Whereas, budgetary support grants not for investment is classified in the secondary income account.

Capital Account[5]

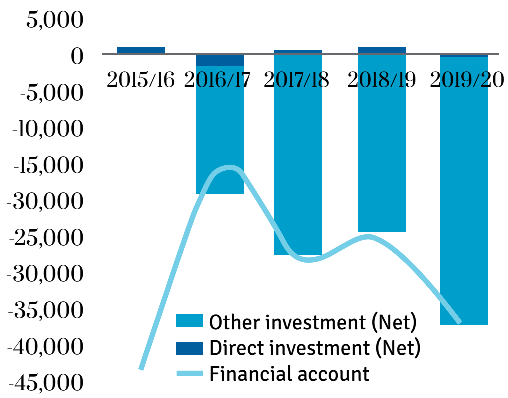
Capital account which constitutes 5.8 percent of the GDP, is largely driven by inflows of budgetary grants for investment. In the FY 2019/20, the capital account surged by 18.3 percent, amounting to Nu 10,373.24 million as against Nu 8,769.14 million in FY 2018/19, particularly on account of increase in non-hydro grant inflows. The non-hydro grant inflows increased by 57.4 percent to Nu 6,436.06 million from the previous year, with a decline in hydro grants from India by 15.9 percent to Nu 3,937.18 million during the review period.

Financial Account

The financial account (excluding reserve assets) registered a net inflow of Nu 36,825.60 million, which is an increase of 45.1 percent from FY 2018/19. The increase was mainly driven by incurrence of liabilities related to the utilization of enhanced Swap facility from the RBI and increased concessional borrowings from the multilateral agencies.

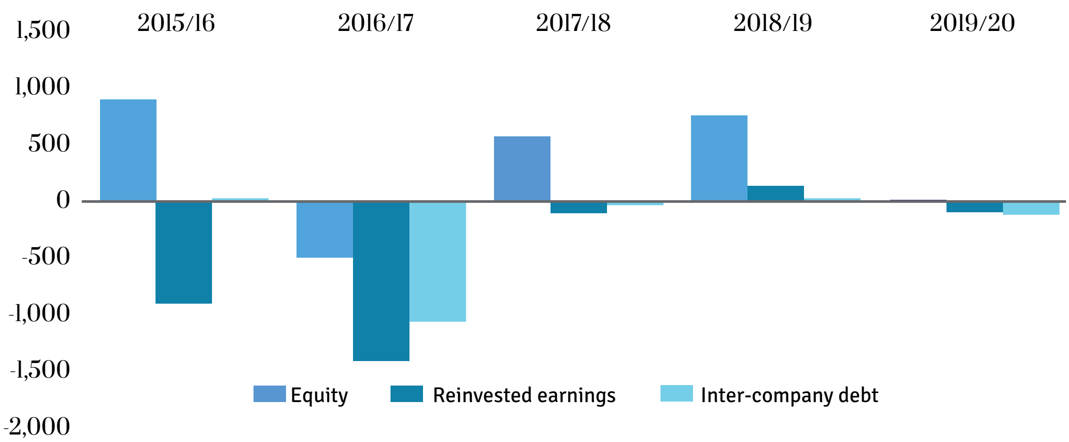
During the year, net-outflows related to Direct Investment Account was recorded at Nu 200.16 million against net-inflows of Nu 923.59 million in the previous year[6]. The outflow was mainly underpinned by decline in foreign equity inflow, followed by repayment of inter-company debt and

Chart 3.5.3 Financial Account (Nu in Million)



Note: Negative financial account denotes net borrowings.

Chart 3.5.4 FDI Inflows (Nu in Million)



[5] 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.

[6] Of 43 FDI companies

fall in reinvested earnings[7] . The foreign equity inflow has declined by 98.2 percent during FY 2019/20, from Nu 754.35 million in FY 2018/19. The inflow was largely channeled to hospitality, pharmaceuticals and IT enabled service sectors, sourced from Hongkong, Australia and India.

On the other hand, the inter-company debt repayment totaled to Nu 114.80 million, which was entirely for countries other than India (COTI). The reinvested earnings retained with the direct investment enterprises in the country recorded a negative flow of Nu 98.74 million during the review period.

Other investment account recorded a net inflow of Nu 37,025.76 million in FY 2019/20 as compared to Nu 24,460.81 million in the previous year . This development was on account of increase in net incurrence of liabilities of loan, amounting to Nu 40,196.40 million though net acquisition of financial assets has also increased by 94.3 percent during the review period.

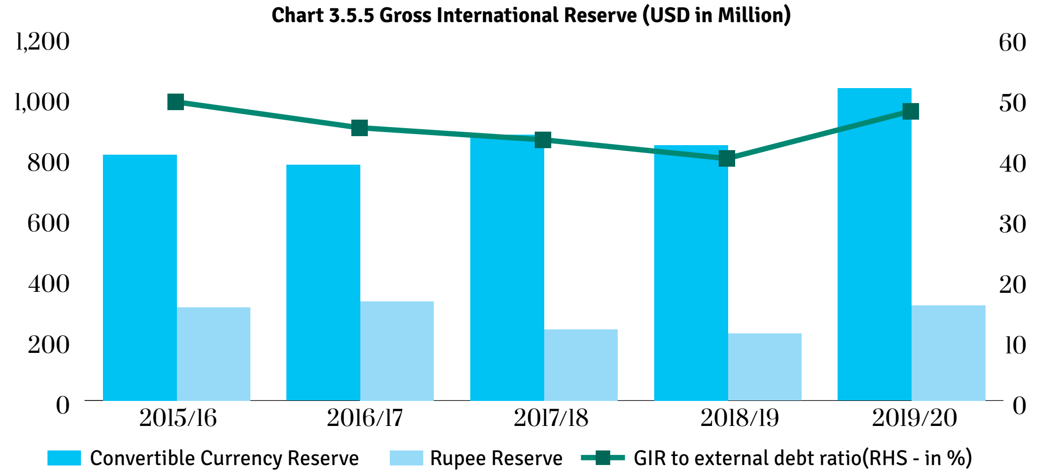
The overall balance (change in reserve assets) of payments continued to remain positive at Nu 21,319.19 million during the review year. Correspondingly, the country's gross international reserves increased from USD 1,064.77 million to USD 1,343.53 million between June 2019 and June 2020.

Gross International Reserves (GIR)

With the net inflows from the capital and financial account outpacing the current account deficit, the overall balance recorded a historic surplus of Nu 21,319.19 million. As a result, the GIR stood at Nu 101,472.72 million which is adequate to finance 19 months of merchandise imports and 20 months of essential imports (goods & services), thereby meeting the Constitutional requirement of maintaining one year's essential imports.

The ratio of international reserves to external debt stood at 46.8 percent as of June 2020. Of the total reserves, USD 1,029.55 million were convertible currencies while 23,713.71 million were Indian Rupee.

Chart 3.5.5 Gross International Reserve (USD in Million)



[7] Reinvested Earnings are the foreign investor's share of the retained earnings held by the direct investment enterprises.

[8] Other Investment comprises of currency and deposits, external loans and trade credit.

Balance of Payments with India

The current account deficit with India decreased from 23.1 percent of GDP to 15 percent in FY 2019/20, largely as a result of improvement in trade deficit from Nu 26,322.6 million to Nu 15,896.67 million[9].

In the income account, budgetary grants increased from ₹4,410.54 million to ₹4,666.13 million. Interest paid on hydropower debt amounted to 198.43 million and non-hydro to 689.36 million. While accrued interest on the three ongoing hydropower projects (Punatsangchhu I and II, and Mangdechhu) recorded ₹8,383.73 million during the review period.

The budgetary grants for investment (non-hydro) under capital and financial account increased from Nu 4,028.56 million in FY 2018/19 to Nu 6,409.37 million in the review period. However, budgetary grants for hydropower projects decreased by 15.9 percent from ₹4,681.10 million in FY 2018/19.

A total amount of ₹28,326.69 million was disbursed under the RBI Rupee Swap arrangement during the year, of which ₹14,049.38 million has been repaid. Disbursements for the three ongoing hydropower projects amounted to ₹7,219.82 million, increasing from ₹ 4,942.8 million in the previous year.

After provisioning for net errors and omissions, Bhutan's overall balance with India was positive at Nu 8,305.95 million for the FY 2019/20, resulting in an increase of Indian Rupee reserves to Nu 23,713.71 million, from Nu 15,237.45 million in the previous year.

Balance of Payments with COTI

The current account balance with COTI continued to record a surplus at Nu 4,854.67, an increase by 51.1 percent from the previous year. The trade balance narrowed by 19 percent during the review period, from Nu 2,015.97 million in the FY 2018/19. While with the fall in service receipts on account of COVID-19, the services account deficit widened to Nu 2,182.99 million from Nu 865.77 million in the previous year.

Due to a significant fall in reinvested earning distribution, and no dividend being declared to Foreign Direct Investment (FDI) partners, the primary income account during the review period recorded a net receipt of Nu 586.57 million, against net payment of Nu 60.64 million in the FY 2018/19. The secondary income account also recorded a net receipt of Nu 8,083.38 million, an increase from Nu 6,155.29 million in the previous year. The increase was mainly due to formal Non-Resident Bhutanese (NRB) remittances inflows, which grew by 67.6 percent. This was coupled with an increase in non-life insurance premium receipts at Nu 76.45 million, as against net payments of Nu 22.38 million in FY 2018/19. However, budgetary grants decreased from Nu 2,588.74 million to Nu 2,141.44 million in the previous year.

The net inflows in the capital and financial account were recorded higher at Nu 8,436.60 million, compared to Nu 2,201.69 million in FY 2018/19, owing to disbursements for convertible currency loans. The overall balance of payment (BOP) with COTI was recorded at Nu 13,013.24 million between June 2019 and June 2020.

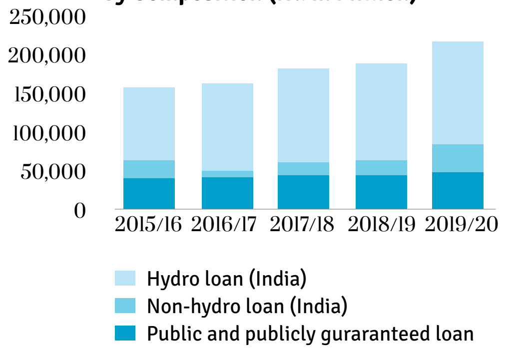
[9]Indian Rupee (₹) is one-to-one peg with the Bhutanese Ngultrum (Nu)

External Debt

The external debt stock as of June 2020 stood at USD 2,872.65 million (Nu 216,963 million), equivalent to 121.8 percent of GDP which was higher by 5.3 percent from USD 2,728.44 million in FY 2018/19. This was mainly contributed by increase in Rupee liability (Swap and hydropower loan) and convertible currency loans from multilateral institutions. In terms of external debt by currency, 71.1 percent (₹154,218.05 million) were INR outstanding loans and remaining 28.9 percent were outstanding convertible currency loans.

Of the total Rupee debt, 86.2 percent were public debt on hydropower projects, while 13.8 percent were non-hydro debt (GoI Standby Credit and RBI Swap) which were resorted to finance the balance of payment transactions with India. Within the convertible currency loan portfolio, concessional public and publicly guaranteed debt constituted 96.8 percent, while the remaining 3.2 percent represented outstanding external debt of the private sector.

Chart 3.5.6 External Debt Outstanding by Composition (Nu in Million)



International Investment Position[10]

External financial assets increased by 21.6 percent from USD 1,330.65 million in June 2019 to USD 1,618.64 million in June 2020. On the other hand, the external financial liabilities increased by 4.5 percent from USD 3,867.82 million in June 2019 to USD 4,042.15 million in June 2020, on account of marginal increase in loans and trade credit, and exchange rate depreciation (Nu/USD). As a result, the net external financial liabilities decreased by 4.5 percent (to USD 2,423.51 million) in June 2020.

[10] The International Investment Position (IIP) is the balance sheet of the stock of a country's external financial assets and liabilities. The net IIP is the difference between a country's international financial assets and liabilities, and is an indicator of a country's international liquidity position and exposure. Positive net IIP indicates the nation is the creditor while negative indicates a debtor.

Table 3.5.2 International Investment Position					
Items	USD in million				
	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20 (P)
Net IIP	**-1,712.1**	**-2,160.4**	**-2,401.3**	**-2,537.2**	**-2,423.5**
Assets	**1,255.1**	**1,154.7**	**1,200.2**	**1,330.7**	**1,618.6**
Currency and deposits	66.4	64.9	65.2	66.6	63.4
Trade credits	48.7	59.8	49.8	83.1	161.8
Reserve assets	1,139.9	1,029.9	1,085.3	1,180.9	1,393.4
Liabilities	**2,967.2**	**3,315.0**	**3,601.5**	**3,867.8**	**4,042.1**
Direct investment in Bhutan	165.8	125.8	132.3	151.3	140.1
o.w. Equity	124.8	99.3	106.3	125.1	116.7
o.w. Intercompany debt	41.1	26.4	26.0	26.2	23.3
Currency and deposits	86.7	95.1	97.5	81.0	69.4
Loans	2,683.4	3,055.4	3,321.9	3,578.5	3,772.9
Trade credits	22.8	30.4	41.5	48.7	51.6
SDR allocations	8.4	8.3	8.4	8.3	8.2
Exchange rate to USD (end of period)	**67.6**	**64.5**	**68.6**	**68.9**	**75.5**

Differences in value of reserve assets reflected here from gross international reserves appearing elsewhere in the report may be due to exchange rates for individual components. The C&D liabilities include accrued interest where available.

BOX 3.5.1

FACILITATING REMITTANCE SERVICES

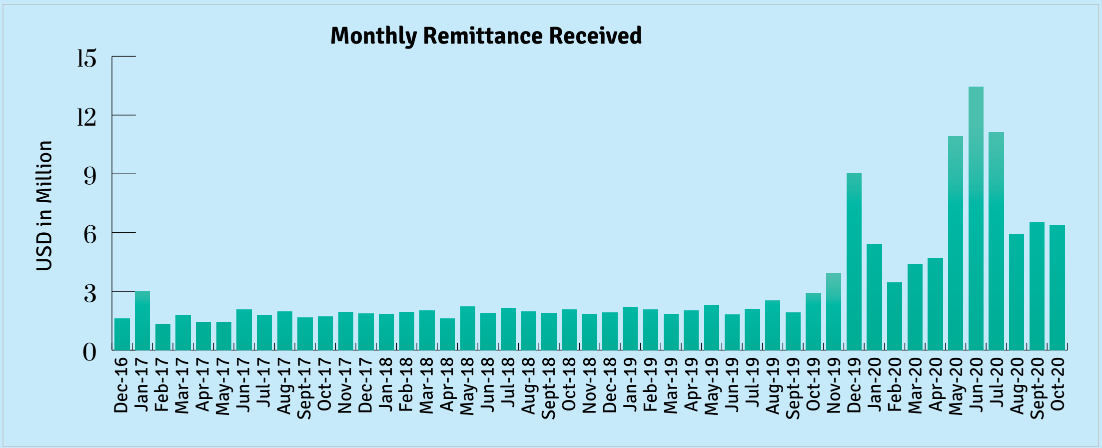
Remittance is considered as a stable and reliable source of non-debt financing for a country. Additionally, remittance inflows also help in building foreign exchange reserves. In order to encourage remittances in Bhutan, the Remit-Bhutan platform was officially launched on 21st September 2016 by the Prime Minister of Bhutan as a landmark policy initiative to provide a platform for Non-Resident Bhutanese to remit their savings and earnings to Bhutan through the formal banking channel.

As more Bhutanese are residing outside the country for studies and employment, this scheme is being provided as an extended financial service to include Non-Resident Bhutanese residing abroad in the Bhutan's national financial inclusion policy and strategy to foster inclusive growth. Non-Resident Bhutanese essentially include armed forces serving in UN Peace Keeping Missions, diplomats working in Bhutanese Embassies and Missions abroad, students and other Bhutanese working and living abroad.

As per the statistics maintained at the RMA, by the end of October 2020, the number of accounts opened through the Remit-Bhutan grew by 19.6 percent (2,001 accounts). The inward remittance also recorded a significant increase from USD 33.44 million in 2019 to USD 70.67 million in 2020 (till October), of which 83.84 percent were routed through Prabhu Money Transfer facility and T-Pay Remit initiated by TBank, and the remaining 16.16 percent via Western Union and the normal banking channels of commercial banks.

Currency Wise (USD in Million)	2016	2017	2018	2019	2020	Share (%)
USD	0.11	1.27	0.87	1.08	1.18	1.66
AUD	0.25	0.94	0.61	0.57	0.00	0.00
EUR	-	0.17	-	-	0.03	0.04
Western Union Money transfer	5.21	19.20	14.73	13.16	10.22	14.45
T Bank-Prabhu Remittance	-	0.48	7.20	9.25	10.47	14.81
T Bank-T Pay Remit				9.38	48.78	69.03
Total	**5.57**	**22.06**	**23.41**	**33.44**	**70.67**	**100.00**

The Bhutan Post's-Western Union Money transfer remained as a dominant mode of inward remittances in the past, however, the TPay Remit and Prabhu Money Transfer service introduced by TBank are increasingly becoming popular choices for money transfers from abroad due to their convenience and cost efficiency. The growth of remittances has been growing significantly since inception, and recorded a growth of 42.84 percent in 2019 and 111.35 percent in 2020 (till October). The highest inward remittance of USD 13.45 million was received during the month of June 2020, which has now begun to decrease gradually. The sharp spike in inward remittances in 2020 may be attributed to increasing number of oversea returnees due to outbreak of COVID-19, who have remitted their savings back to Bhutan.



3.6 Money and Credit

Monetary aggregate shows favourable growth in the FY 2019/20 supported by fiscal, monetary and regulatory measures.

Reduction of cash reserve ratio, interest payment support and release of capital conservation buffer in response to the COVID-19 pandemic significantly helped to ease the rising risks on the financial sector through providing continued flow of liquidity and domestic credit.

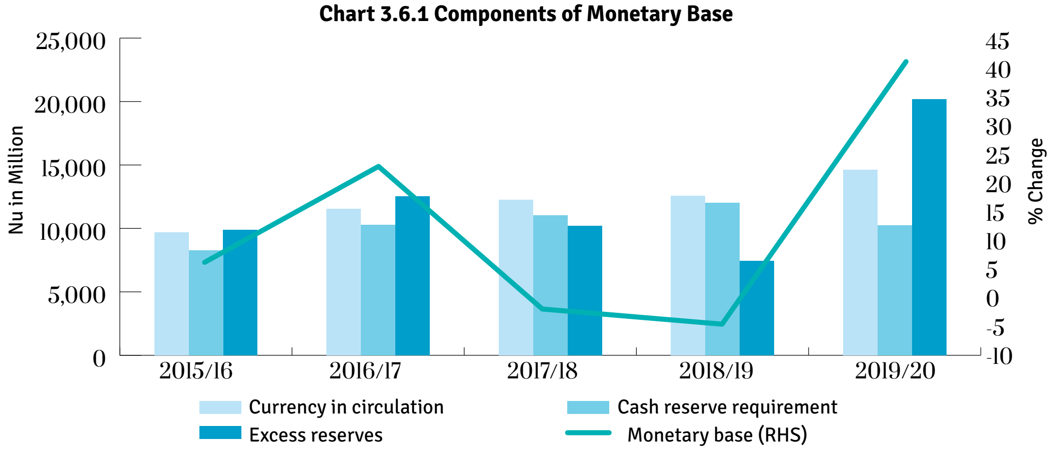
As experienced by the global economy, the COVID-19 pandemic has created unprecedented disruption in the health and economy of the country causing huge concerns on unemployment, job displacements and loss of income. Guided by His Majesty The Druk Gyalpo's benevolent leadership, monetary measures have been implemented by the RMA to support the affected borrowers. In order to cushion the risks on the financial sector, timely monetary measures such as deferment of loan repayments, interest payment support and access to soft working capital, bridging loans and liquidity support have largely contributed to provide relief to borrowers and uninterrupted supply of credit in the economy.

During the FY 2019/20, the monetary and credit performance experienced a favorable growth, despite the rising risks of the COVID-19 pandemic on the economy. The total deposits grew substantially by 19.2 percent during the FY 2019/20. The growth in deposits is largely contributed by increase in deposits held by individuals and corporate sector.

Monetary base (M0) comprises of the central bank liabilities that directly influence expansion and contraction of money supply in the economy.

Currently, the CRR is the only monetary instrument used by the RMA to manage liquidity in the banking system. The growth in monetary base is influenced by the currency in circulation, CRR and excess reserves.

Chart 3.6.1 Components of Monetary Base



Similarly, the monetary base recorded a significant growth of 40.9 percent from a negative growth of 4.5 percent in the previous period, mainly due to increase in excess reserves and currency in circulation. Although active sterilization of excess liquidly through sweeping measures by the RMA are being continued, the excess reserves still witnessed a huge growth of 171.6 percent during the FY 2019/20, compared to a negative growth of 27.1 percent in the previous period. The increase in excess reserves was mainly contributed by the increase in deposit liabilities of the banks largely influenced by Government account balances and prudential requirements. Likewise, the Currency in Circulation (CiC), grew by 16.7 percent (8.2% of GDP) as of June 2020, compared to a growth of 2.3 percent (7.5% of GDP) during the previous period.

On the other hand, the CRR recorded a negative growth of 14.8 percent compared to a growth of 9.0 percent during the previous period due to lowering of the CRR from 10 percent to 9 percent on 17th March 2020 and further to 7 percent on 27th April 2020. The CRR was reduced as part of the monetary policy measures to ensure that there is adequate liquidity in the banks to support the operations of the financial sector. The reductions in CRR injected an additional liquidity of Nu 4,217.88 million in the banking sector.

Money Supply (M2)

Against the backdrop development in the monetary sector, the broad money supply (M2) grew by 19.3 percent in the FY 2019/20, compared to 5.6 percent in the previous period. The total deposits held by the commercial banks (which constitutes 91.9 percent of the components of money supply), grew by 19.2 percent in FY 2019/20, compared to 5.6 percent in the previous period.

The increase in the total deposits was largely driven by demand deposits, which grew at 24.1 percent in FY 2019/20 compared to 4.2 percent in FY 2018/19. Of the total demand deposits, the saving and current deposits grew by 25.8 percent and 21.3 percent, respectively. The limited opportunity for private consumption and investment avenues was also one of the contributing factors for growth in aggregate deposits. Similar to the development in demand deposits, the time deposits in the banking sector continued to increase from 15.0 percent in the FY 2019/20, compared to 10.5 percent during the previous year. Favorable interest rate on term deposits and tax waiver on income on fixed deposits encouraged individuals to park their funds in longer term deposit maturities with the banks.

Net Foreign Assets (NFA), which is a key source of reserve money, also recorded a positive growth of 31.6 percent as of June 2020. The growth in NFA was contributed by inflow of convertible currency and Indian Rupee, which grew by 32.9 percent and 17.7 percent respectively during June 2020. The enhancement of the Swap facility from the RBI and the increased concessional borrowings from the multilateral agencies contributed to increase in the NFA.

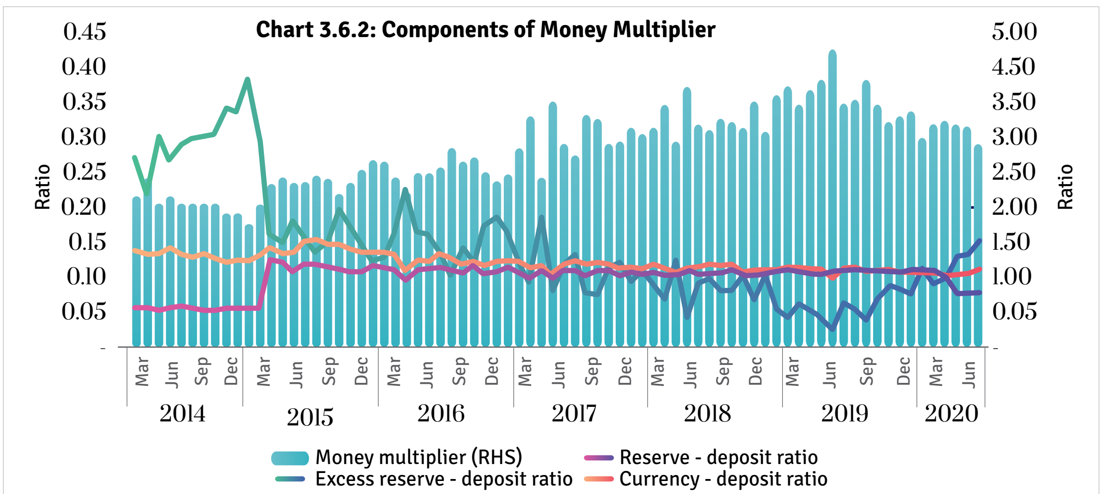
The claims on private sector (credit to private sector) grew by 13.3 percent in June 2020, compared to 20.5 percent in the previous year. The moderate growth in credit to private sector is mainly attributed to moderation in the demand for both term loans and

Table 3.6.1 Monetary Aggregates						
	Nu in Million			Growth in percent (y-o-y)		
Item	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
I. Reserve Money	33,469.8	31,973.9	45,049.7	-2.5	-4.5	40.9
II. Broad Money (M2)	114,973.7	121,416.7	144,890.5	10.4	5.6	19.3
III. Narrow Money (M1)	66,295.0	69,203.4	85,575.6	9.2	4.4	23.7
IV. Components of M2						
1. Currency Outside Banks	9,234.0	9,744.1	11,782.9	5.1	5.5	20.9
2. Transferable Deposits	57,061.0	59,459.3	73,792.8	9.9	4.2	24.1
3. Time Deposits	46,163.9	51,011.3	58,653.1	11.8	10.5	15.0
4. Foreign Currency Deposits	2,514.8	1,202.0	661.7	19.5	-52.2	-44.9
V. Sources of M2						
1. Foreign Assets (Net)	66,006.3	63,920.6	84,090.6	-3.2	-3.2	31.6
2. Claims on Government	5,029.4	2,406.9	-3,840.4	-15.6	-52.1	-259.6
3. Claims on Other Public Sector	8,306.0	6,230.8	7,140.8	17.9	-25.0	14.6
4. Claims on Private Sector	86,985.1	104,850.5	118,812.5	15.7	20.5	13.3
VI. Money Multiplier	3.4	3.8	3.2			

Note: The monetary aggregate includes data from RMA and commercial banks, which is comparable between June end

overdraft credit owing to the pandemic situation. Similarly, the substantial decline in claims on government to a negative growth of 259.6 percent was due to improvement in the fiscal deficit of the Government during the period, as the pandemic posed challenges for implementing the budget as initially approved.

The money multiplier, as a key monetary parameter, decreased slightly to 3.2 in FY 2019/20 from 3.8 in FY 2018/19. The increase in excess reserve - deposit ratio, which is inversely related to money multiplier, contributed to lower money multiplier. The currency-deposit ratio, which captures the public's preference for cash and deposit habits, remained unchanged at 0.1. The velocity of money decelerated to 1.2 in FY 2019/20 from 1.5 in the previous year.



Credit Market

As of June 2020, the total credit outstanding of the financial institutions recorded a growth of 11.9 percent (Nu 145,048.69 million), compared to 20.3 percent in FY 2018/19[11] . The growth in credit was largely driven by the service and tourism sector, recording a growth of 25.7 percent followed by the building and construction sector with 21.9 percent and manufacturing sector with 11.3 percent. On the contrary, credit to transport sector recorded a negative growth of 6.9 percent.

Of the total credit, the commercial banks financed 84.1 percent (Nu 122,057.93 million) and the remaining 15.9 percent (Nu 22,990.76 million) was financed by the non-banks[12]. In terms of institutional share of total loan portfolio, the BoBL continued to hold the highest share, with 32.7 percent followed by BNBL with 23.4 percent, Bhutan Development Bank Limited (BDBL) with 14.6 percent, Royal Insurance Corporation of Bhutan Limited (RICBL) with 14.5 percent, Druk PNB Bank Limited (DPNBL) with 8 percent, TBank Limited (TBL) with 5.5 percent and Bhutan Insurance Limited (BIL) with 1.4 percent.

Chart 3.6.3 Total Sectoral Credit by Financial Institutions (FIs)

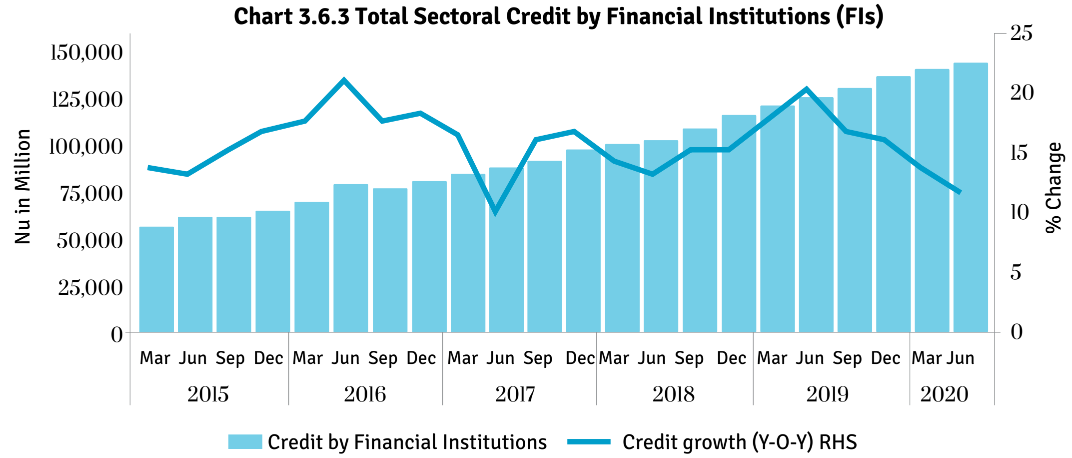
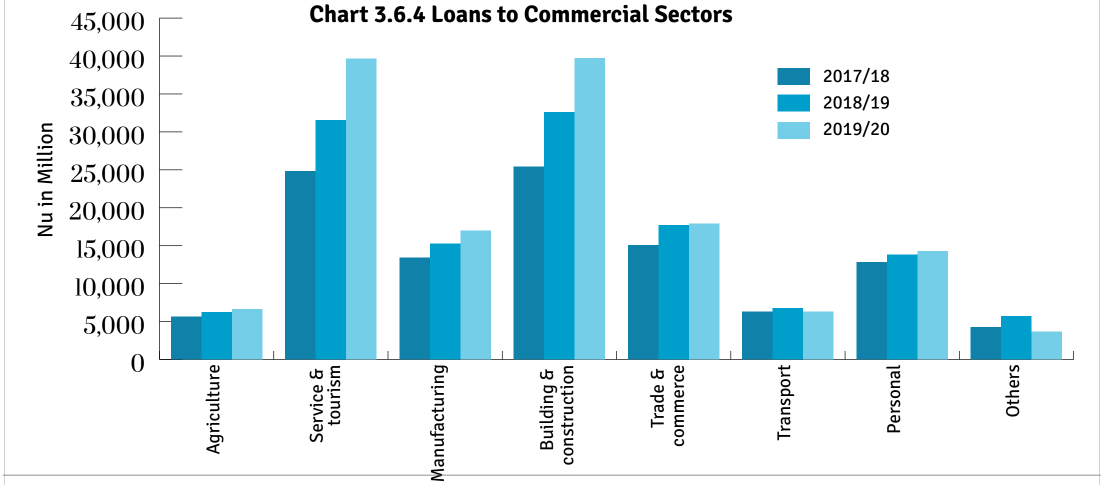
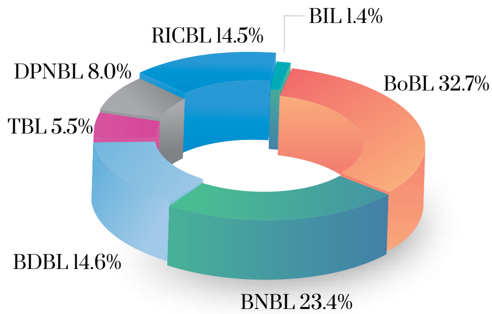


Chart 3.6.4 Loans to Commercial Sectors



[11] The total credit outstanding includes the credit outstanding of BoBL, BNBL, DPBNL, BDBL, TBank, RICBL and BIL.
[12] RICBL and BIL

Chart 3.6.5 Financial Institutions' Contribution to Credit 2019/20



During FY 2019/20, the credit to housing continued to remain the highest in terms of share to total loan portfolio with 27.4 percent, on account of high demand for credit in residential and commercial housing, closely followed by service and tourism sector at 27.3 percent.

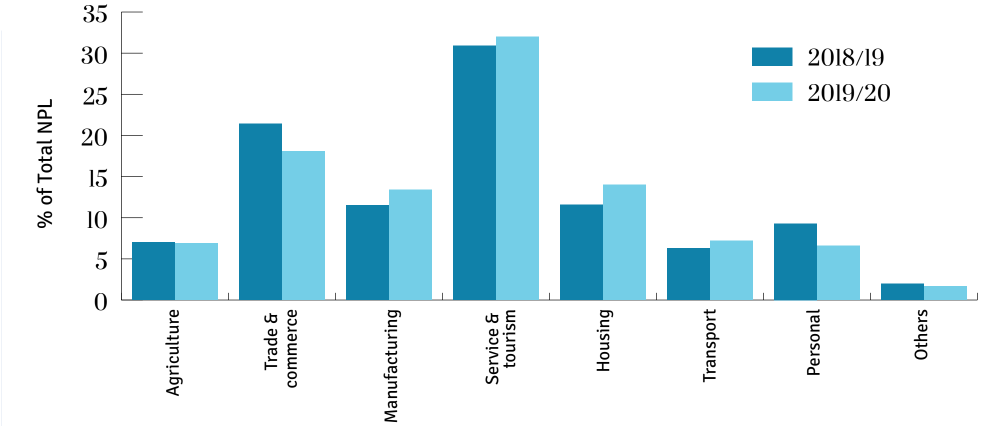
Despite several policy initiatives on the supply front, credit to agriculture, which accounted for 4.6 percent of total credit in June 2020, had a modest growth of 6.1 percent (Nu 6,629.58 million), compared to 10.9 percent in the previous year. The concentration of credit in primary production such 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.

In terms of soundness of the financial sector, the overall asset quality of the financial institutions deteriorated with the increase in NPL by 23.7 percent from Nu 21,546.55 million in June 2019 to Nu 26,658.74 million in June 2020, with the banks contributing to 66.4 percent of the total NPL and the non-banks contributing to 33.6 percent.

In terms of sectoral NPL, the highest NPL was recorded in the service and tourism sector at 32 percent amounting to Nu 8,535.81 million, followed by trade and commerce sector with 18.1 percent (Nu 4,838.50 million). These two sectors were severely impacted by the COVID-19 pandemic. The housing sector held an NPL share of 14 percent (Nu 3,727.44 million), closely followed by the manufacturing sector with 13.4 percent (Nu 3,579.94 million). Of the total NPL of service and tourism sector, contractors based credit stood as the highest contributor, followed by hotels and restaurants.

In terms of share of total NPL by banks and non-banks, the banks constituted 66.4 percent, mainly driven by the BDBL and non-banks at 33.6 percent, mainly contributed by RICBL. With the rising concern of NPL, the RMA in collaboration with the Government and the financial institutions made concerted efforts to conduct an in-depth assessment of the NPLs and formulation of the NPL resolution framework which is currently under implementation phase.

Chart 3.6.6 Sectoral Non-Performing Loans



The trend in domestic asset quality normally stablize during the end of the year, since rigorous recovery of loans usually takes place from the third quarter of the year. However, if loan deferment and interest payment support were not provided, the amount of NPL is expected to remain higher than usual.

3.7 Medium-term Macroeconomic Outlook

The COVID-19 pandemic has caused unprecedented public health crisis and disruption in socio-economic activities across the globe. According to the IMF, global economy is estimated to contract sharply by -4.4 percent in 2020 (IMF WEO, October 2020) due to disruption in demand and supply chain. With the renewed surge of infections and continuing widespread of pandemic in advanced and emerging economies, the prospect of global economic recovery is held back for a longer duration.

The impact has been more severe in lower income countries and emerging economies as compared to the advanced economies. Among the emerging economies, India's economic prospects continue to look bleak as the COVID-19 curve does not show a clear sign of flattening. Despite containment and stimulus measures of around 10 percent of GDP, India's economic growth is anticipated to fall into deep recession (-10.3 percent) in 2020, following repeated lockdowns and economic setback.

On the domestic front, the pandemic has also adversely affected the growth trajectory. The tourism sector has been hardest hit, while other sectors are also experiencing increasing pressure.

One of the immediate impacts was the disruption in the business operations, resulting into loss of income and employment, causing a significant risk in the financial sector and economy.

However, timely and unprecedented interventions in mitigating the impacts of the pandemic and provisioning of safety nets through the Kidu relief, along with fiscal and monetary measures has cushioned the economy from falling into a deep recession. A brief update on the medium-term macroeconomic outlook is summarized below:

The containment measures enforced by the Government to mitigate the spread of the pandemic has brought a deep scar on the economy. According to the MFCTC updates of October 2020, domestic economy is projected to contract by -6.1 percent in 2020, resulting into real economic loss of about Nu 4.3 billion. The downward revision is due to overall downturn in economic activities in service, construction and manufacturing sectors.

The service sector, which is the hardest hit, is expected to contract by -7.7 percent in 2020, on account of sharp contraction of performance in hotel and restaurant, wholesale and retail trade activities. Similarly, industry sector is estimated to decline by -3.6 percent, largely due to fall in activities of manufacturing and construction sectors, as these sectors are affected by disruption in trade and labor mobility.

The agriculture sector, which remained subdued during the pre-COVID-19, has gained utmost importance and priorities during the pandemic. Despite measures undertaken to boost agricultural productivity, the growth in agricultural production is expected to improve at 2.6 percent over the medium term. The improvement in supply chain through provision of warehouses, cold storages and market access continues to remain a critical constraint to further enhance productivity in the agriculture sector.

On the demand side, the total consumption, which constitutes 70.6 percent of total output, is expected to fall by -18.2 percent in 2020, due to weakening of private consumption and investment. On the contrary, public investment is estimated to increase by 30.6 percent due to counter cyclical fiscal policy measures such as reappropriation of budget, economic contingency plan, followed by the National Credit Guarantee Scheme (NCGS) to stimulate economic growth in the medium term.

The hydropower sector, which is the primary contributor to economic growth, continued to exhibit resilient and improved performance during the COVID-19 pandemic, and it is expected to record stronger growth at 19.5 percent in 2020, with the full commissioning of Mangdechhu hydropower Project (MHP).

In 2021, triggered by expected gradual recovery in industrial and services sectors, the growth trajectory is projected to rebound to 4.2 percent.

The deep economic downturn due to the pandemic has caused deep wounds on the labor market and human capital accumulation. The overall unemployment is anticipated to increase from 2.7 percent in 2019 to 10.3 percent in 2020, as a result of increasing number of overseas returnees, displacement of employees and growing numbers of new entrants in the job market. Of the total unemployment estimates, 32 percent are youth who are within the age group of 15 to 24 years. However, considering various ongoing intervention measures such as the economic stimulus package, Build Bhutan Project, other employment engagement schemes and the prospects of effective vaccine against COVID-19 rollover, the overall unemployment rate is anticipated to ease as the economy rebounds over the medium term.

Inflation outlooks remain highly uncertain due to supply chain disruptions and weakening of aggregate demand. The CPI inflation averaged a slightly over 2 percent in the six months prior to detection of the first COVID-19 case in March 2020. Since then, inflation drastically rose from 3.3 percent in March to 4.5 percent in June 2020 to 8 percent in September 2020. Buildup of inflationary pressure in the recent months are largely on account of rise in prices of food and non-alcoholic beverages (16.7%) and alcoholic beverages and betel nuts (12.8%) in September 2020. Supply chain disruptions in food production are expected to continue pushing up food prices over the medium term. Nevertheless, a sizeable drop in aggregate demand will offset potential cost-push inflation; thereby overall price level is expected to remain at a moderate level at around 6 percent in the medium-term.

The future path of fiscal policy is likely to be determined largely by the overhang of debt and contingent liabilities incurred during the COVID-19 pandemic. Considering the potential impact of the COVID-19 containment measures on the revenue collection and persistent efforts made by the Government to execute the capital budget to accelerate the plan activities, the fiscal deficit is expected to remain elevated at 8.4 percent of GDP in the FY 2020/21 and further accelerating to 9.5 percent of GDP in FY 2021/22.

Higher fiscal deficit within the target of 3 percent GDP is largely attributed to countercyclical fiscal policy measures adopted by Government to support the economic fallout. With dim economic outlook, the total domestic revenue is estimated to decline by 6.8 percent (Nu 33,749 million) in FY 2020/21 due to fall in tax collection (-12 %), particularly decrease in corporate and sale taxes, on the account of tax deferment and decline in overall economic activities. However, hydropower revenue, which constitutes about 45 percent of the total revenue, is expected to increase by 40 percent in FY 2020/21 through the transfer of surplus profit from MHP. In the FY 2020/21, the estimated revenue loss from indirect tax is estimated at Nu 4,400 million.

On the expenditure front, the total budget outlay is expected to increase by 22.8 percent (Nu 70,568.79 million) in the FY 2020/21, with incorporation of additional capital expenditure of 2.1 percent (Nu 1,433.5 million) to meet the contingent liabilities of the COVID-19 pandemic.

While current expenditure is expected to be rationalized to contain within the domestic resources, the capital expenditure which constitutes 53.4 percent of total outlay, is estimated to grow by 77.3 percent (Nu 37,684 million) in the FY 2020/21 from 30.5 percent in FY 2019/20. Incurrence of higher capital expenditure is mainly to accelerate plan capital activities through frontloading and to boost domestic investment. If disruption of economic activities due to the pandemic continues over an extended period, it is estimated that only about 48 percent of capital budget will be utilized during the FY 2020/21, eventually helping to reduce the fiscal deficit.

Of the total fiscal deficit financing estimated at Nu 15,605.81 million for FY 2020/21, about 87 percent of deficit is expected to be financed through domestic borrowings with issuance of long-term government bond and short-term securities (91 days Treasury bills), while remaining amount is expected to be financed from the external borrowings[13]. As a result, the external debt is projected to grow by 126.5 percent of GDP in the FY 2020/21 from 120.6 percent of GDP in the FY 2019/20, mainly on account of increase in borrowing for the Kholongchu hydropower project construction. The persistent increase in the public debt stock combined with sharp fall in domestic revenue base is expected pose a challenge in maintaining fiscal sustainability over the medium term.

While the current account imbalance is expected to improve in the medium-term, the overall external position outlook remains uncertain due to trade restrictions and tighter financial flows. Despite the fall in volume of trade, the overall trade deficit is expected to improve to 3.2 percent of GDP in FY 2020/21 from 9.5 percent of GDP, largely contributed by favorable exports of hydropower and steep drop in non-essential imports.

While the non-hydro export is estimated to suffer a significant drop, where the hydro power exports is expected to increase by 22.9 percent in the FY 2020/21, leading to increase in total exports of 5.9 percent (Nu 47,528 million) in the medium term. If trade restrictions continue, the non-hydro export is projected to fall by more than 50 percent in the FY 2020/21. On the other hand, total import is anticipated to drop sharply in its growth by 13.5 percent (Nu 53,527 million) in FY 2020/21. In particular, industrial raw materials that comprise about 80 percent of the total import is anticipated to witness a significant drop in its growth by 55 percent in 2020.

The collapse in net revenue from tourism and travel receipts that forms a major component of services account

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

is estimated to significantly decline from 24.4 percent in the FY 2019/20 to negative 40.2 percent in FY 2020/21. With the improvement in trade balance combined with positive primary and secondary income (higher budgetary grants), the current account deficit is projected to narrow from 15.3 percent of GDP in the FY 2019/20 to 7.7 percent of GDP in the FY 2020/21. A positive financial and capital net inflows in the form of official grants and concessional loans will be sufficient to finance the current account deficit over the medium term.

With the narrowing current account deficit, the gross international reserve is expected to grow moderately, sufficient to finance 19 months of essential imports in FY 2020/21. Going forward, the current account deficit is projected to deteriorate at 14 percent of GDP in the FY 2021/22 as imports gradually start picking up to pre-COVID-19 pandemic level.

The macroeconomic vulnerabilities posed by the COVID-19 has significant risks to the health of financial sector as it impinges on asset quality, capital adequacy and profitability of the banks. While the financial sector poses high risks, the unprecedented and timely policy responses such as interest payment support and loan deferment have helped the financial institutions to avert further build-up of non-performing loan and loss of interest income.

With limited opportunities for private investment and risks emanating from loss of income flow due to down turn in economic growth, credit to private sector growth is estimated to decline from 13.8 percent in FY 2019/20 to 6.2 percent in the FY 2020/21. However, the lowering of CRR by 300 basis points was able to inject Nu 4,217.88 million in April 2020, translating to loan disbursement of Nu 3,269.61 million, thus cushioning the deeper fall in private sector credit. As a result of lower growth in private sector credit, money supply is expected to grow at 9.6 percent in the FY 2020/21 before rebounding to 16 percent in FY 2021/22.

RMA's monetary policy continues to remain accommodative to support the economic growth and employment generation through provision of easy access to finance, adoption of innovative Fintech and promotion of financial inclusion. As part of the monetary measures, the RMA injected liquidity support to the tune of 4.9 percent of GDP through reduction of the reserve requirement from 10 percent to 7 percent and releases of capital conservation buffer of Nu. 4.8 billion in the financial sector to ensure continued flow of credit during the pandemic.

With increase in inflow of hydropower export and official loans and grants, the liquidity condition in the financial sector is expected to remain surplus, which is adequate for the Government to meet the fiscal deficit, without crowding out of credit to private sector and putting pressure on inflation. The Government's plan of issuing additional long-term bonds for financing the fiscal gap will provide a new opportunity of investment for the banks and also for monetary policy operation through RMA's participation in the secondary market transactions.

Several measures were initiated to support and provide undisrupted flow of liquidity in banking system. The reduction of CRR, release of capital conservation buffer and implementation of a web based domestic liquidity management system will put a new impetus for the revival of private investment demand with pick-up in domestic credit in the medium term.

Quick assessment on the economic growth prospects reveals that there have been significant downside risks and is anticipated to continue over the medium term. The COVID-19 pandemic has exposed our economic vulnerabilities related to domestic production bottleneck and policy implementation inconsistencies, increasing youth unemployment problem, rising stock of public debt and intensifying of income inequality. The new risks are also expected to emerge from the banking sector with likely increase in NPL.

Nevertheless, the pandemic situation also provided a unique opportunity to revisit and recalibrate economic development models and reorient national plans and priorities to find effective and sustainable solutions to address the challenges and structural weakness.

There is no doubt that effective monetary and fiscal policies will continue to assume an important role in increasing the productivity of economy towards the paths of stronger, equitable, and resilient economic growth.

Medium-Term Macroeconomic Outlook Indicators

	Estimates	Projections	
	2019	2020	2021
Production (Supply)			
Real GDP	5.5	-6.1	4.2
Agriculture	1.3	2.6	4.4
Industry	2.1	-3.6	6.0
Manufacturing	-0.1	-25.9	-0.8
Electricity & Water	12.1	19.5	0.7
Construction	-14.7	-7.5	16.5
Services	12.5	-7.7	2.9
Unemployment rate (%)	2.7	10.3	-
	2019/20	2020/21	2021/22
Prices			
Headline inflation	4.5	6.0	5.0
Implicit inflation target	4.5	4.5	4.5
Fiscal (% of GDP)			
Total Revenue and Grants	29.7	29.7	24.9
o.w Tax revenue	20.3	18.3	18.1
Total Expenditure	24.7	27.4	22.3
o.w Capital	9.3	14.7	10.1
Fiscal Balance	-2.4	-8.4	-9.5
External (% of GDP)			
Current account balance	-15.3	-7.7	-14.0
Trade balance	-9.5	-3.2	-5.3
External Debt	120.6	126.5	132.2
Essential imports coverage (months)	20.8	18.7	15.8
Monetary (% change)			
Money Supply	19.3	9.6	16.0
Net Foreign Assets	8.5	10.7	14.3
Net Domestic Assets	6.8	52.2	17.1
o.w Credit to private sector	13.8	6.2	11.0
Private Sector to GDP ratio	66.1	67.8	71.4

Source: MFCTC, Ministry of Finance (October updates, 2020)

4
MONETARY POLICY OPERATIONS

4 Monetary Policy Operations

One of the goals of a central bank is to maintain the macroeconomic stability by ensuring a smooth functioning of the financial system, developing market confidence and facilitating the flow of credit for investment. In line with this mandate, the central bank around the world responded promptly to the economic crisis during the wake of the COVID-19 pandemic.

Central banks in both developed and developing economies implemented a host of conventional as well as non-conventional monetary policy measures including the lenders of last resort and large asset purchase program to combat the economic meltdown caused by the containment measures.

Similar to the experiences of global economies, unprecedented economic challenges were posed due to the COVID-19 pandemic. The RMA intervened swiftly and implemented timely policy interventions to prevent potential financial and economic fallout. The policy response adopted by the RMA was broad-based and inclusive.

Preventing market dysfunction was observed as critical to preserve the effectiveness of the monetary transmission mechanism, financial stability and support the flow of credit to firms and households.

The monetary policy measures adopted by the RMA were aimed to (i) provide liquidity support to the sectors affected by the pandemic to minimize workers-lay off and provide economic relief for their livelihood (ii) to ensure continuity in the operation of the essential financial services even during the time of national lockdown using digital platforms and (iii) to complement fiscal policy measures aimed at providing short term livelihood relief. With the focus on economic revival balancing with the pandemic containment measures, the RMA continued to support the economy by promoting liquidity flow in the economy while remaining vigilant of financial sector stability.

Reflecting a subdued economic activity due to ongoing containment measures, the credit to private sector grew at a lower rate of 13.3 percent in June 2020, compared to 20.5 percent in June 2019.

Meanwhile, on the inflation front, the consumer price inflation remained broadly in low levels, averaging 4 percent during first half of 2020, reflecting a persistent negative output gap caused by a subdued demand condition.

In the medium term, the inflation is projected to remain within the implicit threshold of 5 (+/-2) percent range, based on improved macroeconomic conditions[14] . Thus, the RMA adopted an accommodative monetary policy stance in 2020 amidst prolonged subpar economic activity exacerbated by the COVID-19 pandemic.

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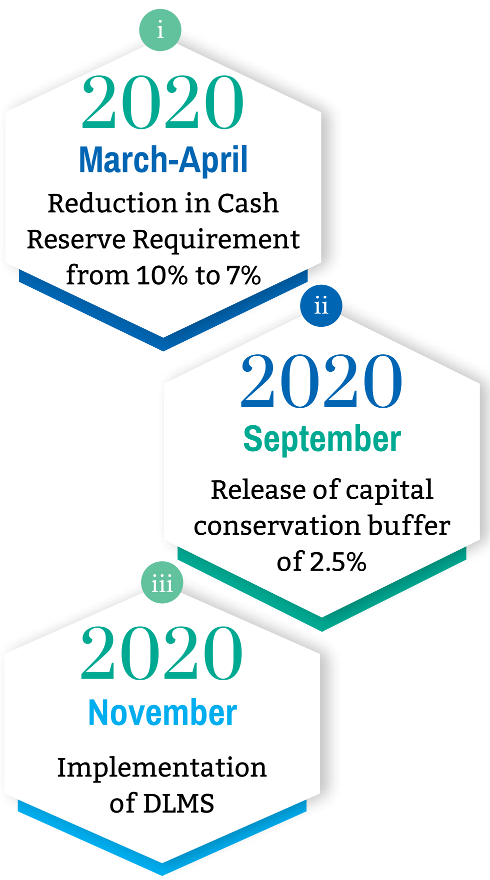
[14] Taking into account the output gap, lagged inflation and wholesale price in India, inflation is projected at 3.31 percent for 2020.

4.1 Monetary Measures

As the pandemic began to exert its full impact on the global economy, the RMA facilitated monetary policy by providing adequate liquidity to keep the business afloat by reducing the CRR. In addition to lowering the CRR, other monetary relief measures were aimed to cushion business facing financial distress and assist entrepreneurs and local production, including Renewable Natural Resources (RNR) activities. The measures are broadly classified into monetary and regulatory measures, and liquidity support through concessional loans. The following illustration presents the details of monetary measures adopted by the RMA during the pandemic.

1. Monetary and regulatory requirements were eased in 2020



List of Monetary and Regulatory measures:

(1) Reduced the Cash Reserve Requirement from 10% to 9% on 17th March 2020 and further reduced to 7% on 27th April 2020 releasing a liquidity of Nu 4.2 billion.

(2) Released the Capital Conservation Buffer of 2.5% of Risk Weighted Assets, enhancing lending capacity of FIs by Nu 25 billion.

(3) Implemented the Domestic Liquidity Management System to effectively manage and monitor the short-term liquidity of the banking sector.

2. Liquidity support through concessional loans to COVID-19 affected sectors

PHASE I

April 2020-June 2020

- Working Capital at 5% interest rate was provided to wholesalers and major retailers to procure and stock essential commodities.
- Working capital at concessional interest of 5% to finance operating cost for tourism and allied sectors to help businesses prevent lay-off of employees.
- Working capital loans to meet operating expenses and to import raw materials at a minimum lending rate
- To encourage local production, microloans up to Nu 500,000 at 2% concessional interest rate for rural and agriculture & working capital loans at 4% for CSIs were provided.
- Loans were deferred for 3 months and gestation period for projects under construction were extended by 3 months without penal interest until June 2020.

PHASE II

Jul 2020–Jun 2021

- Loans were deferred for another 12 months up to June 2021. Borrowers willing and able to repay were offered one percent interest rebate.
- Continued extension of microloans for agriculture and soft loans to CSIs at 2% and 4% interest rate by another 12 months.
- Provision of new soft term bridging loans at concessional interest rate of 5% for business to ensure continuity for 5 years including 1 year of gestation

Working Capital to Tourism Sectors

Loan of Nu 607.21 million was availed by 73 tourism related and allied operators to finance their operational cost.

Working Capital to Wholesalers and Retailers

Loan of Nu 1.14 billion was provided to 21 wholesalers and major retailers

Working Capital to Micro and CSIs

Loan of Nu 154.62 million in microloans and Nu 14.62 million short-term working capital has been sanctioned by National CSI Development Bank to 570 clients

Working Capital to Industries

Loan of Nu 602.75 million was sanctioned to 22 industrial clients to meet their operating expenses and import of raw materials

Outcome of Monetary Measures as of June 2020

4.2 Domestic Liquidity Conditions

During FY 2019/20, overall liquidity in the banking sector continued to remain in surplus, mainly contributed by increase in inflows of foreign currencies in the form of loans and grants from multilateral agencies and Swap facility. As a result, the short-term liquidity surplus stood at Nu 20,190.19 million as on June 2020, of which, the CRR absorbed Nu 10,233.78 million. After accounting for banking sector's precautionary liquidity buffer of Nu 3,000 million, the pure excess reserve stands at Nu 17,190.19 million as of June 2020.

Chart 4.2.1 Excess liquidity (Nu in Million)

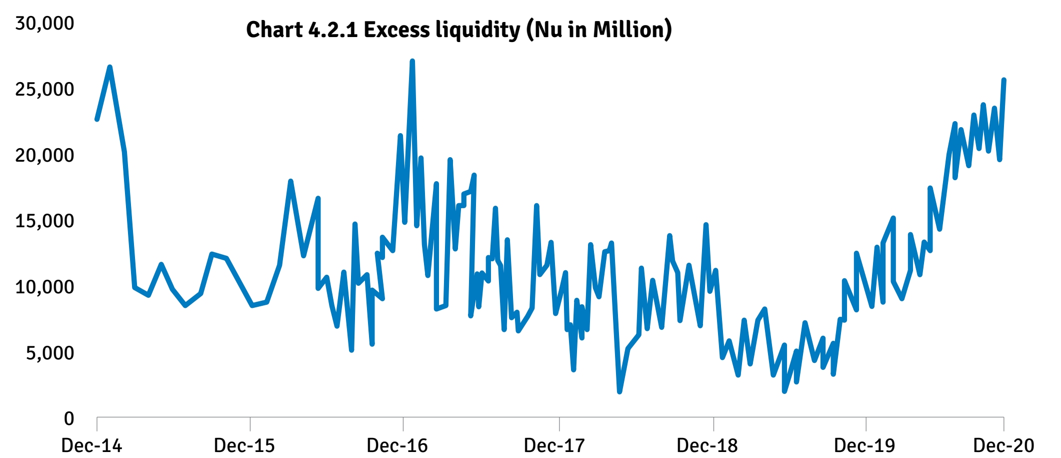
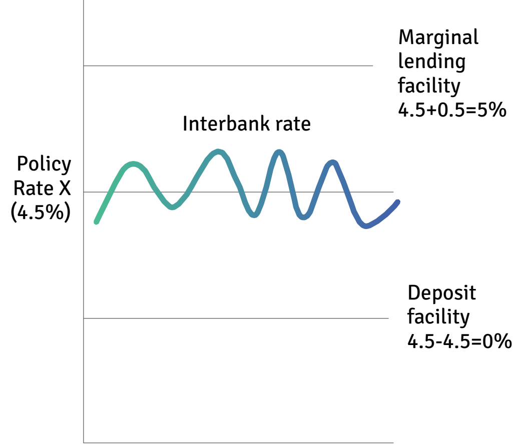


Table 4.2.1 Autonomous Factor, liquidity surplus and liquidity management (Nu in Million)					
Liquidity Drivers	**Jun-16**	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**
Net foreign assets	56,888.7	59,564.3	56,407.8	53,802.6	73,993.1
Net domestic assets	-20,006.4	-18,568.9	-20,376.0	-20,194.8	-23,495.2
Currency in circulation	-10,518.0	-11,529.0	-12,088.3	-12,546.0	-14,635.8
Net Government accounts	-805.3	-2,717.6	-2,079.6	2,403.4	-1,294.5
Sweeping project accounts	-10,367.8	-5,215.4	-3,369.8	-4,037.3	-4,153.6
Total net autonomous factors	**15,191.2**	**21,533.4**	**18,494.2**	**19,427.9**	**30,414.0**
Cash Reserve Ratio	8,245.5	10,284.0	11,036.2	11,995.3	10,223.8
Excess Reserves	6,945.7	11,249.3	7,458.0	7,432.6	20,190.2

Currently, the banking sector liquidity is adequate to support short-term liquidity demand of the economy. However, there is high variation in liquidity holdings amongst banks, particularly with BoBL - holding over more than 80 percent of liquidity surplus, reflecting an uneven distribution of excess liquidity. Higher deposits, particularly the current account deposits in BoBL is one of the key drivers of liquidity driven by public sector deposits.

Given that the existing structural liquidity surplus and dependence on CRR as a sole monetary policy instrument, the RMA implemented the liquidity management system aimed to provide a level playing field amongst the banks. The liquidity management is implemented in the form of (i) Overnight Liquidity Management Operation (OLMO) (ii) Weekly Liquidity Management Operation (WLMO) and (iii) Long-term Liquidity Management Operation (LTLMO).

Figure 4.2.1 Interest Rate Corridor



A key element of the monetary policy is the policy rate, the rate that RMA uses to signals its monetary policy stance. This rate is determined based on the inflation outlook, output gaps and other macroeconomic consideration. Using various interest rate rules, a desired policy rate is determined at 4.5 percent by giving an equal weight to inflation and output gap[15]. Accordingly, the interest rate corridor is set at 4.5 percent plus 50 basis points (bps) for Marginal Lending Facility (MLF) and 4.5 percent minus 450 bps for Deposit Facility (DF).

The MLF and DF are upper and lower bound which provides interest rate corridor for operating interbank market. Details on the operations of the liquidity management system are as follows:

[15] The policy rate is determined based on assumptions on the neutral real rate at 1.5 percent and the optimal inflation based on the threshold estimates, and forecasts of inflation at 3.31 percent for 2020.

1. Overnight Liquidity Management

The overnight liquidity management is operated through standing facilities. The standing facility are monetary policy instruments that is used by the RMA for overnight liquidity management. Standing facilities allow banks to borrow from RMA (lending facilities) or deposit funds with RMA (deposit facilities) at a pre-determined rate of interest. The banks can use the MLF to obtain overnight liquidity from RMA, if bank foresees negative balance on their current account balance maintained at RMA. However, given the structural liquidity surplus due to large inflows related to hydropower and grants, the deposit facility interest rate is temporarily set at zero.

2. Weekly Liquidity Management Operation (WLMO)

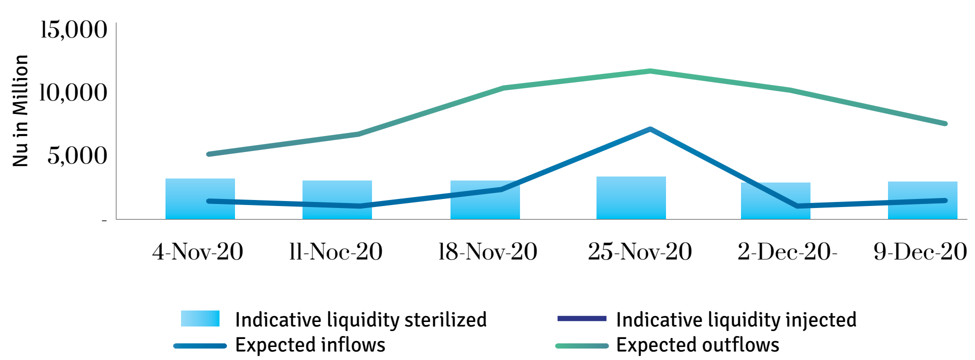
In addition to the OLMO, the WLMO is conducted with the objective to meet the short-term payment obligations of the banks that are maturing within a week's period. On a weekly basis, each bank submits their liquidity position through a web-based application platform to RMA. Based on the liquidity needs of the banks, RMA provides liquidity to the banks at a fixed interest rate of 3 percent.

As on 9th December 2020, a total of six weekly liquidity operations have been conducted by the RMA. Based on the information received from the banks, there is a persistent liquidity surplus in the market. In order to promote secondary market, the RMA in the medium-term plans to issue its own securities to sterilize the excess liquidity.

3. Long-term Liquidity Management

To promote secondary market transactions in the capital market, the RMA also conducts long term liquidity management operations. The LTLMO is conducted with maturity ranging from 30 to 90 days. For liquidity providing operation, the RMA purchases marketable securities and other evidences of indebtedness issued or guaranteed by the Royal Government of Bhutan and Government owned Companies with applicable discount rates, while for liquidity absorption operation, the RMA will issue its own bills.

Chart 4.2.2 Weekly Liquidity Management Operation

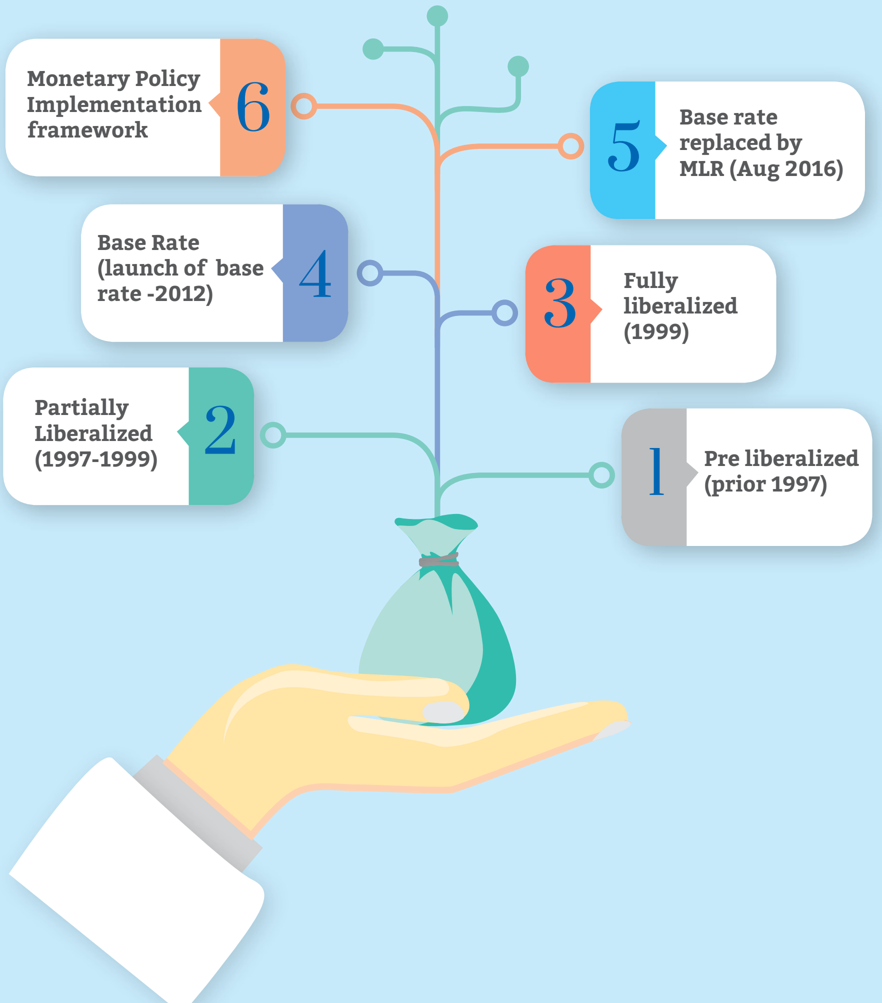


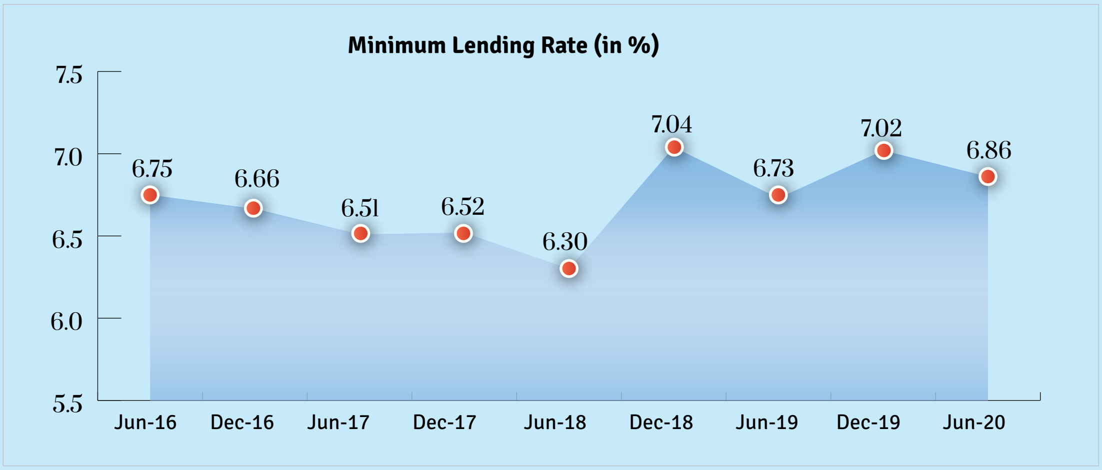
BOX 4B.1

INTEREST RATES

Interest rates are an important variable for the stability of the financial system. Bhutan witnessed major interest rate reforms since the establishment of RMA. Initially, interest rates were administered by the RMA at fixed or fiat with almost no reference to the factors of demand and supply. Interest rates were administered to boost the rate of capital formation and provide funding support to the Government at competitive rates. The rate of interest remained rigid until it was liberalized in October 1997.

The short term and long-term deposit rates were as high as 10 percent and 13 percent respectively and lending rates were found as high as 15 percent during early 90s. The liberalization of interest rates brought flexibility in interest rate determinations, allowing financial institution to determine rates based on assets and liability management principles. The banks were given discretion to set their own rates according to market conditions but without exceeding the margin of six percent interest rate spread (IRS). Later in 1999, the RMA fully liberalized the interest rate with the intention to encourage savings and investments to support economic growth.



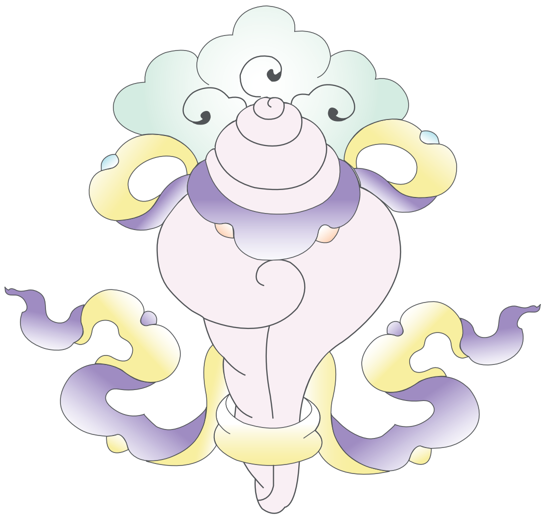


However, interest rate movements were not observed until 2000 as the Financial Service Providers (FSPs) continued to maintain interest rates close to their pre-liberalized level. The average deposit rates declined from 9.5 percent in 1997 to 5.3 percent; lending rate from 14 percent to 13 percent as of March 2004.

Until 2015, deposits rates were found to be less than 7 percent while lending rates were as high as 16 percent. Saving interest rate was almost static to 5 percent. With the wide margin spread between deposit and lending, impervious to growth and inflation cycle, RMA introduced the Base Rate System (BR) in 2012 to encourage transparency in the methodology of pricing of lending products in the financial sector.

To encourage competition and professionalism among the banks, a balanced approach of engaging in financial intermediation was introduced in the form of Minimum lending rate (MLR) in 2016. This policy aimed to set a single benchmark minimum reference rate for lending across all banks and non-banking financial institutions. Implementation of MLR witnessed a notable reduction in average lending rate by 250 basis points.

Year	Deposit Rates				Lending Rates					
	Savings	Term Deposit			General Trade	Manu-facturing Industry	Service Industries	Transport	Agriculture & Livestock	Housing
		3 Months < 1 yr	1 yr to < 2yr	> 3 yr						
2015	5.00-6.00	4.00-7.00	6.75-7.50	8.00-10.00	13.75-16.00	13.00-16.00	13.00-15.75	12.15-16.00	12.00-13.00	13.00-15.25
2016	5.00-6.00	4.00-6.00	6.00-7.00	8.00-9.25	13.00-14.00	11.73-13.00	11.73-14.00	11.73-14.00	11.73-13.00	12.48-14.00
2017	5.00-6.00	2.00-6.00	6.50-7.50	7.75-10.00	10.50-13.00	9.98-12.50	8.00-12.00	8.92-12.50	7.99-11.00	8.20-13.00
2018	5.00-5.75	5.00-6.00	6.50-7.00	7.00-8.00	9.86-13.00	10.00-13.00	8.49-12.53	9.07-12.50	8.49-11.00	8.46-13.25
2019	5.00-5.75	6.00-7.00	6.00-7.00	7.25-9.50	9.23-12.50	08.00-12.50	8.50-12.50	9.20-12.00	8.17-12.00	7.98-13.00
2020	5.00-5.75	3.00-6.00	6.50-7.00	7.25-9.10	9.95-13.00	8.00-13.00	7.94-13.00	9.20-13.00	8.00-12.00	7.98-13.00



5
REVIEW OF PERFORMANCE OF THE FINANCIAL SECTOR

5 Performance of Financial Sector

The COVID-19 pandemic brought in enormous health and economic challenges that raised significant risks to the financial system around the globe, including Bhutan. Beginning the first quarter of 2020, major policy attention in the country were focused on the financial sector. The pandemic brought the economic activity to a near standstill, as lockdowns and the requirement of social distancing with containment measures to combat the spread of virus impeded the economic activities.

Amidst the COVID-19 pandemic, the financial sector risks have been contained with the help of unprecedented monetary measures, guided by His Majesty The Druk Gyalpo's wisdom to ensure that the policy interventions are adequate, inclusive and resilient. As a part of monetary measures announced in April 2020, the RMA ensured uninterrupted supply of liquidity in the economy, in addition to the ability to buffer the economy from severe effects of the pandemic by providing temporary credit and prudential relaxations. The salient features of the credit relaxations included deferment of loan repayment obligations, Druk Gyalpo Relief Kidu -interest payment support and easing of working capital financing. The CRR was also revised twice to provide adequate liquidity in the financial system.

As of date, the measures taken by the RMA in addressing the immediate impact of COVID-19 have been able to cushion the financial fallout. However, uncertainties around the outlook of service sector and challenges to bridge the financial intermediation process with the development of real sector economy will be an important economic policy focus over the medium term.

Prior to the onset of the pandemic, the domestic credit in the economy has been on an increasing trend, supported by adequate liquidity cushion and stable capital base in the banking sector. This has largely been propelled by the success of reforms undertaken by the RMA during the last five years.

Expanding the outreach of financial inclusion, providing alternative source of financing for the entrepreneurs and leveraging on technology are other notable initiatives of the RMA. While the RMA is focused towards in aligning its core mandates with the rapidly changing landscape of the international financial system, the challenges still remain in developing a resilient ecosystem in the financial sector.

5.1 Domestic Credit

Service and Tourism continues to dominate the sectoral credit portfolio.

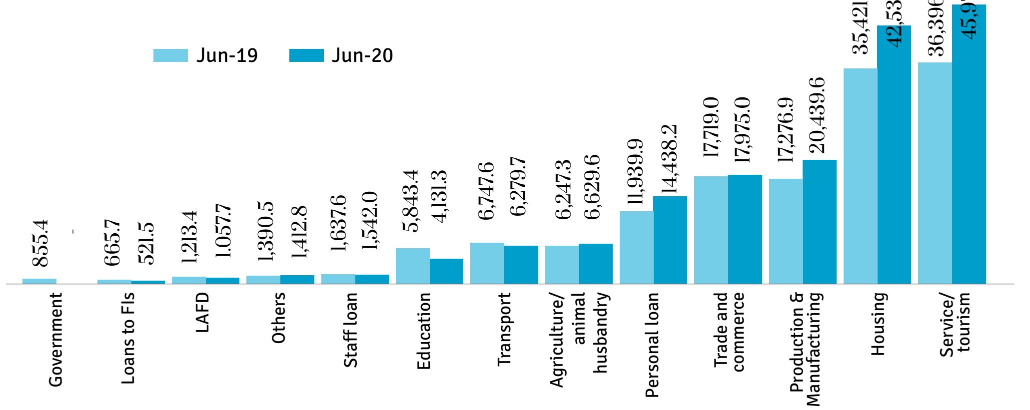
In wake of the pandemic, several steps were taken by the RMA to strengthen financial intermediaries and ensure financial stability. Measures to remove barriers in supply of credit to priority sectors and CSIs are a notable intervention of the RMA in the recent years. The financial system continued to operate smoothly with rising trend in domestic credit, despite a challenging domestic economic outlook.

The total domestic credit as of June 2020 stood at Nu 162,933.44 million, compared to Nu 143,354.16 million in June 2019, recording a growth of 13.7 percent[16]. The growth in credit portfolio was mainly driven by the acceleration of advances to service and housing sectors.

The loans and advances to these two sectors increased by Nu 9,577.58 million and Nu 7,111.93 million respectively during the review period.

The service sector which constituted 28.2 percent (Nu 45,974.07) of the total loan outstanding, continues to dominate the sectoral credit portfolio, followed by housing with Nu 42,532.94 million as of June 2020. In addition to service and housing sectors, loans to production and manufacturing, trade and commerce, and personal loans are other major drivers of credit growth. While there has been no loans and advances provided to the Government, the outstanding advances to sectors such as transport, loans against fixed deposits and staff loans witnessed a moderate deceleration in June 2020, compared to June 2019. Decline in the staff loans in particular is the result of the RMA's prudential

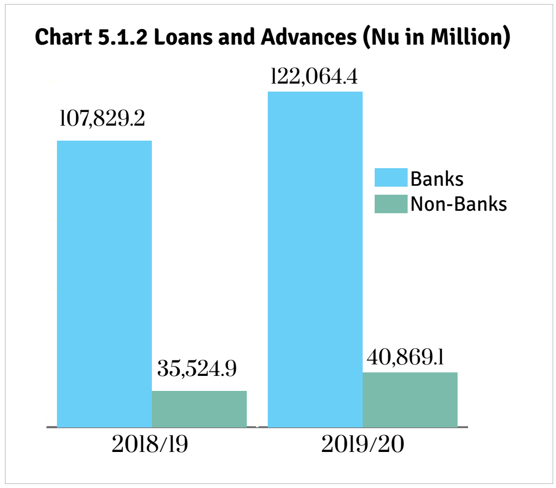
Chart 5.1.1 Sectoral Loans & Advances (Nu in Million)



[16] Under Chapter 5 (Review of Financial Sector), the loans and advances of National Pension and Provident Fund (NPPF) has been included.

[17] As per the RMA Prudential Regulation 2017, FSPs cannot enter into transaction where an exposure to related party exceeds 10 percent of the institution's total capital fund.

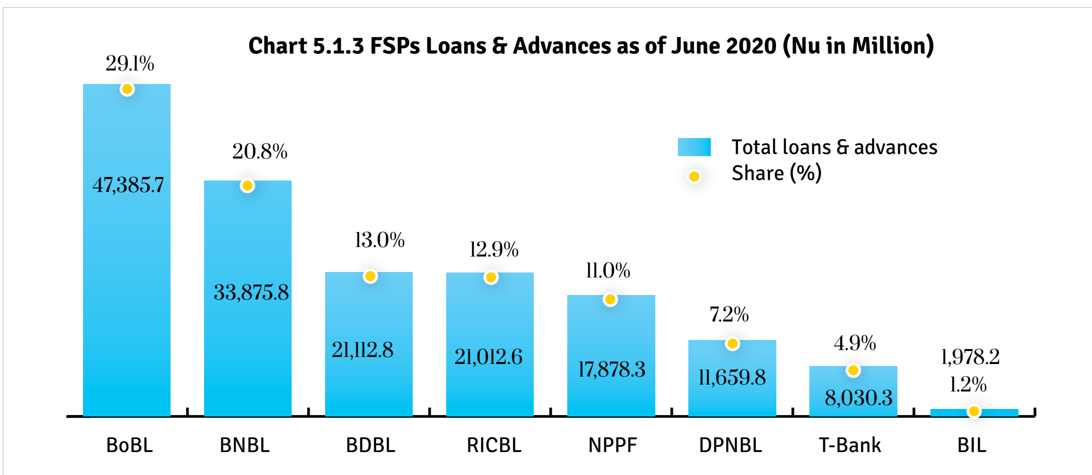
interventions in terms of credit exposures to related party[17].
In terms of the credit share in the market, the banks comparatively held a larger share of credit as compared to the non-bank financial institutions[18].



From the total loans and advances of Nu 162,933.44 million, 74.9 percent of the total credit has been disbursed by the banks, which amounts to Nu 122,064.36 million, while non-bank financial institutions accounted for 25.1 percent.

Although banks have a larger share of loans and advances compared to the non-bank financial institutions in absolute terms, the non-bank financial institutions credit grew by 15 percent as against the banks with 13.2 percent.

The largest and oldest commercial bank in the country, the BoBL has the highest share of loans and advances amongst other FSPs as of June 2020[19]. The bank also has the maximum outreach with a network of 47 branch offices spread all across the country and its balance sheet size has expanded to Nu 75,206.15 million as of June 2020. The BoBL's total loans and advances amounts to Nu 47,385.66 million, followed by BNBL with Nu 33,875.77 million.



[18] Bank includes the BDBL, BNBL, BoBL, DPNBL and T-Bank, whereas the RICBL, BIL and NPPF are classified as non-bank financial institutions.

[19] For detailed sectoral investments by economic activity of each FSPs, refer Statistical Tables of this report.

5.2 Asset Quality

In the absence of monetary measures during the COVID-19 pandemic, the NPL could have deteriorated significantly.

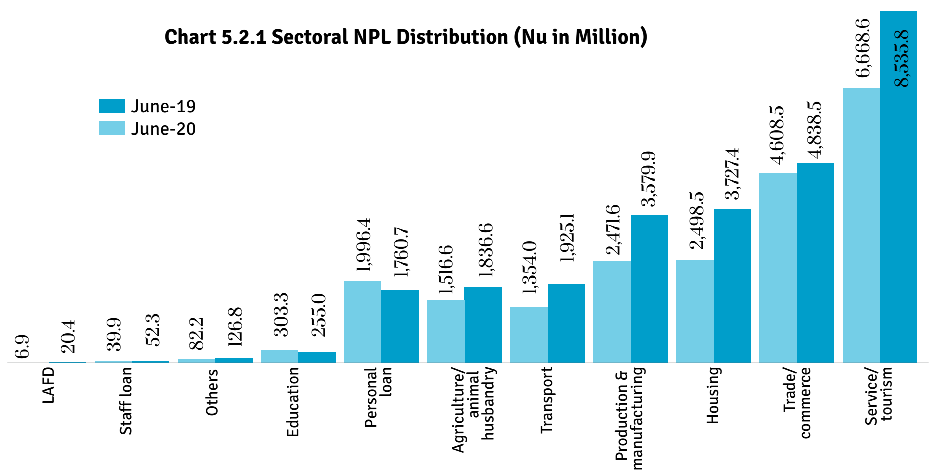
As the FSPs were struggling to battle the pre-existing vulnerabilities on account of rising NPLs, the financial sector was further pushed into uncertainty with the outbreak of COVID-19 during late 2019. The containment measures adopted brought the economic activity to a standstill with anticipated rise in the NPL as the repayment of EMI was impacted.

and interest payment support have enabled the FSPs to avoid rising loan defaults.

As per the past NPL trends, the asset quality of the financial sector is determined by structural and cyclical factors. Since the Financial Institutions (FIs) in the country follow calendar year to reconcile their books of accounts, the NPL gets normalized due to improvement in the loan repayments during the end of the calendar year.

In the FY 2019/20, the NPL accumulated to Nu 26,658.74 million, compared to Nu 21,546.55 million in FY 2018/19. Similar to the credit

Chart 5.2.1 Sectoral NPL Distribution (Nu in Million)



However, the timely intervention and relief measures announced by the RMA and the Government have cushioned the immediate impact.

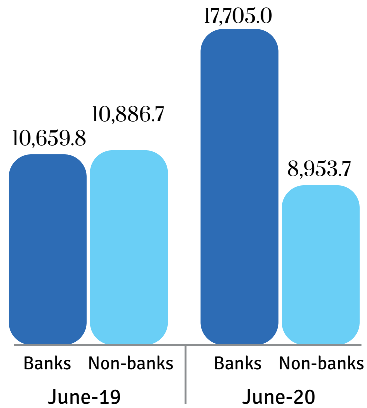
The relief measures composing of various regulatory relaxations were announced. Soft loans and working capital to wholesale distributors and service sectors were provided to ensure the continuity of supply of essential goods. Most importantly, the deferment of loan repayment

exposure, the NPL in the service sector is comparatively larger than the other sectors, followed by trade and commerce.

As of June 2020, these two sectors combined constituted 50 percent share amounting to Nu 13,374.74 million.

Furthermore, these two sectors were severely impacted by the COVID-19 pandemic. While disruptions in the supply chain impeded the activities

Chart 5.2.2 Total NPLs (Nu in Million)



in trade and commerce, the travel restrictions to combat the spread of virus exposed the weakness of service sector. On the other hand, the NPL for personal and education loan declined marginally in FY 2019/20, reflecting the immediate impact of relief measures on the individuals.

Unlike in the past, the asset quality of the non-banks witnessed a remarkable improvement, compared to the banks during FY 2019/20. While the banks NPL accelerated by 66.1 percent, there was a modest deceleration in the non-banks NPL by 17.8 percent (Nu 1,932.99 million).

As of June 2020, majority of the sectors in non-banks witnessed a significant decrease in the NPLs except on housing and staff loans. This reflects the outcome of robust prudential intervention that the RMA undertook to strengthen the regulatory framework of the non-banks during the last three years.

Domestic financial sector exhibited a divergent movement in the asset classification. The volume of performing loans as well as NPL increased, however, the spread in doubtful category witnessed a moderate decline. Since the corresponding increase in NPL could not offset the credit growth, the Gross Non-Performing Loans (GNPL) in June 2020 deteriorated to 16.3 percent in FY 2019/20.

As the asset quality has been deteriorating over the last few years despite prudential interventions, the RMA is currently in the course of conducting an in-depth assessment of the NPLs and initiatives are under way to manage the NPLs through bilateral negotiation, asset transfer framework, write-off and foreclosure mechanism.

Table 5.2.1 Asset Classification (Nu in Million)

Classification	Banks		Non-Banks		Total	
	Jun-19	Jun-20	Jun-19	Jun-20	Jun-19	Jun-20
Performing loans	97,169.4	104,359.4	24,638.2	31,915.4	121,807.6	136,274.7
Standard	89,938.1	93,079.5	22,749.0	27,275.9	112,687.0	120,355.4
Watch (up to 90 days)	7,231.3	11,279.9	1,889.3	4,639.4	9,120.6	15,919.3
Non-performing loans	10,659.8	17,705.0	10,886.7	8,953.7	21,546.6	26,658.7
Substandard (91 to 180 days)	2,801.9	7,138.4	5,164.3	3,474.0	7,966.2	10,612.3
Doubtful (181 to 365 days)	1,775.4	1,372.2	1,248.6	688.4	3,024.0	2,060.6
Loss (366 & above)	6,082.6	9,194.5	4,473.8	4,791.4	10,556.4	13,985.8
Total	**107,829.2**	**122,064.4**	**35,524.9**	**40,869.1**	**143,354.2**	**162,933.4**
Gross NPL Ratio	**9.9%**	**14.5%**	**30.6%**	**21.9%**	**15.0%**	**16.3%**

5.3 Deposit Portfolio

Overall deposits increased significantly driven by term deposits

After a modest decline in the money supply in February 2020, there has been a substantial increase in the money supply since April 2020, reflecting a strong growth in the deposits.

Beginning the first quarter of 2020, economic activity plunged in the wake of COVID-19, resulting in subdued demand for cash transaction in the economy. Furthermore, throughout the FY 2019/20, the FSPs extended more credit which created new deposits in the banking system.

Chart 5.3.1 Deposit Portfolio (Nu in Million)

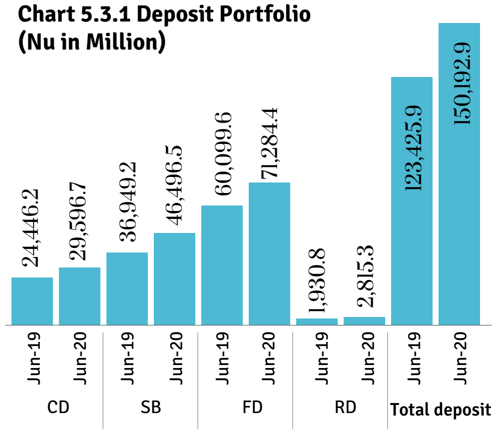
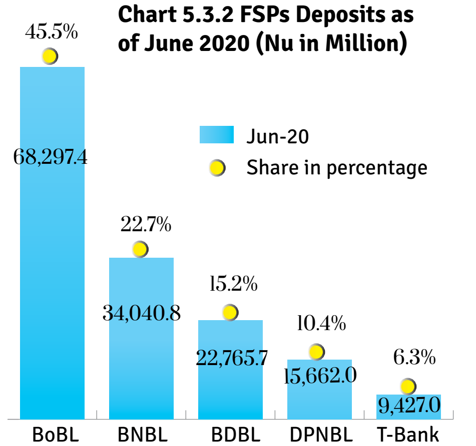


Chart 5.3.2 FSPs Deposits as of June 2020 (Nu in Million)



In FY 2019/20, overall deposits with the banks recorded a growth of 21.7 percent. The interest-bearing deposits, particularly the term deposits (fixed and recurring deposits) continue to form a major component of the overall deposits.

Compared to June 2019, the fixed deposits, which constitutes 96.2 percent of the total term deposits, expanded by Nu 11,184.81 million in June 2020, while the savings deposits (SB) increased by Nu 9,547.24 million.

The time bound nature of the fixed deposits (FD) and Recurring Deposit (RD), provided a stable source of funding for the banks.

Although the composition of RD is comparatively less, it expanded at an exponential rate of 45.8 percent in June 2020. On the other hand, the SB deposits and Current Account Deposits (CD) witnessed a growth of 25.8 percent and 21.1 percent respectively.

As observed, the dispersion of overall deposits among the banks are homogenous to credit extended by the FSPs. The BoBL recorded the highest share of deposits with 45.6 percent amounting to Nu 68,297.37 million, followed by BNBL with 22.7 percent (Nu 34,040.8 million) in June 2020.

On the other hand, the DPNBL and TBank recorded the least share with 10.4 percent (Nu 15,662 million) and 6.3 percent (Nu 9,427.0 million) respectively. While BoBL has the highest deposits in CD, SB and RD, the BNBL has the highest in FD. The higher FD with BNBL is influenced by the FD of other banks, which is in the form of inter-bank deposits to meet the statutory liquidity requirements.

Given the importance of interdependent relationship between bank loans and deposits, the RMA has initiated a smooth policy intervention during the COVID-19 pandemic. Though credit flows to priority sectors were molded through relief measures and lower cost of borrowing, a constant assurance from the RMA in addition to promoting digital banking resulted into lower demand for cash. These interventions prevented inconveniences in the market, which otherwise could have led to huge demand for cash and surge in cash hoardings.

5.4 Financial Soundness Indicators

Against the backdrop of the pandemic, the financial soundness indicators improved during the review period.

The FSPs in the country entered the COVID-19 pandemic with some pre-existing vulnerabilities. However, with appropriate monetary measures, the FSPs were able to witness a positive development in the vulnerability indicators, compared to the FY 2018/19,

Table 5.4.1 Vulnerability Indicators

Indicators	2018/19	2019/20
RWCAR	12.6%	11.6%
ROE	-7.2%	-0.8%
ROA	-0.9%	-0.1%
CD Ratio	95.4%	86.7%
Profit After Tax (Nu in Millions)	-1,492.9	-155.0

as illustrated in the table given below. The Risk Weighted Capital Adequacy Ratio (RWCAR) has deteriorated in June 2020, compared to the previous review period. The decrease in capital fund and increase in the Risk Weighted Assets (RWA) of banks assembled a distressing capital adequacy[20]. The capital fund of the banks declined by Nu 3,039.95 million in June 2020, whereas the RWA increased by Nu 12,996.69 million.

The non-banks on the other hand conceived an exceptional growth in the capital fund and marginal increase in the RWA. The non-banks capital fund peaked to Nu 2,252.62 million in June 2020 compared to negative Nu 1,149.02 million in June 2019. The improvement in the ROE, ROA and PAT in June 2020 is the outcome of monetary relaxations provided by the RMA. The interest payment support was provided irrespective of the credit discipline and repayments were deferred.

On business operation front, the business size of the FSPs grew by 39.3 percent amounting to Nu 66,495.78 million during FY 2019/20. The balance sheet for then FY 2019/20 stood at Nu 235,841.63 million, largest in the history. This positive development in the business operation was due to increase in the cash and bank balances and significant growth of loans and advances. On the liabilities, the significant increase of insurance funds was driven by inclusion of pension fund and increase in deposit liabilities.

The financial system has been in a strong position partly because of the past efforts and timely policy intervention of the RMA. However, as the economic impact and the uncertainty enclosing the COVID-19 pandemic ascends, the RMA is currently reviewing and assessing the financial

[20] The minimum capital requirement ratios including the Capital Conservation Buffer is 12.5 % for financial institutions as per the Prudential Regulation 2017. However, the Capital Conservation Buffer requirement of 2.5 % has been released as part of the monetary measures.

Table 5.4.2 FSPs Balance Sheet (Nu in Million)						
Assets				Liabilities		
Particulars	Jun-19	Jun-20		Particulars	Jun-19	Jun-20
Cash & Bank Balances	16,803.7	38,253.4		Paid-up Capital	10,350.9	10,550.9
Balances with Banks (India & Abroad)	4,720.2	4,783.1		Reserves	8,042.2	12,722.8
Balances with RMA	18,923.8	27,982.2		Deposit Liabilities	123,425.9	150,192.9
Marketable Securities	7,149.1	5,490.7		Borrowings	1,548.1	1,184.0
Loans & Advances (Net of Provision)	115,297.5	144,826.2		Bonds/Debentures	2,500.0	2,500.0
Equity Investments	911.6	6,097.1		Provisions	3,741.9	4,291.4
Fixed Assets	2,526.8	4,479.7		Insurance Funds	12,786.1	50,712.9
Other Assets	3,013.2	3,929.2		Current & Other Liabilities	6,950.9	3,686.9
Total	**169,345.8**	**235,841.6**		**Total**	**169,345.8**	**235,841.6**

institutions' vulnerability through stress testing in order to prepare and to mitigate potential risks of financial instability over the medium to longer term.

5.5 Microfinance Institutions (MFIs)

The MFIs continued to provide formal financial services despite the challenges. Drawing inspiration from His Majesty The Druk Gyalpo's vision, the RMA renewed its efforts to further strengthen financial inclusion and ensure access to affordable formal financial services.

Over the years, efforts towards promoting access to finance to the poor and disadvantaged sections of the society has been in focus through various programmes initiated by the RMA.

Since the MFIs play an instrumental role in creating opportunities for low-income households, it has so far been able to facilitate and offer formal financial services. Besides its own challenges, the institutions continue to stride expanding their outreach to the underprivileged and segmented section of the society[21].

Currently, there are five licensed MFIs in the country under operation, serving the needs of the economically disadvantaged

Table 5.5.1 MFIs Loans as of June 2020 (Nu in Million)				
Institution	No. of Accounts	Principal Outstanding	Interest Outstanding	Loan Outstanding
Tarayana MFI	2	0.1	0.0	0.1
BAOWE MFI	21	1.7	0.0	1.7
MBPL	83	20.1	0.3	20.3
BCCL	54	20.1	7.1	27.3
RENEW MFI	3,522	177.7	0.4	178.0
Grand Total	**3,682**	**219.6**	**7.8**	**227.4**

[21] The challenges in the microfinance sector ranges from lack of formal credit history, lack of collateral, and low digital and financial literacy

society. The MFIs includes Tarayana Microfinance, Bhutan Association of Women Entrepreneurs (BAOWE-Pelzing), Bhutan Care Credit Ltd (BCCL), Microfinance Bhutan Pvt Ltd (MBPL) and RENEW Microfinance Pvt Ltd. The MBPL and RENEW are licensed deposit-taking MFIs.

The collective loan outstanding of the MFIs in the country as of June 2020 stood at Nu 227.39 million. With 3,522 loan accounts, RENEW Microfinance Pvt ltd has provided the highest loans and advances with a total loan outstanding of Nu 178.04 million.

With the implementation of National Financial Inclusion Strategy (2018-2023), the RMA remains positive that the vulnerable and unbanked segments of the population would be served. These also includes the physically impaired and disabled citizens of the country, enabling them to gain access to financial services tailored to their needs for improving day-to-day livelihood.

5.6 National CSI Development Bank (NCSIDB)

Realizing the importance of Cottage and Small Industries (CSI) in generating employment and entrepreneurship culture, priority has been accorded to strengthen this sector[22]. Subsequently, the CSI has been recognized as one of the Five Jewels of development focus and the Government recently revised the CSI Policy to catalyze this sector[23].

In line with the Government's objective and initiatives, the RMA has also made numerous supply side interventions to promote the CSI sector by promoting access and affordable finance. As the demand from the CSI sector soared, the RMA necessitated the remodeling of NCSIDB, headquartered at Paro.

The NCSIDB has encountered several amendments of previous entities, although its focus to CSI remained the same. Initially, it was established as Business Opportunity and Information Centre (BOIC) in 2014 under the guidance of Ministry of Economic Affairs (MoEA).

The BOIC was then an apex agency for implementing the Revolving Funds (RF) as part of the Economic Stimulus Plan (ESP)[24]. Over the period, BOIC was dissolved and its mandates were passed to the Rural Enterprise Development Corporation Ltd. (REDCL) due to legality issues.

On May 21, 2016, REDCL was established as a State-Owned Enterprise (SOE) under the Companies Act of the Kingdom of Bhutan and licensed as MFI. Under the new establishment, REDCL was mandated to manage only RF-II, whereas RF-I was transferred to BDBL through a special window (as MFI, lending above Nu 500,000 was restricted).

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[22] As of June 2020, there were 21,813 active licensed CSIs in the country and this sector accounts to about 95 % of the total industries in the country (Department of Cottage & Small Industries, 2020, MoEA).

[23] The Five jewels according to the Economic Development Policy 2016 are Hydropower, CSI, Mining, Tourism and Agriculture.

[24] Two Revolving Funds were created; RF-I and RF-II. While Nu 1,500 million was allocated to RF-I to finance new business start-ups, RF-II was allocated Nu 400 million to support non-formal rural activities.

As the scope and business environment of CSI changed, it was vital to have a specialized financial institution to serve the needs of the CSI sector. Subsequent to the issuance of Rules and Regulations for CSI banks by the RMA in 2018, the REDCL was upgraded to NCSIDB in 2019. Today, the NCSIDB covers all twenty Dzongkhags

Table 5.6.1 NCSIDB Loans Portfolio as of June 2020 (Nu in Million)

Particulars	Amount
Total Loan Sanctioned	1,310.7
Total Loan Outstanding	1,159.2
Total NPL	464.1
NPL to loan ratio (%)	40.0%
Total Number of loan accounts	**3,763.0**

offering different types of loan products towards promoting the CSI sector.

As of June 2020, total loan outstanding of NCSIDB stood at Nu 1,159.20 million. The advances by the NCSIDB are expected to accelerate the CSI financing over the medium term with further revitalizing the CSI financing opportunities through the NCGS by the Government.

Moving forward, the MFIs and NCSIDB have huge potential to cover up the gaps unfilled by the conventional financial institutions. It has the potential to boost domestic productivity and support import substitution, promote innovation and digital transformation and job creation in the economy.

BOX 5B.1

DRUK GYALPO'S RELIEF KIDU- INTEREST PAYMENT SUPPORT FOR LOANS IN RESPONSE TO THE COVID-19 PANDEMIC
PHASE I (APRIL TO JUNE 2020)

In wake of the COVID-19, all central banks in the region have announced monetary measures to minimize the financial impact of the pandemic. Some of the key measures initiated by the Royal Monetary under the Phase I monetary measures includes, loan deferral, reduction in CRR, provision of concessional working capital for business and interest payment support operated through the National Resilient Fund and DGRK.

Interest payment support was one of the indispensable interventions from His Majesty The Druk Gyalpo and the Government that helped immensely to ease the repayment burden of the mass borrowers during the time of the pandemic. This Report provides an overview of the interest payment support. The interest payments were granted for all categories of loans except for loan to Government, loans to FIs and staff incentive loans.

TABLE 5B.1.1 Interest Payment Support for Phase I (Nu in Million)

Types of Loans	No. of Loan Accounts	Interest Payment Support			Total Interest
		Apr-20	May-20	Jun-20	
Term Loan	131,534	973.2	1,000.2	963.5	2,936.9
Overdraft	6,405	278.2	278.8	269.9	826.9
Credit Cards	1,157	0.5	0.3	0.2	1.0
Total	**139,096**	**1,251.9**	**1,279.4**	**1,233.5**	**3,764.8**

During the Phase I of the Monetary Measure, the cost of interest was shared equally (50 percent each) between the Royal Government and the FSPs.

TABLE 5B.1.2 Interest Payment Support for Phase I by Customer (Nu in Million)

Type of Customers	No of Accounts	Interest Payment Support			Total Interest
		Apr-20	May-20	Jun-20	
Retail	134,342	765.2	783.2	752.9	2,301.3
Private Companies	3,397	350.3	358.6	348.1	1,057.0
Government Owned Companies	68	71.3	72.8	69.5	213.6
Sole Proprietorship	1,258	53.6	53.0	52.4	159.0
Public Companies	31	11.5	11.8	10.7	34.0
Total	**139,096**	**1,251.9**	**1,279.4**	**1,233.5**	**3,764.8**

The interest payment support in the Phase I amounted to Nu 3,764.82 million which benefitted 139,096 loan accounts from 14 FSPs (including five banks, four non-banks, 1 CSI bank and 4 microfinance institutions).

More than 78 percent of the interest payment support were for term loans amounting to Nu 2,936.94 million, followed by the overdraft facilities.

Among the customers, the retail customers that constitutes the loans availed by the individuals or in individual's name are the highest beneficiary of the interest payment support. However, the per capita interest waived to loan accounts was found large for private companies, which constitutes both medium and large companies owned by a multiple partner.

TABLE 5B.1.3 Interest Payment Support for Phase I by Sectors (Nu in Million)

Sectors	No of Accounts	Interest Payment Support			Total Interest
		Apr-20	May-20	Jun-20	
Housing	16,483	320.0	328.9	315.8	964.6
Service	4,227	295.8	303.4	293.9	893.0
Production & Manufacturing	2,451	190.2	196.1	190.6	576.9
Trade & Commerce	9,886	180.5	180.8	175.2	536.5
Personal	47,903	108.7	111.1	106.1	326.0
Agriculture	31,514	54.7	55.7	53.5	164.0
Transport	13,542	51.9	53.2	51.0	156.2
Education	11,067	31.0	30.5	28.8	90.3
Others	1,302	12.4	13.0	12.7	38.0
Loan against Term Deposits	721	6.9	6.8	5.8	19.5
Total	**139,096**	**1,251.9**	**1,279.37**	**1,233.5**	**3,764.8**

While the housing sector was the highest recipient of the interest support in terms of value, the number of accounts with highest beneficiary was found in the personal sector. Furthermore, service sector that has the highest credit exposure as of June 2020 amounting to Nu 46,546.7 million, comparatively received a smaller number of beneficiary accounts under interest payment support.

The interest payment support also benefitted all the FSPs that helped them to receive undisrupted fund flows as part of the borrowers EMIs through interest cost provided by the Government.

Corresponding to its credit exposure, the BoBL received the highest interest payment cost while BAOWE, a microfinance institution, received the lowest. Besides supporting the interest payments, all the loan repayments were also deferred as part of the monetary measures to support the individuals impacted by the pandemic.

TABLE 5B.1.4 Interest Payment Support for Phase I by FSPs (Nu in Million)					
FSPs	**No of Accounts**	**20-Apr**	**20-May**	**20-Jun**	**Total**
Banks	112,434	918.4	935.6	901.4	2,755.4
Non-Banks	22,954	329.6	339.7	328.2	997.5
MFIs/CSI	3,708	4.0	4.1	3.9	12.0
Total	**139,096**	**1,251.9**	**1,279.4**	**1,233.5**	**3,764.8**

Soon after the expiry of the Phase I monetary measures, the Royal Monetary announced the Phase II monetary measures. The Phase II monetary measures were the continuation of the facilities offered during Phase I along with additional measures including provision of bridging loans for business, short to medium term liquidity support facility for the banks and relaxation of capital conservation buffer of 2.5 percent.

However, under the Phase II, the interest payment support was provided as below:

TABLE 5B.1.5 Phase II Interest Payment Support		
Sl No	**Period**	**Interest Payment**
1	July-September, 2020	100 percent granted as the DGRK from the NRF.
2	1st October 2020 – 31st March 2021 (6 months).	50 percent granted as the Druk Gyalpo's Relief Kidu from the NRF and the remaining 50 percent by the borrowers.
3	01st April 2020-30th June, 2021	100% of the interest payment to be borne by the borrowers

BOX 5B.2

CREDIT PORTFOLIO OF HOTELS AND RESTAURANTS

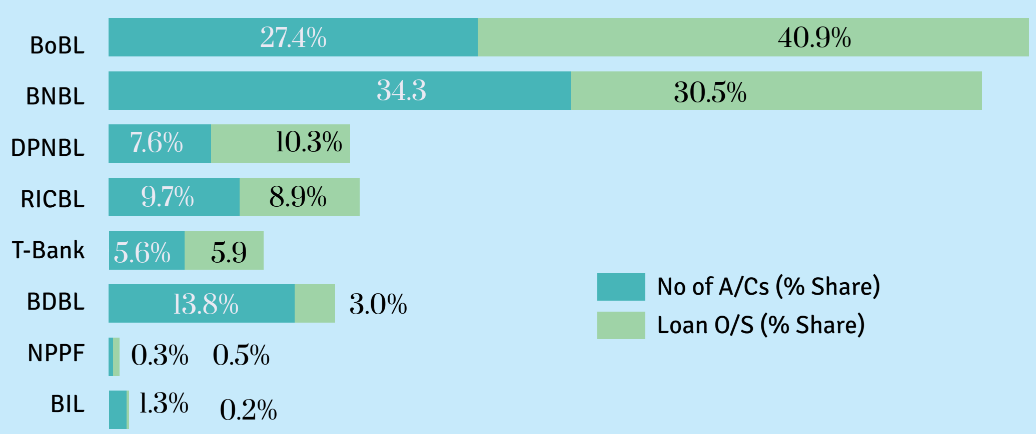
Since the opening of the tourism sector in Bhutan in 1970s, the country became a "global hotspot" for international tourists, owing to its rich natural biodiversity and unique culture. To cater to the growing demand for tourism related infrastructure, the country experienced an unprecedented expansion in the number of hotels and restaurants largely financed by the banks, leading to rise in credit exposure in this sector.

As of June 2020, 516 number of hotels have availed a total loan of Nu 17,440.5 million consisting of 711 loan accounts related to different categories of hotels[25]. The total loan outstanding to 293 3-Star hotels stood at Nu 10,467.8 million (60%) with 431 loan accounts. Following the 3-Star hotels, the second highest loan accounts are witnessed in budget hotels, however, their share to total loan outstanding stood at 6.01 percent. From the total loan outstanding of Nu 17,440.5 million, Nu 16,798.7 (581 loan accounts) constituted the term loans while Nu 641.8 million (130 loan accounts) were sanctioned as working capital.

TABLE 5B.2.1 Distribution of Hotel Types (June 2020)

Hotel Type	No of A/Cs	No of A/Cs (% Share)	No of Hotels	No of Hotels (% Share)	Loan O/S (in millions)	Loan O/S (% Share)
3 Star	431	60.6%	293	56.7%	10,467.8	60.0%
5 Star	23	3.2%	14	2.7%	3,351.2	19.2%
4 Star	28	3.9%	16	3.1%	1,767.6	10.1%
Budget Hotels	173	24.3%	144	27.9%	1,048.4	6.0%
Service Apartment	29	4.1%	25	4.8%	625.7	3.6%
Homestay & Guest House	27	3.8%	24	4.6%	179.7	1.0%
Total	**711**	**100%**	**516**	**100%**	**17,440.5**	**100%**

Chart 5B.2.1 FSPs Hotel Loan Accounts and O/S



[25] High number of loan accounts compared to the actual number of hotels is because of multiple loan accounts with the FSPs (financed through consortium). The details of these hotels were verified through onsite visit by a team from the RMA and correspondence with the respective Credit Officers.

Of the total fifteen FIs, eight FIs financed the hotels and restaurants in the country. Out of the eight, BNBL has the highest number of loan accounts (34.3%) while the loan outstanding is highest with the BoBL (40.9%). Furthermore, these two largest commercial banks share of loan accounts as well as volume of loans are comparatively larger than that of other FIs. Among the non-banks, the RICBL has the highest number of loan accounts as well as the volume of loans provided hotels and restaurants.

It was observed that there is a considerable heterogeneity in the hotel loans within the Dzongkhags in the country. The financing of hotels is predominantly concentrated in four Western Dzongkhags followed by central Dzongkhags

TABLE 5B.2.2 Dzongkhag Wise Hotel financed by FSPs

Districts	No of A/C	No of A/C (% Share)	No of Hotels	No of Hotels (% Share)	Loan O/S (Nu in Million)	Loan O/S (%Share)
Thimphu	295	41.5%	206	39.9%	9,790.4	56.1%
Paro	130	18.3%	96	18.6%	3,582.4	20.5%
Punakha	39	5.5%	31	6.0%	1,272.7	7.3%
Chhukha	60	8.4%	40	7.8%	1,164.8	6.7%
Trongsa	19	2.7%	14	2.7%	318.4	1.8%
Bumthang	34	4.8%	27	5.2%	302.9	1.7%
Trashigang	7	1.0%	4	0.8%	223.7	1.3%
Wangue Phodrang	32	4.5%	24	4.7%	209.2	1.2%
Sarpang	28	3.9%	23	4.5%	181.7	1.0%
Haa	10	1.4%	8	1.6%	156.0	0.9%
Samdrup Jongkhar	18	2.5%	13	2.5%	84.1	0.5%
Samtse	6	0.8%	5	1.0%	64.1	0.4%
Mongar	9	1.3%	7	1.4%	33.3	0.2%
Lhuntse	7	1.0%	3	0.6%	16.7	0.1%
Zhemgang	7	1.0%	6	1.2%	13.5	0.1%
Pemagatshel	7	1.0%	6	1.2%	11.6	0.1%
Dagana	1	0.1%	1	0.2%	8.1	0.0%
Trashi Yangtse	2	0.3%	2	0.4%	6.9	0.0%
Total	**711**	**100%**	**516**	**100%**	**17,440.5**	**100%**

The extent of Thimphu and Paro's domination in the nation's tourism business is reflected in the amount of loans serviced by the FIs to these Dzongkhags. The loan outstanding in these two Dzongkhags accounts to more than 76 percent of the total hotel loan portfolio.

As of June 2020, the FIs exposure to hotel loans stood at Nu 17,440.5 million, with NPL ratio at 10.5 percent (NPL loan amounted to Nu 1,837.6 million originating from 94 loan accounts under default).

TABLE 5B.2.3 Asset Quality of Hotel Loans

Status	No of A/c	No of A/c (% Share)	Loan O/S (Nu in million	Loan O/S (% Share)
STD	535	75.2%	13,840.3	79.4%
WCH	82	11.5%	1,762.7	10.1%
SUB	58	8.2%	1,180.3	6.8%
DBT	27	3.8%	619.3	3.6%
LOSS	9	1.3%	38.0	0.2%
Total	**711**	**100%**	**17,440.5**	**100%**

BOX 5B.3

NEW LOANS DURING THE COVID-19 PANDEMIC

This Report provides the overview on the number and amount of new loans sanctioned during the COVID-19 pandemic (from 11th April to 31st October 2020) by the FSPs in the country. In addition, a brief outline of the new loans sanctioned under the monetary measures has also been included.

During the month of April- October 2020, the FSPs sanctioned a total of 10,486 loan accounts amounting to Nu 10,249.3 million with a loan outstanding of Nu 6,897.18 million.

Of the FSPs, the BDBL has sanctioned the highest number of loan accounts (3,863), whereas the BoBL has sanctioned the highest loan amount (Nu 3,588.8 million).

The five commercial banks collectively sanctioned 77.2 percent of the loan accounts and financed 89.3 percent of the total new loans.

Non-banks on the other hand collectively sanctioned 10.7 percent of the loan amount and 22.8 percent of the loan accounts. Amongst the MFIs, the RENEW has sanctioned the highest loan account as well as loan amount during the period.

Chart 5B.3.1 New Loans Sanctioned by FSPs (11th April to 31st October 2020)

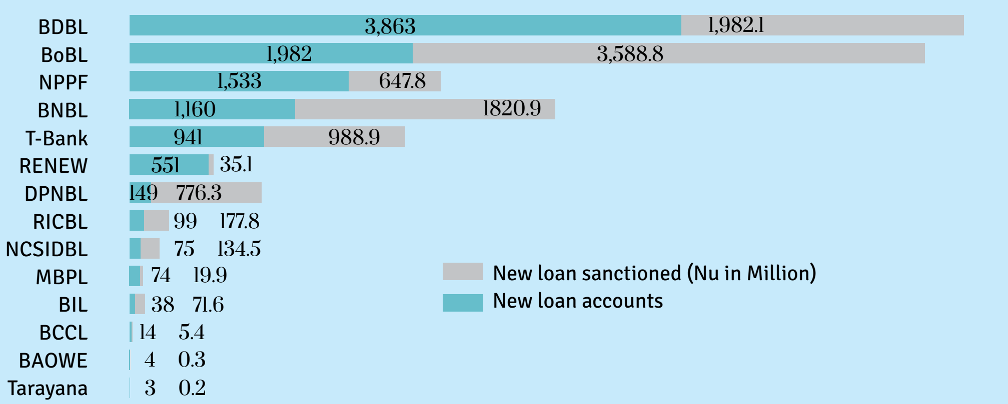
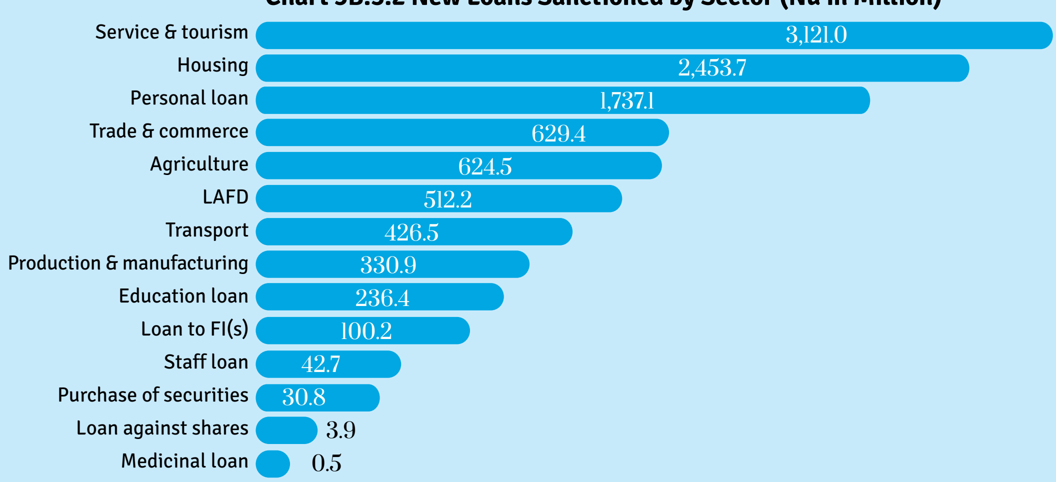


Chart 5B.3.2 New Loans Sanctioned by Sector (Nu in Million)



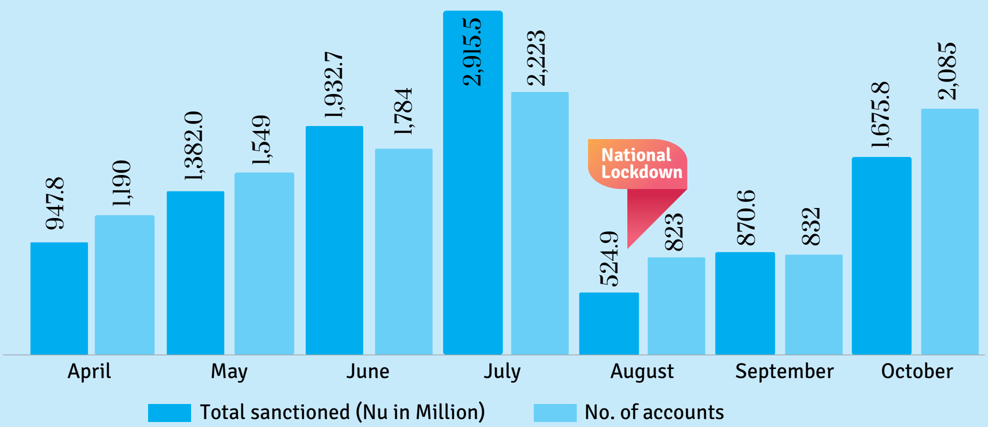
The sector wise analysis on new loans reveal that the highest amount sanctioned consists of service sector with Nu 3,121 million, followed by housing with Nu 2,453.7 million and personal loan with Nu 1,737.1 million.

The continued expansion of the credit flows reflects the effort of the RMA to provide uninterrupted supply of credit in the economy and to support the economic activities even during the time of pandemic.

Since April 2020, there was a swift increase in the loan applicants amidst the COVID-19 pandemic. The growth however dipped to a low level in August 2020, due to the national lockdown which was extended from 11th August until 31st August 2020.

As the lockdown measure was lifted, the credit growth witnessed a gradual increase. As of 31st October 2020, 2,085 loan accounts were sanctioned amounting to Nu 1,675.8 million.

Chart 5B.3.2 Trend on New Sanctioned Loans



Of the total new loans, the retail borrowers had the highest share both in terms of loan account as well as the amount. The share of retail borrowers was witnessed at 63 percent of the total loan sanctioned against a 27 percent for the corporates. Within the retail borrowers, the male borrowers are comparatively larger than the female both in terms of loan accounts and amounts.

Through monetary measures, the FSPs provided new loans to 2,324 borrowers amounting to Nu 2,553.1 million. The NCSIDBL in particular extended the highest credit support, while the least was provided by the BIL.

Chart 5B.3.3 New Loans Under Monetary Measures

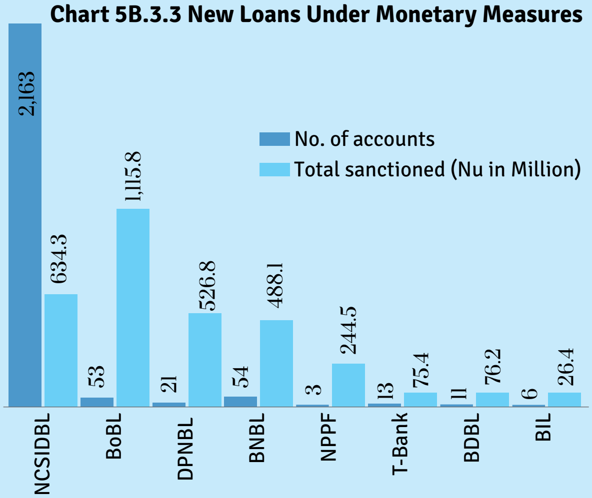


Table 5B.3.1 New Loans by Borrowers Type (Nu in Million)

Client Type	No. of A/Cs	Total Sanctioned	Total Outstanding
Male	6,079	4,072.1	3,219.6
Female	4,099	2,389.0	1,800.4
Corporate	308	3,788.2	1,877.2
Total	**10,486**	**10,249.3**	**6,897.2**

BOX 5B.4

RISK ASSESSMENT OF FINANCIAL SECTOR: STRESS TESTING[26]

The COVID-19 pandemic has brought huge social disruptions and unprecedented economic challenges with inevitable impact in the financial sector. Liquidity, credit and stability risk have increased across the financial institutions. Given the high uncertainty of the pandemic and rising economic impact, it is imperative to make assessment on the current impact as well as the potential stress faced by the financial institutions.

Accordingly, financial sector risk assessment was carried out to evaluate different risks and assess the degree of resilience of the sector. An appropriate recommendation is also made to mitigate the risks and ensure financial stability. Accordingly, the following risk assessments were conducted in June 2020.

1. LIQUIDITY RISK

Apart from borrowings, deposits have been a major source of funding for the banks, constituting more than 80 percent of bank's total liabilities. On quarterly basis, total net deposit increased by 6.0 percent in June 2020, contributed by 9.8 percent and 1.8 percent increase in demand and time deposits. In absolute term, total deposit expanded to Nu 150,193 million from Nu 141,735 million in March 2020. It comprises 55 percent in the form of retail deposits and remaining in corporate deposits. A proportionate increase in the fixed and saving deposits showed a robust funding sources in the banking sector recently.

A depressed domestic demand entailed by containment measures have impacted the household consumption and stimulated household savings. Similarly, amidst higher level of uncertainty on future economic prospects, businesses unit tends to reduce investment for precautionary savings. Further, various monetary and fiscal measures for household and business on credit lines and liquidity support indirectly supported the flow of deposits.

Maintaining adequate level of liquidity plays an important role for financial soundness and stability during the time of pandemic. A severe idiosyncratic funding shocks in one or two banks will result into a systemic liquidity crisis within a short period of time. Liquidity risk generally occurs in two different forms: i) funding liquidity risk arising from mismatches between assets and liabilities, and ii) market liquidity risk evolving from market disruption.

With large share of current account deposits, liquidity position in the banking system remained comfortable. There has been a rapid build-up in excess liquidity from low at Nu 4,449.39 million in August 2019 to Nu 20,308.23 million in June 2020. Although there is an asymmetric liquidity amongst banks, there has been an undisrupted flow of liquidity in the economy.

In addition, financial institutions are mandated to maintain a minimum Statutory Liquidity Ratio (SLR) of 20 percent and 10 percent for banks and non-banks to fulfill all its contractual obligations. Given the surplus liquidity, as of June of 2020, almost all the financial institutions held a higher level of SLR. It comfortably covers the net cash outflows of 30 days in June 2020, indicating a minimal liquidity risk faced by the financial institutions. Yet, dependence on large holding of current deposits which are highly volatile in nature signals likely mismatch by maturity ladder at longer time horizon.

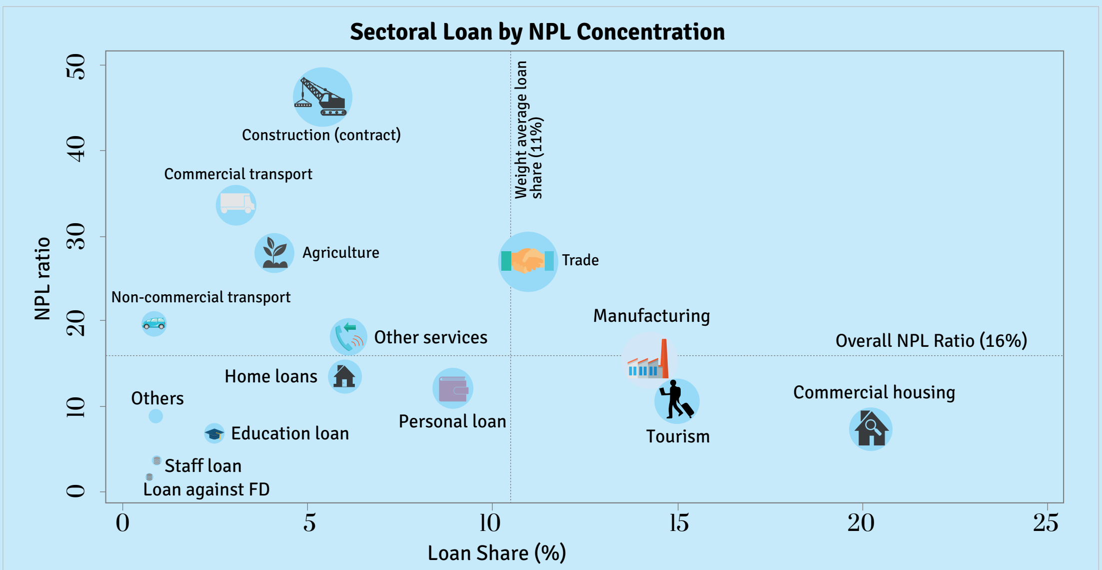
[26] The risk assessment was conducted by the Department of Financial Regulation and Supervision, RMA

2. CREDIT RISK

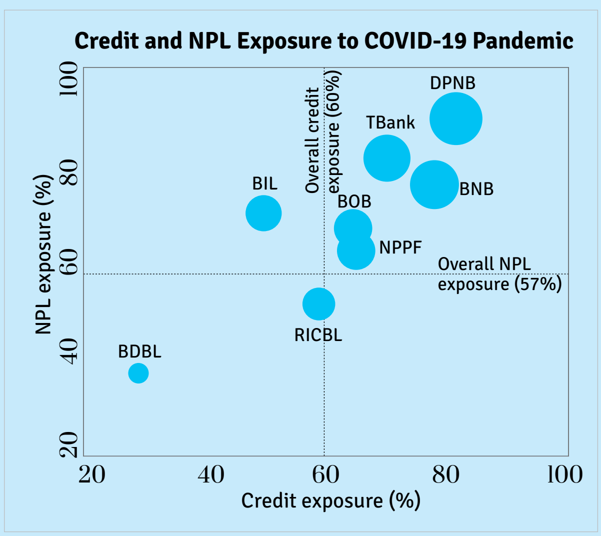
Amongst risks, the credit risk is the primary risk in the financial sector. It depends on the level of financial sector loans and advances in the market and degree of credit exposure to COVID-19 pandemic shock. As of June 2020, loan and advances constitutes 64 percent of financial sector assets of Nu 253,970 million. The severity of credit risk depends on sectoral credit portfolio with some sectors directly impacted as compared to others.

For the period ending June 2020, total loan outstanding from financial sector amounted to Nu 162,933 million with the highest concentration in commercial housing sector (Nu 32,728 million:20%), followed by tourism (Nu 21,631 million:13%), and production and manufacturing (Nu 20,440 million:12.5%). Of which, the NPL amounts to Nu 26,659 million, equivalent to 16.4 percent of total loans. In terms of sectoral NPL, trade and commerce (Nu 4,839 million:18.2%) has the highest, followed by construction-based contract (Nu 4,145 million:15.5%) and production and manufacturing (Nu 3,580 million:13.4%) sectors.

Based on sectoral exposure to COVID-19 pandemic, from the list of 14-16 sectors, five sectors are identified as the most-hit sectors that are also highly vulnerable. The sector includes: i) tourism sector accounting 13.3% of total loan, ii) manufacturing sector (12.5%), iii) trade and commerce (11%), iv) commercial transport (3%), and iv) commercial housing (20.1%). The aggregate exposure of vulnerable sectors accounted 60 percent of total loans and 56.7 percent in terms of NPL.



As evident from growing NPL, financial sector asset has been deteriorating. Higher provisioning against NPL and rising risk-weighted assets puts additional cost of credit risk. A temporary drop in NPL ratio in June 2020 was mainly due to the



immediate monetary and fiscal support measures on account of the pandemic. Without which the level of credit distress could have been much severe as economic revival from the pandemic continues to looks bleak in the near term.

3. PROFITABILITY

The continuing containment measures and high level of uncertainty on future prospects have adversely impacted the profitability of the financial sector.

The consequent deprivation in asset quality and ascending NPL provisions has simultaneously affected the financial sector returns. The loan deferment facility and interest payment support Kidu under Phase I (April-June 2020) have helped the FSPs in maintaining a positive income surplus.

However, due to additional provisioning for past NPL, amounting Nu 3,519 million, equivalent at 39.2 percent of interest income resulted into a total loss of Nu 622 million in June 2020.

Considering the uncertainty in the growth prospects and limited new economic activities, the FSPs would continue to face similar level of shocks, requiring timely interventions and adjustments. Compared to any other sector, financial sector would take a longer period to rebound as it has to firstly recoup the past losses and gain market confidence.

4. CAPITAL RISK

Capital serves as a reserve against unexpected losses and is the key fundamental for a sound financial system. More the capital, more risk absorbent and more shock resistant for a stable financial system. Generally financial sector builds capital when economy is in expansionary cycle accompanied by lower NPL and consequent improvement in asset quality.

Likewise, with the improvement of macro-financial situation in 2019, Bhutanese financial sector was able to maintain the capital adequacy ratio (CAR) about three percentage points higher at 15 (including 2.5% capital conservation buffer) percent against a minimum threshold of 10 percent.

However, with the slowdown in economic activities since beginning of 2020, and followed by unprecedented disruptions posed by the pandemic, the CAR drops at 12 percent in June 2020. As a regulatory relaxation, the financial institutions were allowed to use their conservation buffer to limit disruption in credit flow in the market which otherwise would have aggravated the situation.

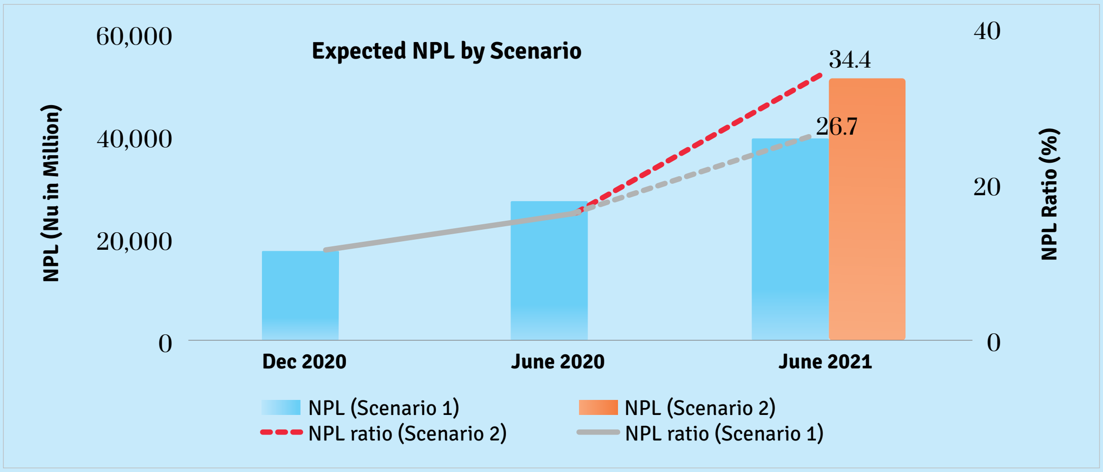
5. SCENARIO ANALYSIS: STRESS TESTING

Having financial sector assessment from various perspective such as liquidity, credit, and solvency risk, two scenarios are postulated based on varying degree of shocks to selected sectors within one-year time horizon. Stress testing is conducted to assess the resilience of financial system at various macro-financial distress (scenarios) as outlined below:

Scenario 1: The higher exposure risk sectors to pandemic such as tourism, manufacturing, trade, commercial transport and commercial housing assumed to experience continuing shocks for next one year (June 2021).

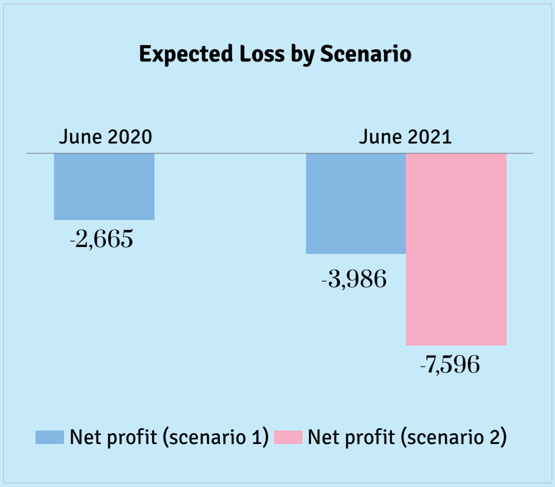
Under this scenario, NPL of respective sectors are projected to increase by 20%, except for commercial housing by 10%. This scenario presents a mild sectoral impact compared to scenario 2.

Scenario 2: Under this scenario, the NPL of manufacturing, trade and commercial transport projected to increase by 20%, while tourism sector by 80% and commercial housing loan by 10%. In this scenario, the impact of pandemic is projected to be a severe one compared to scenario 1.



6. OUTCOME OF STRESS TEST

As programmed, under scenario 1, by end of June 2021, the NPL ratio in the financial sector is expected to increase at 26.7 percent and 34.4 percent under scenario 1 and 2 respectively. In absolute term, within next 12 months period, amount of NPL under scenario 1 is projected to increase at Nu 38,733 million (46% higher) and at Nu 49,840 million (87% higher) under scenario 2, compared to Nu 26,658 million in June 2020.



With the projected increase in NPL and declining credit flows, the profitability of FSPs will be largely impacted. Compared to net losses of Nu 2,665 million in June 2020, it is projected to increase by 49.6 percent (Nu 3,986 million) under scenario 1 and by almost three-fold (Nu 7,596 million) under scenario 2.

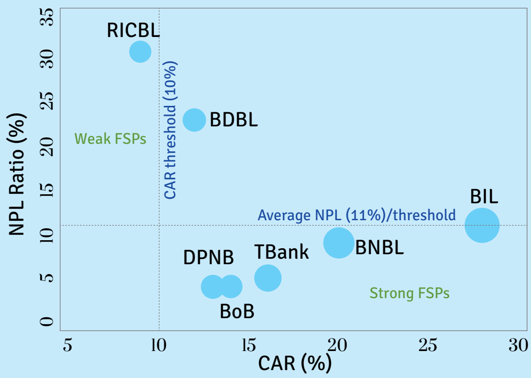
The consequent depletion of capital fund from rising NPL will affect financial sector resilience. Under both scenarios, CAR is projected to fall from existing level at 12 percent to 10 percent in scenario 1 and 8.1 percent in scenario 2. Undeniably, there will be a stability concern for some financial institutions due to drop in CAR below the minimum threshold.

As per the two-way graphical analysis between the CAR and NPL, during pre-pandemic, majority of FSPs have comfortably maintained the CAR with minimal NPL. Majority of it, falls within the resilient or strong category with CAR much above the threshold and NPL in single digit. Except, the RICBL due to its poor performances in the past, has higher NPL and lower CAR, categorizing itself into a weak and most vulnerable FSP.

As the pandemic unfurled since early March 2020, financial sector begun to experience shocks from various channels. Within short period (April-June 2020) of pandemic, despite availability of numerous monetary and fiscal support programs, financial institutions were impacted and as a result started shifting from strong category to weak category.

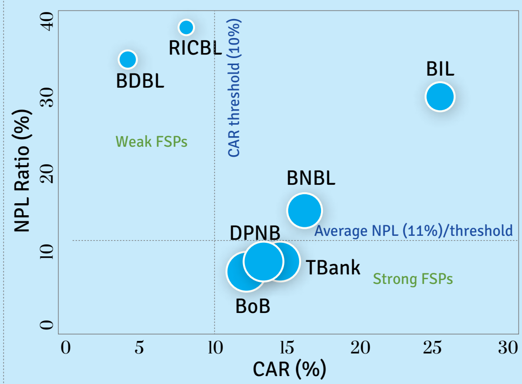
While testing the resilience of financial institutions in the last two graphs at two different scenarios, under scenario 1, banks completely move out of strong category region and started to enter a weaker region. This shows that within next 12 months period (till June 2021), even at milder level of impact would even cost the most resilient banks and would put additional pressure, troubling other vulnerable FSPs.

CAR & NPL Position of FSPs in Dec 2019



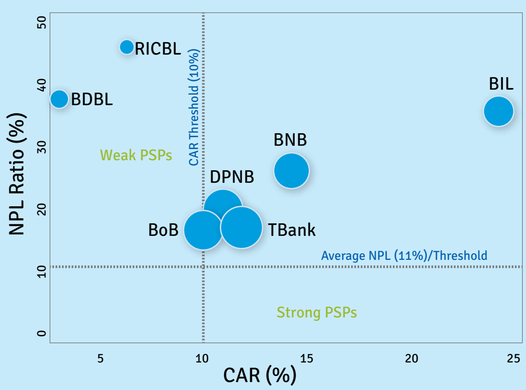
* In absence of NPL threshold value, December 2019 NPL is implicity used as threshold.

CAR & NPL Position of FSPs in Jun 2020



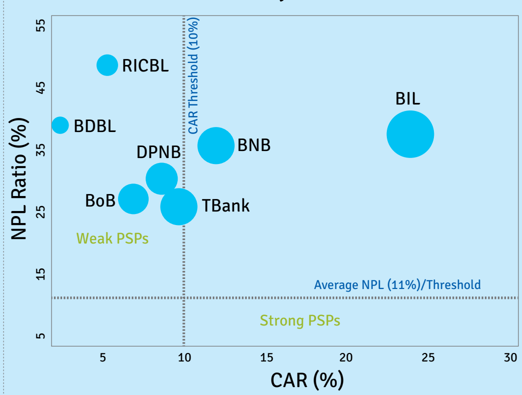
* In absence of NPL threshold value, December 2019 NPL is implicity used as threshold.

Scenario 1: CAR & NPL Projection of FSPs- June 2021



*In absence of NPL threshold value, December 2019 NPL is implicitly used as threshold

Scenario 2: CAR & NPL Projection of FSPs- June 2021



*In absence of NPL threshold value, December 2019 NPL is implicity used as threshold

Under the worst-case pandemic impact assumption-scenario 2, as per shift and share analysis, all FSPs shift towards weaker category. Except the selected financial institutions, remaining FSPs enters risky zone with their CAR falling below the threshold and NPL mounting much above the implicit threshold.

Only by capturing direct impacts triggered by risk exposure sectors, the financial sector is expected to experience a severe impact largely through credit and solvency channels. If stress testing is conducted holistically by incorporating sectoral linkages and macro-financial feedback effects, magnitude of impact could be even worse than the current simple stress results. To this, given that the pandemic is most likely to persist than expected, for a holistic approach, macro-stress testing could help in conducting a more realistic impact analysis.

7. Recommendations

Given the higher level of economic uncertainty due to COVID-19 pandemic, the financial institutions have to be more vigilant on market development and prepare accordingly to minimize impact from adverse shocks.

Firstly, the FSPs should be prepared on the possibility of further market deterioration. To embrace new challenges, requires to account various scenarios to assess potential impact, and thereby recommending timely corrective measures to management.

Secondly, understanding existing risks from the pandemic, based on internal assessment, institutions must constantly strive to enhance their risk management framework.

Thirdly, considering future macro-financial prospects, possible deteriorations of asset quality, institutions have to properly assess the loan portfolios and its exposure risk to pandemic. Further, it necessitates to constantly monitor the repayment capacity of borrowers to prepare necessary interventions if required.

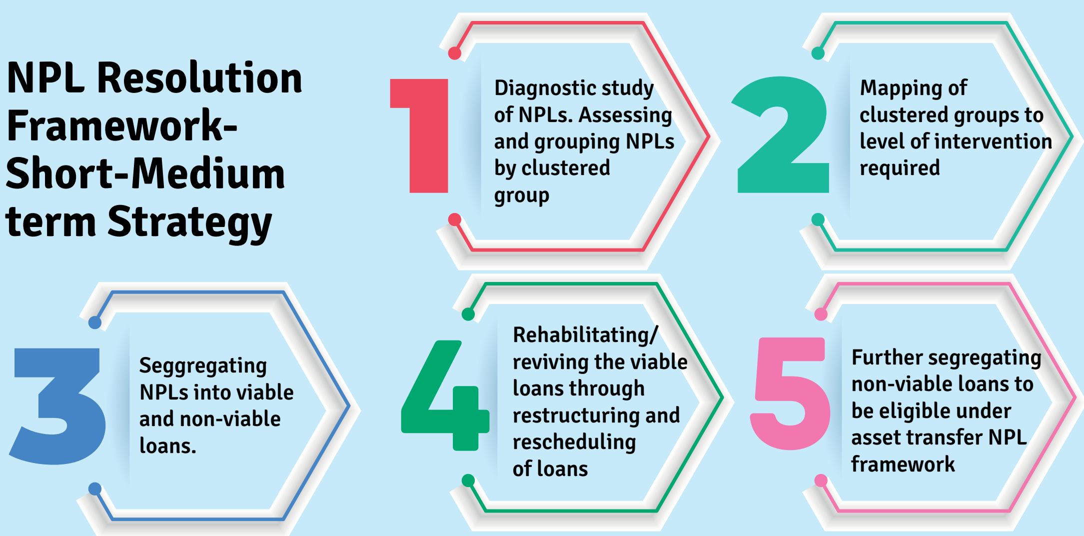
Lastly, very importantly institutions need to actively assess capital position based on magnitude and duration of the crisis for ensuring capital adequacy.

BOX 5B.5

NON-PERFORMING LOAN RESOLUTION FRAMEWORK

The COVID-19 Pandemic has adversely impacted the economy and resulted in reducing and loss of household incomes. This has posed difficulty in meeting the loan repayment obligations due to supply-chain disruption and decrease in aggregate demand from unemployment or reduced economic activity. As a result, the risk of rising NPLs will lead to a credit contraction in the economy as the financial institutions will be reluctant to lend any further. In response to such problem, the Royal Government of Bhutan and Royal Monetary Authority issued two phases of Fiscal and Monetary Measures with interest payment support as 'Kidu" from His Majesty The Druk Gyalpo.

To provide additional momentary relief, the RMA has designed a comprehensive NPL resolution framework by constituting three tier policy intervention committees involving different levels of stakeholders to provide relief to both borrowers and financial institutions while providing opportunity for smooth credit flow in the economy.



Role of Committees in the NPL Resolution Framework

Inter-Financial Institution Committee

- Comprised of Legal and Credit Representatives from Financial Institutions and RMA
- Chaired by Chief General Counsel, RMA Review of NPLs (case by case)
- Fact finding and grouping of NPLs into clustered groups
- Mapping of these groups to level of intervention required

e.g: Whether Financial Institutions can resolve it or high level authority to intervene

CEO Level Committee

- Represented by the CEOs of Financial Institutions
- Chaired by Deputy Governor, RMA Review cases submitted by inter-Financial Institution Committee
- Segregate NPLs into viable and non-viable loans
- Rehabilitate/revive viable loans through restructuring and rescheduling of loans

Based on 'Guidelines for segregation of NPL into viable and non-viable Loan

Foreclose non-viable loans

High Level Committee

- National Level Committee with representative from Royal Government of Bhutan, Supreme Court of Bhutan, National Land Commission and Royal Monetary Authority.
- Formed through Executive Order from the Lhengye Zhungtshog
- Chaired by Hon'ble Finance Minister
- Park NPLs as per Guidelines for Asset Transfer NPL framework 2020 and freezing of interests for NPLs parked
- Provide guidance and decision on NPL cases beyond Financial Institution's level

While the NPL resolution framework addresses the Pre-COVID-19 NPLs, the RMA will also be carrying out economic cluster-based specific analysis to mitigate the risk of NPLs in the Post COVID-19 period.

In addition, the RMA will also prioritize on finalizing the Foreclosure/Write Off guideline and conducting a feasibility study of Loan Securitization and Asset Reconstruction Company for the Bhutanese financial sector.

6
EXCHANGE RATE ARRANGEMENT AND IMPLICATIONS

6.1 Exchange Rate

Exchange rate is a key economic variable for countries engaging in international trade. The fluctuations in exchange rate affects the decision of investors, policy makers, businesses and tourism industry. It impacts the trade competitiveness, external debt obligations and international reserve position. Therefore, it is imperative to closely observe the movements of exchange rate and understand their implication on the economy's business cycle, trade and capital flows.

Bhutan's pegged exchange arrangement with Indian Rupee since 1974 continued to served well so far. In particular, the pegged exchange rate not only helped to preserve the external value of the Ngultrum with other major international currencies, but also provided the much-needed overall stability in the exchange rate and domestic prices.

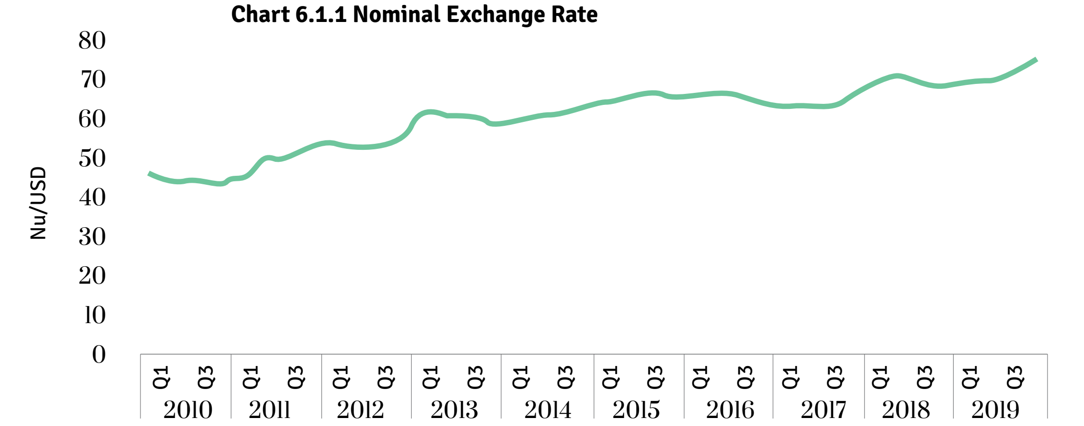
Historical trend of nominal exchange rate of Ngultrum against US dollar shows that Ngultrum has been depreciating over the period. Over the span of ten years, the Ngultrum depreciated from Nu 45.49 per USD to Nu 74.39.

Indian Rupee in particular, experienced periodic volatilities, hitting all-time low in 2019 especially in the fourth quarter at Indian Rupee 75.87 against US Dollar on an average. Although the Indian Rupee exchange rate remained volatile in the short term, it remained relatively stable as compared to its major trading partners. With the pegged exchange arrangement, exchange rate in Bhutan is directly impacted by the movement of Indian Rupee in the exchange rate market. In particular, the exchange rate fluctuation on Bhutan's debt outstanding, investment and fiscal flows have a direct impact with a pass-through effect of inflationary pressure on the domestic economy.

Nominal and Real Effective Exchange Rates

The indices of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange rate (REER) are considered key indicators to measure a country's international competitiveness. It has impact on export earnings and balance of payment. NEER is the weighted average of bilateral nominal exchange rates of the home currency in

Chart 6.1.1 Nominal Exchange Rate



terms of foreign currencies, weighted according to its trade share with each country.

An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners. The REER is the weighted average of NEER adjusted by the ratio of domestic price to foreign prices. It captures inflation differentials between Bhutan and its major trading partners and reflects the degree of external competitiveness of Bhutanese products. *Ceteris Paribus,* an increase in REER indicates that domestic goods are becoming more expensive relative to its trading partners, implying loss in trade competitiveness.

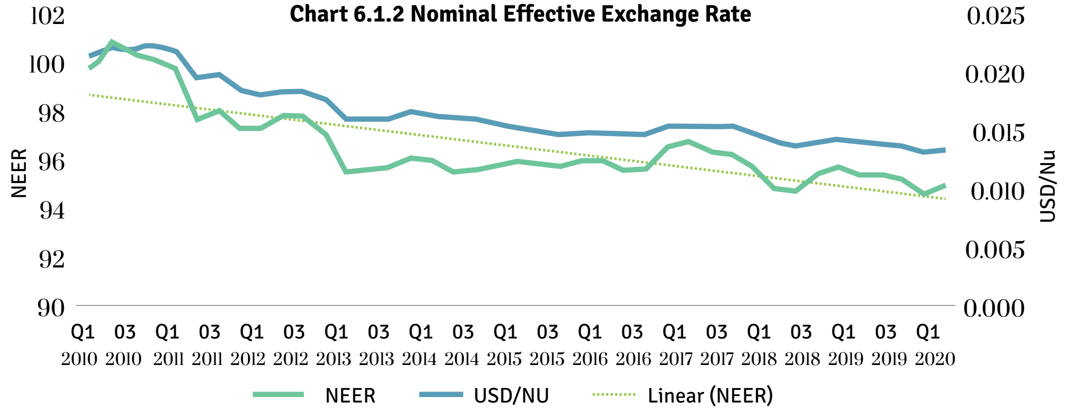
In terms of Bhutan's exposure to international trade, 79.9 percent of total trade is with India. Over the decade, the total import from India increased from 29,329.10 million in 2010 to 56,452.98 million in 2019. Similarly, total exports from India also increased from 15,589.43 million in 2010 to 23,572.54 million in 2019. Besides India, Bhutan's trade with other countries have been increasing over the years. This has relatively influenced the movement of Nominal Effective Exchange Rate (NEER).

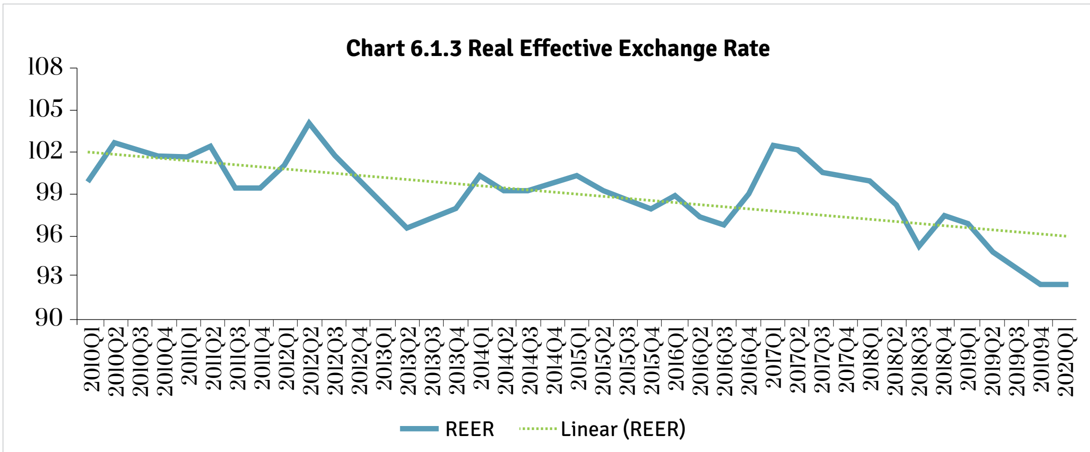
The ratio of Bhutan's export to import with India, increased to 41.8 in 2019 from 36.1 in 2018, with the decrease in import by 5.6 percent and increase in exports by 9.2 percent. This indicates improvement in Bhutan's TOT with India. On the contrary, imports from China increased by 11 percent in 2019, while, exports decreased significantly by 73.2 percent. The ratio of export to import with China decreased from 0.3 to 0.1. The imports from France took a big leap increasing from Nu 54.29 million in 2018 to Nu 1,605.63 million in 2019, scaling to third position in terms of imports compared to 30th ranking in 2018.

The trend in NEER during 2013-2018 underwent a rapid fluctuation with a sharp depreciation in Q1, 2013 and all time low in Q4, 2019 at 94.7. The NEER depreciated by 1.1 percentage points towards the end of 2019, year-on-year since 2018 against the weighted basket of currencies of its trading partners[27].

On the other hand, the movement in the REER in Bhutan is strongly affected

Chart 6.1.2 Nominal Effective Exchange Rate



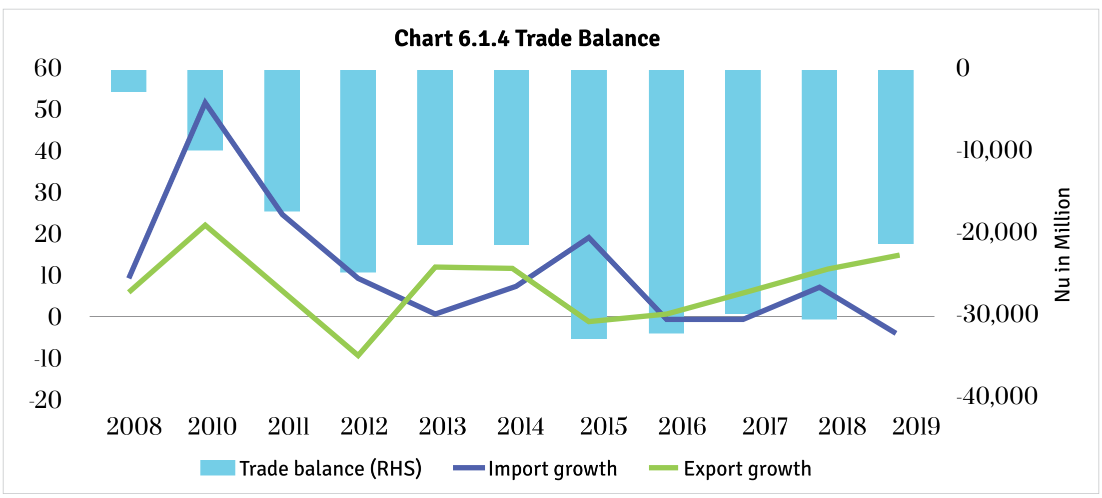


by the fluctuations in Indian Rupee and price movements in the Indian economy. At the end of 2019, the REER depreciated by 1.1 percent (y-o-y), driven by the currency depreciation of Bhutan's major trading partners against the US Dollar[28] . The impact of REER on exports earning is a reflection of a country's export competitiveness and overall macroeconomic stability.

Impacts Analysis of Exchange Rate Fluctuations

Trade Competitiveness

The impact of trade balance can be observed from chart 6.1.4, that depreciation of REER has supported the export growth. The export growth improved by 14.9 percent in 2019 (y-o-y) while, REER depreciated by 1.1



[27] Using the trade share of top 30 trading partner from 2017 to 2019, NEER and REER was calculated for the period of Q1 2010 to Q4 2019. The quarterly data on CPI and exchange rate against the US Dollar of the trading partner is sourced from IMF.

[28] As per the weighted average of trade share from 2017 to 2019, the top 5 trading partners are India, Bangladesh, South Korea, China and Singapore.

percent in the last quarter of 2019. The overall trade balance demonstrates improvement during the period as the imports declined in 2019 by 4.1 percent and the overall balance of trade improved by 30 percent. However, the trade deficit may not truly reflect the effect of real exchange rate depreciation because domestic imports includes substantial component of hydro related items which are less price sensitive.

External Debt and Debt Servicing

External borrowing continues to remain the key financing source for development activities, which has been increasing consistently over the years. As of June 2020, the outstanding external debt increased by 5.3 percent to USD 2,872.65 million, of which 71.1 percent is in the form of Rupee debt and 28.9 percent is CC debt. The existing peg arrangement and the major portion of the total debt being denominated in INR has cushioned the impact of exchange rate shocks. In addition, the INR debt has been incurred mostly on account of hydro power developments accounting to more than 86.2 percent, which is self-liquidating in nature.

On the other hand, the CC debt amounting to USD 830.76 million (28.9%) are concessional loans from multinational institutions and bilateral partners, that are subject to exchange rate risk impacting both the stock as well as debt servicing of CC debt. For instance, with depreciation of exchange rate in June 2020, the cost of debt servicing increased by Nu 239.97 million and the debt stock by Nu 5,490.50 million.

Chart 6.1.5 External Debt

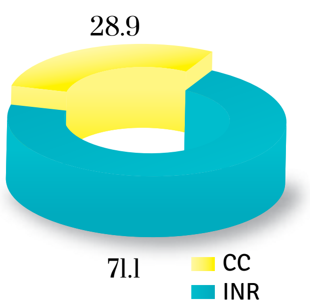
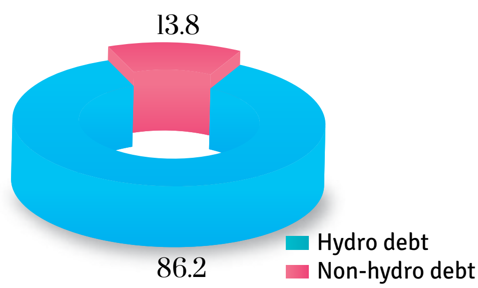


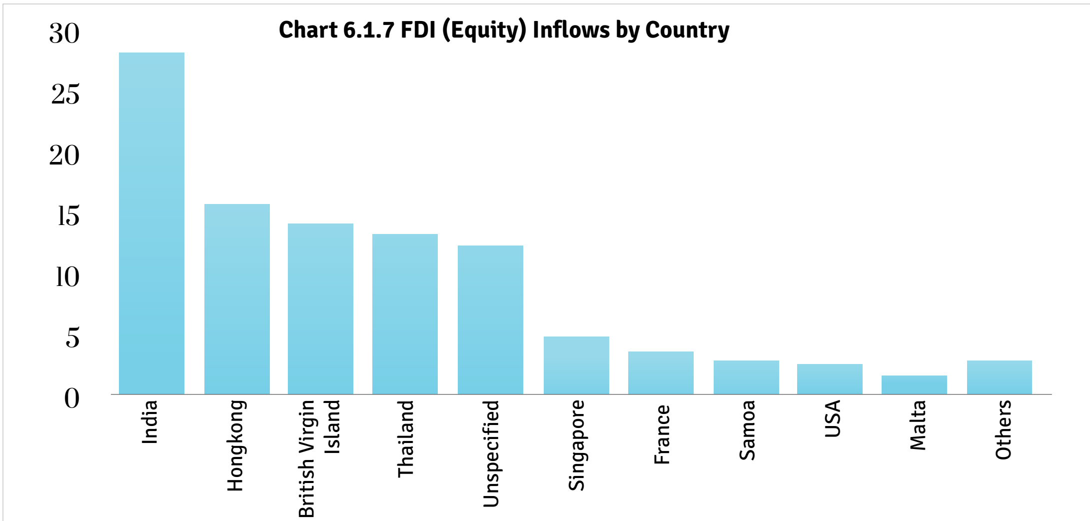
Chart 6.1.6 Indian Rupee Debt by Sector

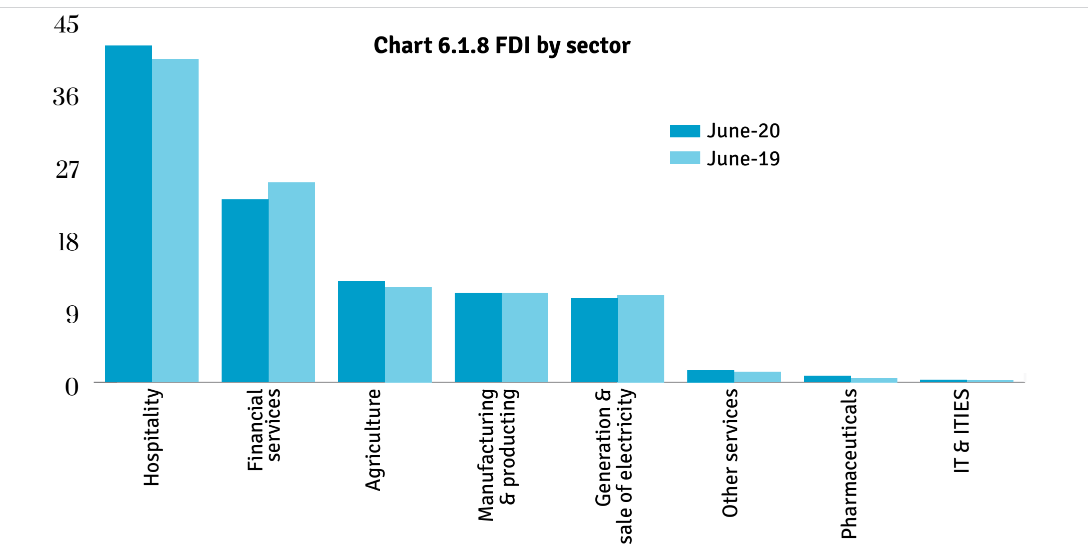


Foreign Direct Investment (FDI)

FDI is an important source of financing to bridge domestic saving and investment gap. The economic benefits of FDI includes access to foreign capital, improvement in foreign exchange earnings, technology transfer, encourages competition and enhances access to foreign markets.

In June 2020, the foreign equity position stood at Nu 10,307.44 million, with an increase of about 2.9 percent from June 2019[29] . In terms of inflow by source, India continues to be the largest investor with 28 percent of the total equity inflows, followed by Hongkong and British Virgin Island. Investment was mostly concentrated in the hospitality sector with 41.8 percent in June 2020, which grew by 1.9 percent from the previous year. While high investments were made in tourism and hospitality sector, it is highly susceptible to external shocks including exchange rate shocks. Exchange rate movements determine the flow of FDI, as it is more likely to attract foreign investors when Ngultrum depreciates relative to domestic currency of the investors.





[29] Covering only 43 FDI companies

BOX 6B.1

TERMS OF TRADE

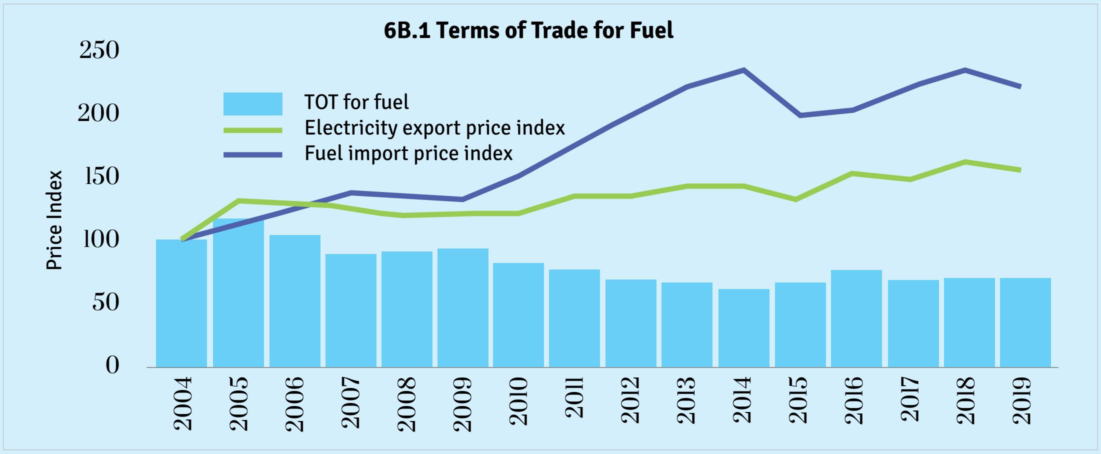
Terms of Trade (TOT) is one of the important indicators for measuring the external position in the context of foreign trade. It measures relative price of exports to imports and reflects purchasing power of export. Higher the TOT, more favorable will be the price development of domestic products in the international trade market. If price of product that a country intends to export develops more favorably than the price of a product that it intends to import, then a country will experience improvement in its TOT.

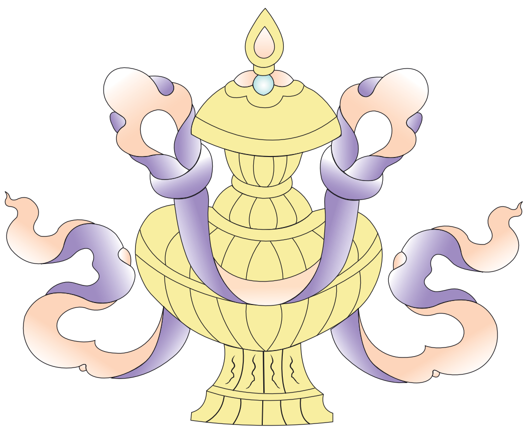
Bhutan experienced favorable terms of trade from 2006 to 2008 following the commissioning of Tala hydro project. However, there was deterioration in TOT since 2015. This is largely attributed to increase in import price relative to export price, mainly driven by volatility in fuel and commodity prices in the global market. Although electricity is the single largest exported item, the export price of electricity is predetermined and fixed for certain time periods, resulting into minimal increase in overall export price.

The TOT for fuel in Bhutan is computed as a relative change in export price of electricity and other fuel (bitumen and coal) exports to import price of fossil fuels, largely petrol and diesel. The average price of electricity increased marginally from Nu 1.8 per unit to Nu 2.3 per unit in 2018. The slow movement in export price of electricity is influenced by the existing arrangement of determining the export tariff through mutual agreement bilaterally depending on the hydropower projects.

On the other hand, the price index for fuel imports increased from 198 in 2015 and gradually to 233 in 2018, after which, there was a slump to 221 in 2019. This development is influenced by global price movement of crude oil. The average crude oil price increased from USD 53.03 per barrel in 2015 to USD 71.33 per barrel in 2018. The prices subsequently dropped to USD 64.27 per barrel, on average, in 2019.

The TOT for fuel was at its peak in 2005 but dropped record low at 61 in 2014 due to the rise in fuel import prices. It improved in 2016 to 76, as the fuel prices dropped, the volume on fuel imports increased by 1.7 percent and export of electricity by 15.3 percent. Despite the fall in volume of electricity exports by 2.6 percent in 2019, the TOT slightly improved to 69 as the import of fuel dropped by 5.2 percent. The TOT is largely dependent on fluctuation of exchange rate, inflation and global fuel prices.





7

DIGITALIZATION

7.1 Digitalization of Payment Systems

Tapping on technological advancement and keeping abreast to innovation in the digital world has been the RMA's top most priority. The RMA's initiatives in promoting digital infrastructure for promoting digital payments system (mobile banking, Bhutan QR Code and GIFT to facilitate e-PEMS) were timely aiding immensely in delivering essential financial services digitally in a secure, standardized and reliable manner during the time of pandemic.

Further, promotion of digital payment system through Phase I and Phase II RuPay Card Schemes helped to strengthen cross-border interoperability of RuPay cards in ATMs and PoS terminals in Bhutan and India. The interconnection of the Bhutan Financial Switch with the RuPay network not only ushered in safe and convenient banking, but also helped to realize cost effective and cashless transactions by streamlining the payment flows into mainstream banking systems, and thereby, enhanced cross-border digital payments between the two nations. Implementation of RuPay Card has set a new milestone in promoting digital payments integration in the region.

The RuPay card allows cross-border interoperability using ATM and PoS terminals in Bhutan and India. Very recently, the second phase of the RuPay card was e-launched on 20th November 2020 by Their Excellencies, The Prime Ministers of Bhutan and India. Additionally, Public Expenditure Management System (e-PEMS) which is facilitated by Global Interchange For Financial Transaction (GIFT) payment system which is an online accounting and payment system of the RGoB implemented from FY 2019/20. It is an important milestone towards enhancing the public expenditure management system. Efforts were also made to develop Society for Worldwide Inter-Bank Financial Telecommunications (SWIFT) Operational Manual to enable FSPs to send and receive information about financial transactions in a secure, standardized and reliable platform.

The digital payment transactions have accelerated during the COVID-19 pandemic. This was further facilitated by the recent launch of National Quick Response Code (QR Code) and eTeeru mobile wallet service. The detailed information of the notable initiatives undertaken during the FY 2019/20 are highlighted below:

1. Launch of Bhutan Quick Response Code

Bhutan QR code, a two-dimensional barcode based on global EMVCo standards which endures consistency in QR Codes generation for both the retailers and the customers was launched on 15th July 2020 by the RMA in collaboration with the FSPs.

The QR code enables customers to make payment by scanning QR Codes of different banks. The amounts are directly transferred from account to account without the need for PoS terminals. As of November 2020, all the commercial banks except DPNBL are connected to the RMA's common QR Code.

2. Launch of eTeeru mobile wallet service

The eTeeru mobile wallet service was launched by TashiCell on 6th April 2020, to enable users to transfer cash into the integrated wallet by online banking or by depositing cash via agents. The service works through mobile and maintains an accurate check of customer's money to ensure secure payments, purchases and receiving remittances.

Payment Systems Performance

In terms of payment transactions by value, paper-based transactions recorded the highest at Nu 72,955.09 million, followed by mobile and internet (Nu 30,132.17 million) and electronic (Nu 11,910 million) as of Q2, 2020. By volume of payment transactions, mobile and internet recorded the highest throughout the year, mainly on account of increase in popularity and usage of mobile banking transactions as all five commercial banks have now mobile banking app.

Based on the preferences of the users to switch to digital payments, the RMA issued an advisory note and also revised the daily transactions limit for all interbank mobile banking transactions from Nu 100,000 to Nu 200,000 per day.

Chart 7.1.1 Payment Transactions by System-Value

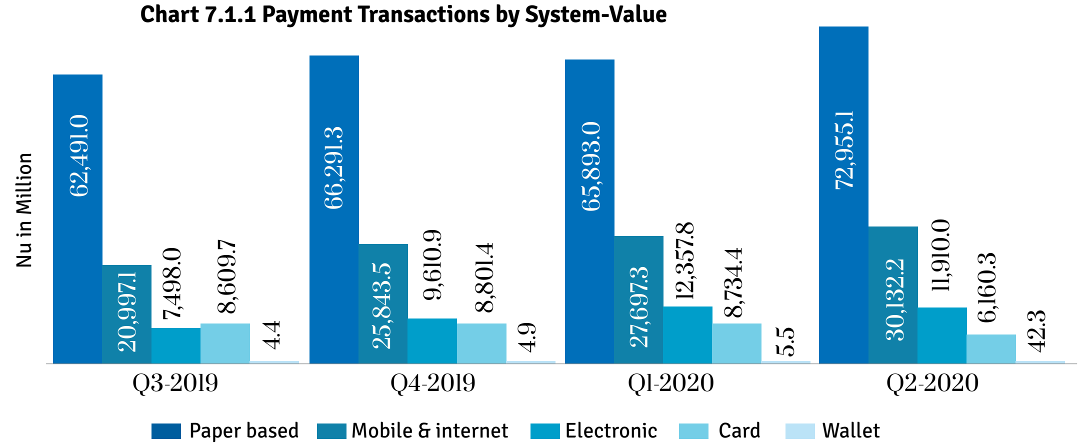
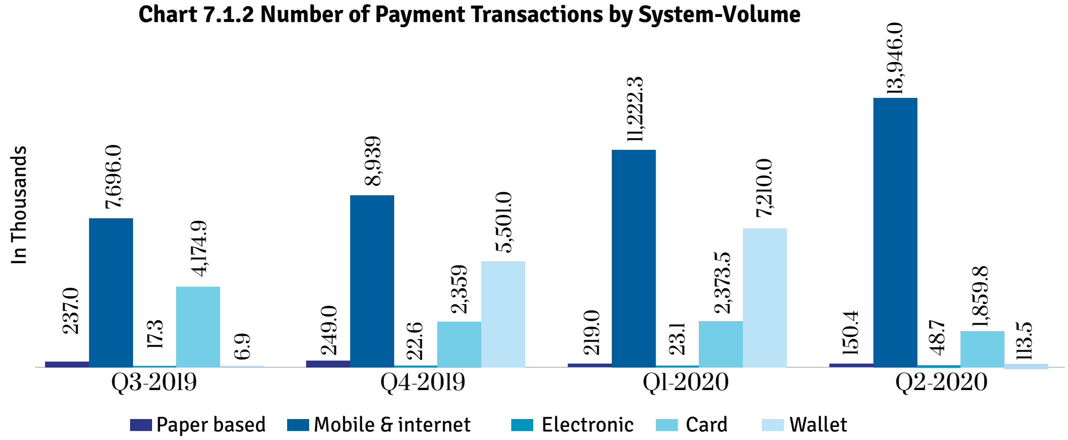
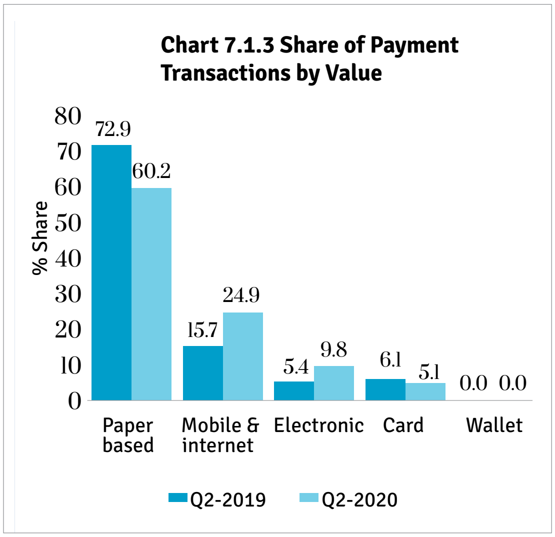
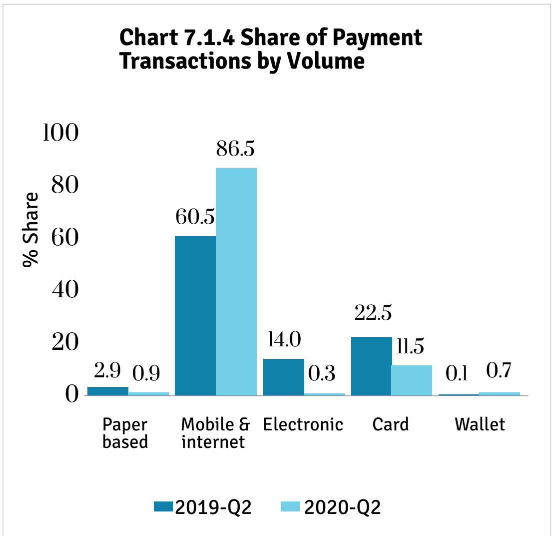


Chart 7.1.2 Number of Payment Transactions by System-Volume



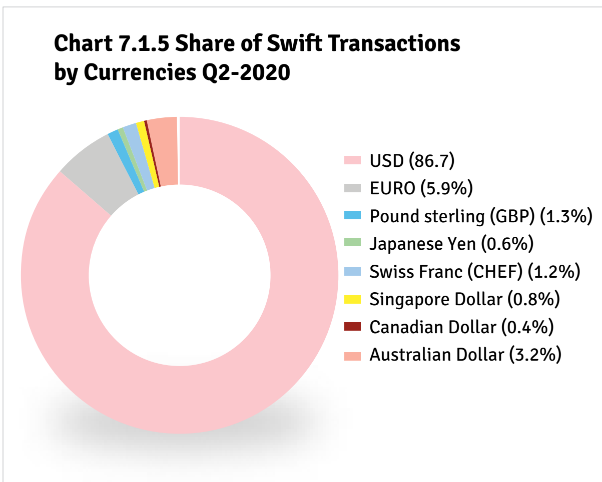


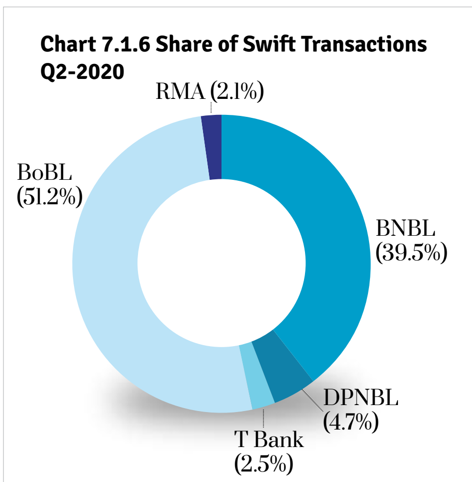
The market shares of payment transactions in terms of value have increased except for paper based which recorded a drastic decrease to 60.2 percent in Q2 2020 from 72.9 percent in Q2 2019. In terms of payment transaction by volume, the market share of payment transactions has decreased except for mobile and the Internet banking and wallet. In Q2 2020, Mobile and internet banking accounted to 86.5 percent compared to 60.5 percent in Q2 2019. Similarly, wallet accounted to 0.7 percent in Q2 2020 compared to 0.1 percent in Q2 2019.



During the FY 2019/20, SWIFT transactions volume recorded at 46,225, of which 7,497 transactions were recorded in Q2 2020. In terms of swift transactions volume by currencies, the USD remittances continued to dominate the market share at 86.7 percent followed by EURO (5.9%) and Australian Dollar (3.2%).

In terms of SWIFT transactions by institution wise, the BoBL led the market share at 51.2 percent given huge customer base, followed by the BNBL (39.5%) and DPNBL (4.7%) in Q2 2020.





BOX 7.1.1

ESSENTIAL FINANCIAL SERVICES DURING LOCKDOWN

The outbreak of COVID-19 pandemic brought a unique challenge for the Central Banks across the globe in calibrating its mandate of maintaining financial stability and its monetary policy operation. With the first case of the COVID-19 in the country reported on 6th March 2020, numerous cross sectoral policies as well as administrative interventions were made by the Government, the RMA, financial institutions and the private sector in an inclusive manner to combat the spread of the virus and its impacts.

The first case of community transmission of the Coronavirus was reported on 10th August 2020 in the country. Following which, the Government announced its first nationwide lockdown on 11th August 2020.

It has become clear that the FinTech has emerged as the game-changer during the lockdown and therefore, the need to devise a strategy going forward - in the promise of FinTech - to unlock new opportunities for innovation, increased efficiency and improved services for customers in a responsible manner. A brief report on the efforts, findings and perspectives from the RMA experienced during the lockdown is highlighted below:

a) **Pace of digital payments adoption enhanced during the lockdown and shows no sign of slowing, particularly mobile phone-based payments for person-to-person (P2P) and person-to-merchant (P2M) transactions.** The consumer behavior changed during the near one month of lockdown, with social distancing and protocols, driving the shift to digital banking. While some consumer had already used digital options, the lockdown served as a jolt to move others to digital options for the first time. As a result, the number of new mobile banking users increased by 6.5 percent with 17,599 new users, contributing to a total of 271,335 mobile banking users. Similarly, the number of mobile wallet users grew by 4,844 during the lockdown, reaching the total number of users to 96,233. A total of 17,784 payment gateway transactions occurred during the lockdown, amounting to a total value of Nu 60.04 million.

b) **RMA in collaboration with the FSPs facilitated access to and broadened digital banking channels during the lockdown.** Building on the foundation of common QR code payment, BDBL was on-boarded into the Bhutan QR Code network. On the international remittances front, efforts were made to create awareness and reach on the change in the remittance process flows. This made it possible for the Bhutanese overseas to remit money through the Bhutan Post, who commenced remote customer verification for remittances with direct transfer into the beneficiary bank account through inter-bank fund transfer system. Furthermore, banks added customer-centric new features in their mobile banking, such as addition of COVID-19 donation account, remote opening of bank accounts through digital platforms, disbursement of the Relief Kidu, and marketing on digital banking.

c) **Robust digital infrastructure provided the necessary backbone for payment system flows round the clock.** While the pandemic tested the resilience of the payment systems infrastructure to its core, the persistent efforts in continuously monitoring and offering services by the dedicated IT staff of RMA and the banks ensured a minimum or no disruption in the availability of essential digital financial services during the period of lockdown.

d) **Notable decline in cash requests and non-financial inquiries were recorded by the RMA and the FSPs.** Majority of the financial call inquiries have been successfully addressed by guiding the customers to adopt mobile banking, which denoted increasing interest and acceptance of digital financial services by the consumers.

e) **With increasing use of digital payments and potential exploitation by cyber actors, the sensitization and advisory services pertaining to cybersecurity risks were addressed.** The need to ensure cybersecurity goes hand in hand with facilitation and usage of digital financial services. Along the same vein, the RMA issued cybersecurity advisories to the general public on secure payment methodologies and cyber safe online practices during the lockdown. Similarly, through collaboration with FSPs, further sensitization was carried out to the general public on cyber hygiene.

THE WAY FORWARD

The collective actions of the RMA and FSPs have highlighted the importance of preparedness and sectoral coordination to build a responsive and nimble system in response to the COVID-19 pandemic. The following are some of the measures and opportunity presented by the ongoing pandemic:

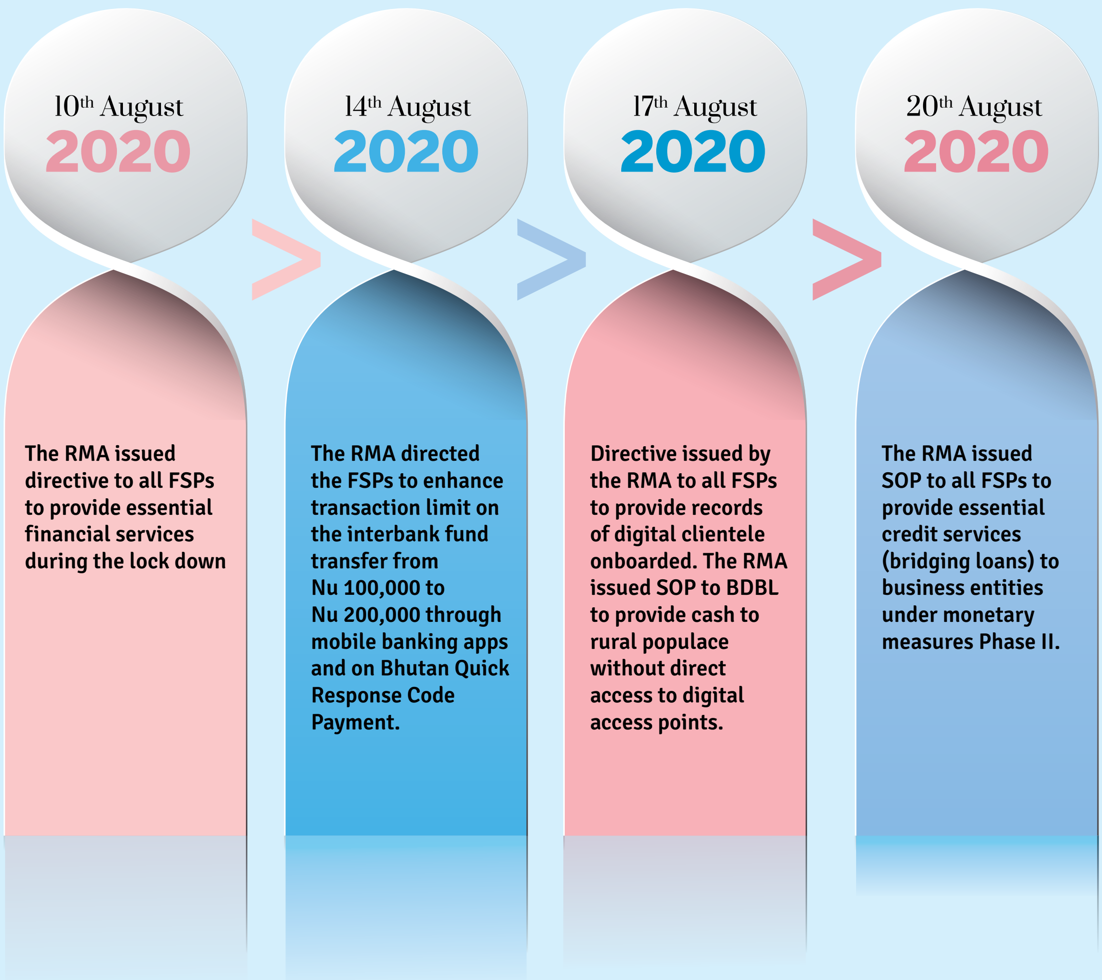
a) **While significant progress has been made in digital payments, opportunities exist to on-board consumers into digital banking.** This is evidenced by the total number of bank accounts at 876,770, compared to customers subscribed to mobile banking services at 271,335 (31%). The FSPs are encouraged to progressively promote the use of digital banking, conduct surveys to understand the feedback and experience of digital financial services, develop and integrate new digital technology into banks' platforms. The shifts to digital banking have profound impacts on digital financial inclusion.

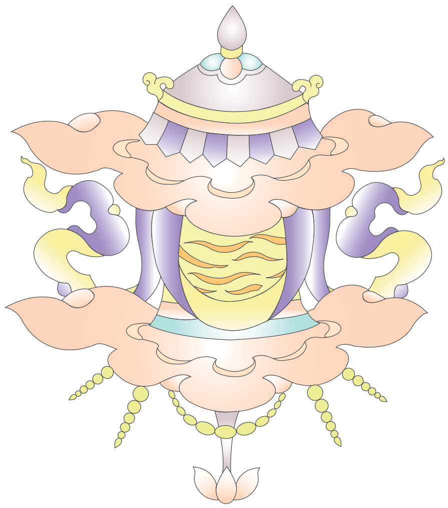
b) **The emergence of disruptive technologies, such as artificial intelligence, Big Data, distributed ledger, open banking and APIs are transforming the financial sector and creating a new set of opportunities and values.** The pandemic brought unprecedented challenges and scenarios, but provided impetus for digitization and has necessitated more scrutiny and exploration for next-generation digital financial services in the areas of digital payments, money transfers, digital lending, simplified digital KYC and SupTech. Although most central banks are evaluating the concept of Central Bank Digital Currency (CBDC), the idea of a pilot project on RMA backed CDBC—a Digital Ngultrum, combining the best features of cash and of digital technology could provide additional benefits and support the digital economy.

c) **Continued efforts are required to introduce new features and services in mobile banking applications to increase engagement.** Further improvements to existing mobile banking applications along with the introduction of additional features by the banks will improve the usability and efficiency of mobile banking. Some of the possible enhancements include the integration of Chatbot as a virtual assistant for quick support. Such platform will facilitate online cheque deposits and provisioning of other additional bank accounts as a beneficiary for easy fund transfers, and real-time verification of inter-bank payee details.

d) **Digital literacy needs to be enhanced to access and use financial services.** Develop programs to promote digital financial education for the less educated, elderly and vulnerable groups with a specific focus on skills to make effective use of digital financial services and participate in the digital economy.

e) **Strengthen cybersecurity risks awareness on digital financial services.** Provide periodic awareness and education on cybersecurity to consumers and continue to enhance the cybersecurity posture of the financial systems through international information security and cybersecurity certifications and standards.





8

ANNUAL FINANCIAL STATEMENT

8.1 RMA Annual Audited Accounts: FY 2019/20

In accordance with Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the statutory audit of the Authority's accounts for the FY 2019-20 was carried out by Rinzing Financial Group based in Thimphu. The Royal Monetary Authority of Bhutan has prepared its accounts in compliance to Bhutan Accounting Standards (IFRS 2014 version).

In this overview of the RMA's Annual Audited Accounts, FY 2018/19 is referred to as 2019 and FY 2019/20 as 2020. Factors that influenced the RMA's annual accounts for the year 2020 are summarized below.

BALANCE SHEET

The overall financial position for 2020 grew by 32.7 percent from Nu 77,713.30 million in 2019 to Nu 103,138.12 million in 2020. The growth in financial position is mainly due to increase in the exchange rates for revaluation of foreign assets and liabilities.

ASSETS

Foreign currency financial assets
Total foreign currency financial assets grew by 36.8 percent from Nu 74,596.33 million in 2019 to Nu 102,030.53 million in 2020, mainly due to an increase in exchange rate (spot rate) for conversion of foreign currencies against the Ngultrum. Furthermore, the increase in foreign currency financial assets was also contributed by an increase in the deposits with foreign banks by 82.2 percent from Nu 15,895.17 million to Nu 28,965.98 million during the period.

The INR deposit balances increased by Nu 7,300.75 million as compared to the previous year after availing additional swap facility of Nu 14,277.30 million. On the other hand, the assets classified under securities have decreased by Nu 2,435.94 million after the discontinuation of investment under the RAMP program.

Local currency financial assets

Total local currency financial assets have decreased by Nu 2,470.51 million for the current year after the repayment of ways and means advance to the Royal Government on July 2, 2019, amounting to Nu 2,500 million which was availed in June 2019.

Non-financial assets

Non-financial assets grew by Nu 461.12 million due to increase in other assets. The property and equipment decreased after capitalizing the 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 increased by Nu 7,947.45 million from Nu 20,471.66 million to Nu 28,419.11 million during the period after availing USD 200 million worth of SAARC Finance Swap facility on February 14, 2020 from the RBI. The International Monetary Fund related liabilities also increased by Nu 144.64 million due

to depreciation of Ngultrum against Special Drawing Rights on the account of promissory note issued for the IMF membership.

Local currency financial liabilities increased by Nu 14,388.44 million, driven by increase in the balances of commercial banks (Nu 12,757.65 million) in the current account balances. The CRR balance decreased by Nu 1,771.56 million after the reduction of CRR rate from 10 percent to 7 percent as a relief monetary measure to the financial sector. Currency in circulation and balances of the Royal Government increased by Nu 2,088.60 and Nu 1,269.05 million, respectively.

Total Liabilities increased by 39.1 percent with Nu 22,065.39 million. The equity increased by Nu 3,329.43 million, mainly on account of increase in the foreign exchange revaluation reserve by Nu 4,601.22 million due the depreciation of Ngultrum against foreign currency.

STATEMENT OF COMPREHENSIVE INCOME

The total **operating income** of the RMA in 2020 was Nu 6,819.85 million (Nu 2,160.41 million in 2019), which includes foreign currency revaluation gains and market gains on the securities amounting to Nu 5,354.93 million (Nu. 366.58 million in 2019).

Net interest income decreased by Nu 405.39 million due to decrease in interest income from foreign currency due to fall in interest rates on deposits.

Interest expenses increased due to increase in the amount availed under SAARC Finance Swap facility from the RBI (Nu 14,277.30 million).

The liquidation of staff loans in the review period decelerated the local currency interest income by Nu 0.46 million.

Other income which includes gains on foreign currency revaluation amounting to Nu 5,083.14 million which was reported under operating income as per the BAS 21, has brought about the significant increase in the other income by Nu 5,064.84 million during the period.

The overall **operating expenses** increased by Nu 90.15 million mainly due to increase in the administrative expenses by Nu 69.28 million, followed by personal expenses by Nu 15.69 million and cost of banknote printing at Nu 5.18 million.

Distributable profit amounted to Nu 1,769.39 million after adjusting revaluation gain of Nu 5,354.93 million to Revaluation Reserve as per the Section 23-24 of the RMA Act 2010 and distribution of realized gains of Nu 748.20 million, which was previously unrealized and now being realized as per Section 26 of the RMA Act 2010.

Rinzing Financial Private Limited

Royal Monetary Authority of Bhutan
Statement of Financial Position

Assets	Note	June 30, 2020	June 30, 2019
		(Amount in Nu. '000)	
Foreign currency financial assets			
Cash and cash equivalents	9	68,190,895	51,598,402
Deposits with banks	10	28,965,978	15,895,170
Securities	11	1,906,785	4,342,724
IMF related assets	12	2,739,680	2,560,586
Interest and other receivables		227,193	199,444
Total foreign currency financial assets		102,030,530	74,596,326
Local currency financial assets			
Cash and cash equivalents	9	41,186	19,688
Gratuity fund	10	52,635	39,661
Loans to staff	13	21,114	25,732
Ways and means advance to Royal Government	14	-	2,500,000
Interest and other receivables		-	362
Total local currency financial assets		114,935	2,585,444
Non-financial assets			
Non-monetary gold	15	54,350	37,713
Inventories for banknotes	16	223,104	165,333
Property, Plant and Equipment	17	115,681	161,721
Intangible assets	17	56,352	-
Other assets	18	543,164	166,761
Total non-financial assets		992,652	531,529
Total assets		**103,138,117**	**77,713,299**

For Rinzing Financial Private Limited
Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

RINZING FINANCIAL PRIVATE LIMITED

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Rinzing Financial Private Limited

Royal Monetary Authority of Bhutan
Statement of Financial Position

Liabilities and Equity	Note	June 30, 2020	June 30, 2019
		(Amount in Nu. '000)	
Foreign currency financial liabilities			
Balances of Royal Government	19	7,257,101	7,176,250
IMF related liabilities	12	2,257,371	2,112,733
Due to IFIs	20	10,823	1,368
Due to foreign central banks	20	18,812,100	11,117,600
Accrued interest payables		81,718	63,711
Total foreign currency financial liabilities		28,419,114	20,471,662
Local currency financial liabilities			
Currency in circulation	21	14,633,910	12,545,310
Balances of Commercial banks	22	33,830,569	22,799,762
Balances of Royal Government	19	1,365,610	96,563
Due to other Financial institutions	20	542	557
Total local currency financial liabilities		49,830,631	35,442,192
Other liabilities			
Deferred grants	23	43,474	66,538
Gratuity and other employee benefits	30	93,637	91,728
Managed Fund	24	-	253,874
Others	25	104,318	99,794
Total Liabilities		78,491,172	56,425,786
Equity			
Capital		800,000	800,000
General reserve	26	2,000,000	2,000,000
Profit and loss		1,769,392	3,421,435
BAS transition reserve	26	138,814	138,814
Revaluation reserve	26	19,533,991	14,932,773
Retained earnings	26	410,000	-
Other reserves	26	(5,252)	(5,510)
Total Equity		24,646,945	21,287,512
Total Equity and Liabilities		103,138,117	77,713,299

For Rinzing Financial Private Limited
Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct .21 ,2020
Place: Thimphu, Bhutan

RINZING FINANCIAL PRIVATE LIMITED

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

Rinzing Financial Private Limited

Royal Monetary Authority of Bhutan
Statement of Comprehensive Income

(Amount in Nu. '000)

	Notes	June 30, 2020	June 30, 2019
Foreign currency income and expenses			
Interest income on foreign currency financial assets	27	1,955,433	2,237,151
Interest expense on foreign currency financial liabilities		(660,697)	(563,297)
Net foreign currency income		1,294,735	1,673,854
Local currency income			
Interest income on local currency financial assets	27	8,039	34,314
Net local currency income		8,039	34,314
Net interest income		1,302,775	1,708,168
Other income			
Gains on sale of foreign currencies		60,078	103,859
Unrealised gain/(loss) of fair value of securities		-	64,791
Realised gain/(loss) on sale of securities		3,699	3,604
Realised gain or (loss) on sale of monetary gold		72,198	-
Foreign exchange revaluation	28	5,354,931	271,794
Others	29	26,170	8,189
Net other income		5,517,077	452,237
Total net operating income		6,819,851	2,160,405
Expenses			
Cost of banknote printing		(52,060)	(46,877)
Employee benefits	30	(212,185)	(196,495)
Administrative expenses	31	(179,487)	(110,210)
Total operating expenses		(443,732)	(353,583)
Net profit for year		6,376,119	1,806,822
Other Comprehensive Income not to be			
Actuarial gain on Staff gratuity Fund		(5,252)	(5,510)
Total Comprehensive Income		6,370,867	1,801,312

Please refer to 32 on profit for distribution

For Rinzing Financial Private Limited
Firm License 1036380

RINZING FINANCIAL PRIVATE LIMITED

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Date: Oct. 21, 2020
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairman

The notes on page 11 to 62 are an integral part of these financial statements

9
STATISTICAL TABLES

Table 1: Gross Domestic Product at Current Prices

Nu in Million

Sector	Year 2015	2016	2017	2018	2019	Share of GDP in 2019 (%)
1. Agriculture, livestock and forestry	18,556.4	20,882.7	23,989.4	26,759.7	28,184.5	15.8
1.1 Crops	9,914.6	11,101.6	12,922.6	14,427.9	15,918.4	8.9
1.2 Livestock	5,210.0	5,789.2	7,050.3	7,463.7	8,113.6	4.6
1.3 Forestry and logging	3,431.7	3,991.9	4,016.5	4,868.2	4,152.4	2.3
2. Mining and quarrying *	4,484.3	6,455.1	6,954.6	8,137.8	8,576.8	4.8
3. Manufacturing	10,543.5	11,085.1	11,979.6	12,435.9	12,687.9	7.1
4. Electricity and water	18,933.1	19,909.4	21,766.9	19,602.8	22,657.3	12.7
4.1 Electricity	18,901.1	19,874.3	21,728.2	19,560.2	22,611.2	12.7
4.2 Water supply	32.0	35.2	38.7	42.6	46.1	0.0
5. Construction	20,649.7	24,280.5	26,068.5	23,753.1	20,465.4	11.5
6. Wholesale and retail trade	10,233.3	11,798.3	13,460.0	15,042.1	17,378.5	9.8
7. Hotels and restaurants	2,485.7	2,863.6	3,476.8	4,039.8	4,658.2	2.6
8. Transport, storage and communication	11,892.7	13,157.7	15,119.5	16,720.1	19,070.7	10.7
9. Financing, insurance and real estate	9,746.4	10,892.4	11,667.3	12,988.1	13,488.6	7.6
9.1 Finance	6,905.3	7,574.0	7,945.7	9,018.5	9,203.8	5.2
9.2 Real estate	2,738.7	3,176.9	3,408.3	3,593.1	3,833.0	2.2
9.3 Business services	102.4	141.4	313.4	376.5	451.9	0.3
10. Community, social and personal services	14,776.5	16,352.6	16,347.8	17,341.6	21,959.3	12.3
10.1 Public Administration	10,051.0	11,209.7	11,630.6	11,761.3	13,114.9	7.4
10.2 Education and health	4,725.5	5,142.9	4,717.2	5,580.3	8,844.3	5.0
11. Private social, personal and recreational services	503.7	532.5	654.7	679.2	704.6	0.4
12. Plus indirect taxes less subsidies	5,729.3	6,863.0	8,086.7	9,839.7	8,370.1	4.7
Gross Domestic Product	**128,534.6**	**145,072.9**	**159,571.7**	**167,340.0**	**178,201.9**	**100.0**
Nominal GDP Growth Rate (%)	**10.4**	**12.9**	**10.0**	**4.9**	**6.5**	

Source: National Accounts Statistics, 2019, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 2: Gross Domestic Product at Constant Prices

Nu in Million

Sector	Year					Growth: 2018 to 2019 (%)
	2015	2016	2017	2018	2019	
1. Agriculture, livestock and forestry	6,518.0	6,793.4	6,993.7	7,290.8	7,385.6	1.3
1.1 Crops	2,765.3	2,994.3	3,182.9	3,340.3	3,411.0	2.1
1.2 Livestock	2,111.3	2,246.3	2,345.5	2,507.9	2,576.3	2.7
1.3 Forestry and logging	1,641.4	1,552.7	1,465.3	1,442.6	1,398.3	-3.1
2. Mining and quarrying*	1,728.9	1,927.3	2,062.3	2,836.9	3,776.0	33.1
3. Manufacturing	5,323.9	5,452.9	5,805.0	5,956.4	5,956.1	-0.0
4. Electricity and water	10,200.2	10,478.9	10,079.8	8,578.9	9,618.5	12.1
4.1 Electricity	10,183.5	10,460.6	10,059.7	8,556.7	9,594.5	12.1
4.2 Water supply	16.7	18.3	20.2	22.2	24.0	8.3
5. Construction	8,807.6	10,009.2	10,630.9	9,781.7	8,348.2	-14.7
6. Wholesale and retail trade	4,866.1	5,463.6	6,032.5	6,646.9	7,522.5	13.2
7. Hotels and restaurants	906.7	1,011.1	1,164.8	1,287.2	1,437.2	11.7
8. Transport, storage and communication	5,905.8	6,409.8	7,265.1	8,057.2	9,120.5	13.2
9. Financing, insurance and real estate	5,016.4	5,553.2	5,755.5	6,399.0	6,421.1	0.3
9.1 Finance	3,998.3	4,400.5	4,525.8	5,106.0	5,057.7	-0.9
9.2 Real estate	973.9	1,094.4	1,106.6	1,149.1	1,195.2	4.0
9.3 Business services	44.3	58.3	123.1	143.9	168.2	16.8
10. Community, social and personal services	6,276.0	6,797.8	6,680.8	6,924.6	8,519.5	23.0
10.1 Public administration	4,178.1	4,621.4	4,635.3	4,564.2	4,953.2	8.5
10.2 Education and health	2,097.9	2,176.4	2,045.5	2,360.4	3,566.3	51.1
11. Private social, personal and recreational services	221.1	229.5	277.1	281.4	285.7	1.5
12. Plus indirect taxes less subsidies	2,570.6	2,956.0	3,269.6	3,992.8	3,360.9	-15.8
Gross Domestic Product	**58,341.1**	**63,082.6**	**66,017.0**	**68,033.9**	**71,751.7**	**5.5**
Real GDP Growth Rate (%)	**6.6**	**8.1**	**4.7**	**3.1**	**5.5**	

Source: National Accounts Statistics, 2019, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 3. Gross Domestic Product by Expenditure at Current Prices

Nu in Million

Sector	Year					Share of GDP in 2019 (%)
	2015	2016	2017	2018	2019	
Investment	**71,287.0**	**82,700.5**	**82,896.6**	**79,634.1**	**67,636.4**	**38.0**
Private	59,298.4	63,062.6	61,907.8	59,704.9	53,467.0	30.0
Public	12,337.2	18,751.8	21,217.4	19,261.3	13,394.3	7.5
Change in stocks	-348.7	886.1	-228.7	667.9	775.1	0.4
Consumption	**100,076.0**	**100,339.5**	**112,807.7**	**129,657.1**	**139,690.2**	**78.4**
Private	76,610.4	75,278.1	85,992.8	101,013.7	107,087.6	60.1
Public	23,465.5	25,061.4	26,814.8	28,643.4	32,602.6	18.3
Net exports	**-42,828.3**	**-37,967.1**	**-36,132.6**	**-41,951.3**	**-29,124.7**	**-16.3**
Exports	44,261.7	42,966.2	48,004.3	51,570.3	60,602.2	34.0
Imports	87,090.0	80,933.3	84,136.8	93,521.6	89,726.9	50.4
Gross Domestic Product	**128,534.6**	**145,072.9**	**159,571.7**	**167,340.0**	**178,201.9**	**100.0**
GDP Growth rate	**10.4**	**12.9**	**10.0**	**4.9**	**6.5**	

Table 4 : Gross Domestic Product by Economic Activity at Constant Prices						
						Nu in Million
Sector	Year					Share of GDP in 2019 (%)
	2015	2016	2017	2018	2019	
Investment	**30,468.3**	**34,115.2**	**33,375.5**	**31,609.7**	**26,391.3**	**36.8**
Private	25,599.8	26,457.3	25,284.1	23,966.5	21,017.2	29.3
Public	5,018.7	7,291.2	8,181.9	7,386.2	5,078.7	7.1
Change in stocks	-150.2	366.7	-90.5	257.0	295.4	0.4
Consumption	**45,967.9**	**44,620.0**	**46,834.5**	**52,465.9**	**56,201.7**	**78.3**
Private	36,053.7	34,288.0	36,050.1	41,353.0	43,888.5	61.2
Public	9,914.2	10,332.0	10,784.5	11,112.9	12,313.2	17.2
Net exports	**-18,095.0**	**-15,652.6**	**-14,193.0**	**-16,041.6**	**-10,841.3**	**-15.1**
Exports	18,700.7	17,713.5	18,856.2	19,719.8	22,558.5	31.4
Imports	36,795.7	33,366.1	33,049.2	35,761.5	33,399.8	46.5
Gross Domestic Product	**58,341.1**	**63,082.6**	**66,017.0**	**68,033.9**	**71,751.7**	**100.0**
GDP Growth rate	**6.3**	**8.1**	**4.7**	**3.1**	**5.5**	

Table 5: Consumer Price Index: Period Average														
		Period												
Item	Weight (%)	2017				2018				2019				2020	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Index													
Food	46.0	90.3	91.6	92.8	94.8	96.5	96.5	96.3	98.4	99.5	99.5	99.8	102.2	104.4	108.5
Non-food	54.1	96.4	96.7	97.0	96.8	96.8	97.4	98.3	99.3	99.7	100.1	100.4	100.4	100.5	100.8
Total	**100.0**	**93.9**	**94.6**	**95.3**	**96.0**	**96.7**	**97.0**	**97.5**	**99.0**	**99.6**	**100.1**	**100.2**	**101.2**	**102.3**	**104.2**
		Percentage change on the previous year													
Food	46.0	6.8	7.7	7.1	6.8	6.8	5.4	3.8	3.8	3.2	3.1	3.7	3.8	4.9	9.0
Non-food	54.1	4.3	4.0	3.9	2.1	0.4	0.8	1.3	2.6	2.9	2.7	2.2	1.1	0.9	0.7
Total	**100.0**	**5.3**	**5.5**	**5.2**	**4.0**	**2.9**	**2.6**	**2.3**	**3.1**	**3.0**	**2.9**	**2.7**	**2.3**	**2.7**	**4.4**

Table 6: Domestic and Imported Inflation: Period Average (December 2012=100)															
Item	Weight (%)	2017				2018				2019				2020	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Domestic Inflation													
Food	17.8	136.9	137.9	138.1	139.7	139.7	139.8	140.0	140.2	141.0	142.7	127.6	112.0	95.6	95.6
Non-food	30.2	130.4	130.4	130.5	130.5	130.6	130.8	131.0	131.0	131.1	130.9	119.3	107.9	96.6	96.7
Overall	**48**	**132.7**	**133.2**	**133.2**	**133.8**	**133.9**	**134.1**	**134.2**	**134.3**	**134.7**	**135.1**	**122.3**	**109.3**	**96.3**	**96.3**
		Percentage change on the previous year (%)													
Food	17.8	8.1	7.4	5.3	3.7	2.0	1.4	1.3	0.4	1.0	2.1	-8.8	-20.1	-32.2	-33.0
Non-food	30.2	5.5	5.0	4.6	2.4	0.2	0.3	0.4	0.4	0.3	0.0	-8.9	-17.7	-26.3	-26.1
Overall	**48**	**6.5**	**5.9**	**4.9**	**2.8**	**0.9**	**0.7**	**0.7**	**0.4**	**0.6**	**0.8**	**-8.9**	**-18.6**	**-28.5**	**-28.7**

Item	Weight (%)	2017				2018				2019				2020	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Imported Inflation															
Food	22.2	130.4	131.0	131.3	131.6	132.3	133.3	134.6	135.5	136.5	137.7	124.4	110.9	97.1	97.5
Non-food	29.8	124.5	124.8	125.0	125.1	125.3	125.5	125.6	125.7	125.2	125.1	115.5	106.3	97.0	97.2
Overall	**52**	**127.0**	**127.4**	**127.7**	**127.9**	**128.3**	**128.8**	**129.3**	**129.8**	**129.9**	**130.3**	**119.2**	**108.2**	**97.0**	**97.3**
Percentage change on the previous year (%)															
Food	22.2	5.8	6.2	4.9	2.7	1.5	1.8	2.5	3.0	3.2	3.3	-7.5	-18.2	-28.9	-29.2
Non-food	29.8	3.0	2.7	2.3	1.6	0.7	0.6	0.5	0.4	-0.1	-0.3	-8.0	-15.4	-22.6	-22.3
Overall	**52**	**4.2**	**4.2**	**3.4**	**2.1**	**1.0**	**1.1**	**1.3**	**1.5**	**1.3**	**1.2**	**-7.8**	**-16.6**	**-25.3**	**-25.3**

Table 7: Annual and Monthly PPI and Inflation by Industry

Sector	Weight (%)	Index level (September 2011-100)							Monthly Inflation (%)			Annual Inflation (%)		
		Apr-19	May-19	Jun-19	Mar-20	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20
All Industry	**100.0**	**122.2**	**122.2**	**121.2**	**124.9**	**124.1**	**124.4**	**123.1**	**-0.6**	**0.2**	**-1.0**	**1.6**	**1.8**	**1.6**
Logging	0.7	134.8	134.8	134.8	134.8	134.8	134.8	134.8	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	5.8	125.9	125.9	125.9	126.6	126.6	126.6	126.6	0.0	0.0	0.0	0.5	0.5	0.5
Manufacturing	47.7	123.1	122.9	121.0	128.3	127.6	128.1	125.5	-0.5	0.4	-2.0	3.7	4.2	3.8
Electricity, gas, steam and air conditioning supply	35.4	124.2	124.2	124.2	124.2	124.2	124.2	124.2	0.0	0.0	0.0	0.0	0.0	0.0
Water supply; sewerage, waste management and remediation activities	0.1	109.4	109.4	109.4	109.4	109.4	109.4	109.4	0.0	0.0	0.0	0.0	0.0	0.0
Transport	5.9	127.9	128.1	127.9	131.0	131.9	131.7	131.7	0.7	-0.2	0.0	3.1	2.8	2.9
Information and communication	4.5	89.6	89.6	89.6	89.6	82.2	82.2	82.2	-8.3	0.0	0.0	-8.3	-8.3	-8.3

Source: National Statistics Bureau. (Note: An entry of "0.0" indicates a marginal value compared to "-" which indicates no value for that particular item)

Table 8: Annual and Monthly PPI Inflation by Product

Description	Share (%)	Index level (September 2011=100)							Monthly inflation (%)			Annual inflation (%)		
		Apr-19	May-19	Jun-19	Mar-20	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20	Apr-20	May-20	Jun-20
All Products	**100.0**	**122.2**	**122.2**	**121.2**	**124.9**	**124.1**	**124.4**	**123.1**	**-0.6**	**0.2**	**-1.0**	**1.6**	**1.8**	**1.6**
Logging	0.7	134.8	134.8	134.8	34.8	134.8	134.8	134.8	0.0	0.0	0.0	0.0	0.0	0.0
Ores & minerals; electricity, gas & water	5.8	125.9	125.9	125.9	126.6	126.6	126.6	126.6	0.0	0.0	0.0	0.5	0.5	0.5
Food products, beverages and tobacco; textiles, apparel and leather products	3.6	114.0	114.0	114.0	114.5	114.5	114.4	114.7	-0.0	-0.1	0.3	0.4	0.3	0.6
Other transportable goods, except metal products, machinery and equipment	15.4	119.1	119.2	119.9	120.1	120.0	120.0	119.0	-0.1	0.0	-0.9	0.8	0.7	-0.8
Metal products, machinery & equipment	28.8	126.4	126.2	122.5	134.8	133.7	134.6	130.6	-0.8	0.7	-2.9	5.7	6.7	6.7
Distributive trade services; accommodation, food & beverage serving services; transport services; & electricity, gas & water distribution services	41.3	124.7	124.7	124.7	125.1	125.2	125.2	125.2	0.1	-0.0	0.0	0.4	0.4	0.4
Business and production services	4.5	89.6	89.6	89.6	89.6	82.2	82.2	82.2	-8.3	0.0	0.0	-8.3	-8.3	-8.3

Source: National Statistics Bureau. (Note: An entry of "0.0" indicates a marginal value compared to "-" which indicates no value for that particular item)

Table 9: Summary of Budgetary Operations						
						Nu in Million
Items	Year					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Revised
Revenue & Grants	**36,231.1**	**42,039.3**	**42,673.1**	**52,113.2**	**42,033.3**	**52,726.6**
Domestic Revenue	**25,141.0**	**28,033.8**	**29,713.6**	**36,871.4**	**34,707.7**	**38,495.8**
Tax	18,387.3	19,884.6	21,707.0	27,107.9	27,171.1	24,951.5
Non-tax	6,753.7	8,149.2	8,006.6	9,763.5	7,536.5	13,544.4
Other Receipts (Net)	**1,135.0**	**-884.1**	**-27.2**	**394.7**	**-3,190.9**	**507.8**
External Grants	**9,955.0**	**14,889.6**	**12,986.8**	**14,847.1**	**10,516.5**	**13,723.0**
GOI	6,593.8	10,721.7	9,882.6	11,200.8	6,484.8	8,266.8
Others	3,361.3	4,167.9	3,104.2	3,646.2	4,031.7	5,456.2
Program	**2,125.0**	**2,340.0**	**2,125.0**	**1,700.0**	**989.5**	**2,431.8**
GOI	2,125.0	1,275.0	2,125.0	1,700.0	850.0	2,431.8
Others	0.0	1,065.0	0.0	0.0	139.5	0.0
Project tied	**7,830.0**	**12,549.6**	**10,861.8**	**13,147.1**	**9,527.0**	**11,291.1**
GOI	4,468.8	9,446.7	7,757.6	9,500.8	5,634.8	5,834.9
Others	3,361.3	3,102.9	3,104.2	3,646.2	3,892.2	5,456.2
Outlay	**34,334.3**	**43,603.0**	**48,018.0**	**52,658.7**	**44,054.1**	**64,615.5**
Total expenditure	**36,475.8**	**44,688.4**	**49,966.6**	**56,331.4**	**44,054.1**	**64,615.5**
Current	21,032.0	22,880.6	24,129.6	27,494.7	27,768.7	35,819.3
Capital	15,443.8	21,807.9	25,837.0	28,836.6	16,285.5	28,796.1
Net Lending	**-2,552.7**	**-1,885.3**	**-2,003.1**	**-2,077.9**		
Advances/Suspense (Net)	**411.2**	**799.9**	**54.5**	**-1,594.8**	**722.6**	
Overall Balance	**1,896.8**	**-1,563.7**	**-5,344.9**	**-545.5**	**-2,743.4**	**-11,888.8**
Financing	**-1,896.8**	**1,563.7**	**5,344.9**	**545.5**	**2,743.4**	**-11,888.8**
Net Lending					**1,318.5**	**559.6**
Recovery					1,516.1	
Lending					197.6	
Net Borrowing	**-1,086.4**	**-1,215.5**	**524.3**	**-102.0**	**1,425.0**	**9,522.8**
Borrowing	**1,685.3**	**1,818.7**	**3,227.7**	**2,718.3**	**3,767.0**	**11,340.3**
External	1,685.3	1,818.7	3,227.7	2,718.3	3,432.6	4,720.3
Internal	0.0	0.0	0.0	0.0	334.5	6,620.0
Repayment	**2,771.7**	**3,034.2**	**2,703.3**	**2,820.4**	**2,342.1**	**1,817.5**
External	2,596.4	2,850.3	2,694.1	2,810.5	2,331.5	1,806.1
Internal	175.3	183.8	9.2	9.9	10.6	11.4
Resource Gap	**810.4**	**-2,779.2**	**-4,820.5**	**-647.5**	**-1,318.5**	**-2,366.0**

Source - National Budget Report: 2020/21 and Annual Financial Statements: 2017/18, 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 borrowings or increase in cash or bank balances. (3) Resource Gap.

Table 10: Monetary Survey

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19	2019/20
Broad Money (M2)[1]	**79,162.7**	**104,113.6**	**114,973.7**	**121,416.7**	**144,890.5**
Narrow Money (M1)	44,933.6	60,723.3	66,295.0	69,203.4	85,575.6
Currency Outside Banks	6,101.7	8,787.7	9,234.0	9,744.1	11,782.9
Transferable Deposits	38,831.9	51,935.6	57,061.0	59,459.3	73,792.8
Current Deposits	17,570.7	24,952.2	25,465.2	22,530.4	27,326.5
Saving Deposits	21,261.2	26,983.4	31,595.8	36,928.9	46,466.3
Other Deposits	34,229.1	43,390.3	48,678.6	52,213.4	59,314.8
Time Deposits	32,640.5	41,285.5	46,163.9	51,011.3	58,653.1
Foreign Currency Deposits	1,588.6	2,104.8	2,514.8	1,202.0	661.7
Factors Affecting M2					
Foreign Assets (Net)	67,815.6	68,186.7	66,006.3	63,920.6	84,090.6
Indian Rupee	7,316.8	18,236.6	6,423.3	5,592.1	6,583.2
Convertible Foreign Currency	60,498.8	49,950.1	59,583.0	58,328.5	77,507.4
Net Domestic Assets	11,347.2	35,926.9	48,967.4	57,496.1	60,799.9
Domestic Credit	65,692.7	85,084.8	100,320.5	113,488.2	122,112.9
Claims on Government	-5,570.5	2,852.9	5,029.4	2,406.9	-3,840.4
Claims on Other Public Sector[2]	6,106.0	7,046.8	8,306.0	6,230.8	7,140.8
Claims on Private Sector[3]	65,157.2	75,185.1	86,985.1	104,850.5	118,812.5
Other Items Net [4]	54,345.5	49,447.3	51,353.1	55,992.1	61,313.0
Percent Change (y-o-y)					
Broad Money (M2)	**15.8**	**31.5**	**10.4**	**5.6**	**19.3**
Narrow Money (M1)	7.8	35.1	9.2	4.4	23.7
Currency Outside Banks	2.6	44.0	5.1	5.5	20.9
Transferable Deposits	8.7	33.7	9.9	4.2	24.1
Current Deposits	4.4	42.0	2.1	-11.5	21.3
Saving Deposits	12.5	26.9	17.1	16.9	25.8
Other Deposits	28.3	26.8	12.2	7.3	13.6
Time deposits	28.3	26.5	11.8	10.5	15.0
Foreign Currency Deposits	30.0	32.5	19.5	-52.2	-44.9
Foreign Assets (Net)	16.4	0.5	-3.2	-3.2	31.6
Indian Rupee	81.4	149.2	-64.8	-12.9	17.7
Convertible Foreign Currency	11.6	-17.4	19.3	-2.1	32.9
Net Domestic Assets	12.4	216.6	36.3	17.4	5.7
Domestic Credit	16.8	29.5	17.9	13.1	7.6
Claims on Government	-28.0	-151.2	76.3	-52.1	-259.6
Claims on Other Public Sector	-14.9	15.4	17.9	-25.0	14.6
Claims on Private Sector	14.7	15.4	15.7	20.5	13.3
Other Items Net	17.7	-9.0	3.9	9.0	9.5

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 11: Royal Monetary Authority Survey

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19	2019/20
Assets					
Foreign Assets	77,976.8	71,820.7	75,194.0	73,116.5	100,449.4
Indian Rupee	19,017.7	23,496.1	18,614.4	17,266.4	26,183.9
Convertible Foreign Currency	58,959.1	48,324.6	56,579.5	55,850.0	74,265.5
Claims on DMBs	266.6	578.4	709.3	724.8	759.7
Claims on Government	-	-	-	2,500.0	-
Claims on Private Sector	33.3	36.3	32.0	26.1	21.1
Claims on NBFIs	-	-	-	-	-
Govt. securities	-	-	-	-	-
Liabilities					
Reserve Money	27,802.9	34,327.9	33,469.8	31,973.9	45,049.7
o/w Currency Outside Banks	6,101.7	8,787.7	9,234.0	9,744.1	11,782.9
Foreign liabilities	13,804.1	7,000.0	13,776.3	14,007.1	21,322.4
Indian Rupee	13,804.1	7,000.0	13,776.3	14,007.1	21,322.4
Covertable foreign currency	-	-	-	-	-
Government Deposits	10,200.1	7,152.2	3,020.4	4,310.1	5,705.2
RMA Bills outstanding	-	-	-	-	-
Capital Accounts	3,686.8	3,951.5	4,357.7	6,354.7	5,113.0
Other Items (Net) [1]	22,782.9	20,003.8	21,311.1	19,721.4	24,039.9
Percent Change (y-o-y)					
Foreign Assets	25.5	-7.9	4.7	-2.8	37.4
Indian Rupee	93.5	23.5	-20.8	-7.2	51.6
Convertible Foreign Currency	12.8	-18.0	17.1	-1.3	33.0
Reserve Money	5.9	23.5	-2.5	-4.5	40.9
Foreign liabilities	97.2	-49.3	96.8	1.7	52.2
Other Items Net	18.6	-12.2	6.5	-7.5	21.9

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

Table 12: Deposit Money Banks Survey

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19	2019/20
Assets					
Reserves	17,852.9	25,197.8	23,752.5	21,724.9	30,833.1
Foreign Assets	3,642.8	3,655.4	5,356.8	4,811.2	4,963.6
Indian Rupee	2,103.2	1,740.5	1,585.1	2,332.8	1,721.6
Convertible Foreign Currency	1,539.6	1,914.9	3,771.7	2,478.5	3,242.0
Claims on Government	4,629.6	10,005.2	8,049.8	4,217.0	1,864.8
Claims on Other Public Sector [1]	6,106.0	7,046.8	8,306.0	6,230.8	7,140.8
Claims on Private Sector [2]	65,123.8	75,148.8	86,953.1	104,824.4	118,791.4
Capital Accounts	18,029.3	16,915.4	18,019.3	19,542.3	17,584.0
Other Items Net [3]	5,561.7	8,253.5	7,727.3	9,762.4	12,198.5
Liabilities					
Demand Depsoits	38,831.9	51,935.6	57,061.0	59,459.3	73,792.8
Current Deposits	17,570.7	24,952.2	25,465.2	22,530.4	27,326.5
Saving Deposits	21,261.2	26,983.4	31,595.8	36,928.9	46,466.3
Time Deposits	32,640.5	41,285.5	46,163.9	51,011.3	58,653.1
Foreign Currency Deposits	1,588.6	2,104.8	2,514.8	1,202.0	661.7
Percent Change (y-o-y)					
Reserves	-8.7	41.1	-5.7	-8.5	41.9
Foreign Assets	16.2	0.3	46.5	-10.2	3.2
Claims on Other Public Sector	-14.9	15.4	17.9	-25.0	14.6
Claims on Private Sector	14.7	15.4	15.7	20.6	13.3
Capital Accounts	7.9	-6.2	6.5	8.5	-10.0
Other Items Net	-16.8	48.4	-6.4	26.3	25.0
Demand Depsoits	8.7	33.7	9.9	4.2	24.1
Current Deposits	4.4	42.0	2.1	-11.5	21.3
Saving Deposits	12.5	26.9	17.1	16.9	25.8
Time Deposits	28.3	26.5	11.8	10.5	15.0
Foreign Currency Deposits	30.0	32.5	19.5	-52.2	-44.9

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 13: Financial Sector Investment by Economic Activity					
					Nu in Million
Economic Sector/Source	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Agriculture	**4,457.9**	**5,069.5**	**5,632.9**	**6,247.3**	**6,629.6**
Bank of Bhutan	30.6	41.5	100.7	197.2	212.8
Bhutan National Bank	0.7	0.7	13.0	65.3	83.7
Bhutan Development Bank Limited	4,414.0	5,003.6	5,508.0	5,969.6	6,251.5
TBank Limited	1.4	0.4	0.0	2.4	2.0
Druk PNB Bank Limited	10.2	15.7	2.5	7.7	24.3
Royal Insurance Corporation of Bhutan	0.0	3.4	4.1	1.9	53.3
Bhutan Insurance Limited	1.0	4.1	4.6	3.2	2.0
Service and Tourism	**11,323.9**	**20,017.9**	**24,844.2**	**31,523.7**	**39,619.9**
Bank of Bhutan	3,163.5	5,648.7	8,463.9	11,784.8	13,872.1
Bhutan National Bank	3,636.8	4,476.8	4,706.5	5,833.9	10,064.8
Bhutan Development Bank Limited	2,384.2	2,948.6	2,886.8	3,055.8	3,387.1
TBank Limited	479.4	440.5	559.8	1,084.4	1,447.0
Druk PNB Bank Limited	896.5	1,505.0	2,139.9	2,463.5	3,215.2
Royal Insurance Corporation of Bhutan	706.1	4,924.6	5,980.0	7,243.0	7,565.7
Bhutan Insurance Limited	57.3	73.7	107.3	58.3	67.9
Manufacturing	**10,433.7**	**12,767.1**	**13,416.7**	**15,231.8**	**16,957.0**
Bank of Bhutan	3,485.9	3,724.2	3,944.3	4,596.3	5,951.4
Bhutan National Bank	3,611.0	4,480.9	4,438.7	4,579.5	3,409.3
Bhutan Development Bank Limited	816.1	830.7	1,038.2	972.7	988.5
TBank Limited	182.3	197.7	257.9	300.1	317.2
Druk PNB Bank Limited	740.2	1,454.0	1,525.7	2,192.4	2,915.6
Royal Insurance Corporation of Bhutan	1,479.8	1,939.6	2,046.2	2,401.8	3,220.0
Bhutan Insurance Limited	118.4	140.1	165.9	189.0	155.1
Building & Construction	**19,244.0**	**21,704.9**	**25,405.8**	**32,581.8**	**39,728.3**
Bank of Bhutan	5,263.4	6,032.5	7,873.2	12,407.6	15,210.3
Bhutan National Bank	6,665.3	6,962.9	7,727.0	8,811.8	10,632.1
Bhutan Development Bank Limited	2,447.2	2,776.3	3,230.4	3,693.9	4,416.2
TBank Limited	500.9	1,329.4	1,909.9	2,625.9	2,966.2
Druk PNB Bank Limited	1,340.6	1,532.3	1,703.8	1,933.9	3,018.3
Royal Insurance Corporation of Bhutan	2,911.5	2,811.9	2,638.8	2,701.5	2,797.5
Bhutan Insurance Limited	115.2	259.5	322.6	407.3	687.6
Trade & Commerce	**17,621.4**	**13,285.1**	**15,044.1**	**17,719.0**	**17,913.6**
Bank of Bhutan	1,736.8	1,320.8	1,985.1	2,425.7	2,911.8
Bhutan National Bank	6,675.5	5,123.4	5,934.1	6,964.7	6,149.3
Bhutan Development Bank Limited	1,552.8	1,637.1	1,587.7	1,515.4	2,046.4
TBank Limited	454.0	785.1	761.4	942.6	879.8
Druk PNB Bank Limited	654.1	433.1	839.9	1,411.8	1,569.0
Royal Insurance Corporation of Bhutan	6,393.7	3,801.2	3,695.6	4,159.4	4,074.2
Bhutan Insurance Limited	154.4	184.4	240.2	299.3	283.0

Transport (Heavy + Light)	**4,535.1**	**5,003.5**	**6,297.5**	**6,747.6**	**6,279.7**
Bank of Bhutan	875.7	1,008.9	1,841.8	2,076.9	1,817.9
Bhutan National Bank	1,041.5	1,334.4	1,753.4	1,884.2	1,881.2
Bhutan Development Bank Limited	1,120.6	1,193.5	1,144.9	1,036.9	1,010.8
TBank Limited	117.0	251.2	222.3	206.1	209.1
Druk PNB Bank Limited	159.0	134.4	160.9	157.9	142.1
Royal Insurance Corporation of Bhutan	940.1	644.0	587.2	696.3	623.9
Bhutan Insurance Limited	281.2	437.1	586.9	689.3	594.8
Personal Loans	**11,818.3**	**13,636.6**	**12,811.0**	**13,816.9**	**14,279.6**
Bank of Bhutan	5,597.0	5,463.3	5,480.1	5,597.0	6,306.6
Bhutan National Bank	1,098.6	1,295.0	1,207.3	1,270.8	1,175.7
Bhutan Development Bank Limited	2,633.5	2,972.3	2,407.4	2,458.2	2,349.7
TBank Limited	504.2	914.7	1,057.6	1,508.2	1,698.6
Druk PNB Bank Limited	555.7	532.0	324.3	725.4	687.4
Royal Insurance Corporation of Bhutan	1,364.5	2,399.6	2,250.6	2,176.1	1,925.3
Bhutan Insurance Limited	64.7	59.7	83.6	81.3	136.3
Loan Against Shares	**402.8**	**432.7**	**214.2**	**553.1**	**417.9**
Bank of Bhutan	6.7	32.8	0.1	17.7	16.9
Bhutan National Bank	77.9	0.0	0.0	0.0	0.0
Bhutan Development Bank Limited	98.4	0.0	0.0	0.0	0.0
TBank Limited	5.7	138.8	37.1	314.6	353.4
Druk PNB Bank Limited	88.7	98.8	89.3	117.5	1.1
Royal Insurance Corporation of Bhutan	92.3	111.2	45.4	57.1	17.4
Bhutan Insurance Limited	33.2	51.0	42.4	46.2	29.1
Government (Short term loans)	**4,605.5**	**515.2**	**445.3**	**855.4**	**0.0**
Bank of Bhutan	4,605.5	0.0	0.0	461.5	0.0
Bhutan National Bank	0.0	515.2	445.3	394.0	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	**11.3**	**10.4**	**15.9**	**23.0**	**15.4**
Bank of Bhutan	5.3	6.0	12.8	20.2	12.3
Bhutan National Bank	5.9	4.4	3.0	2.4	3.0
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	0.4	0.1
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Others	**2,150.5**	**2,615.7**	**3,592.7**	**4,295.7**	**3,207.7**
Bank of Bhutan	362.2	668.3	857.7	1,040.1	1,067.1
Bhutan National Bank	277.0	331.1	384.8	406.2	476.7
Bhutan Development Bank Limited	459.3	508.5	823.2	1,037.6	662.6
TBank Limited	310.5	379.1	791.5	1,064.3	157.0
Druk PNB Bank Limited	287.0	235.6	219.1	192.5	86.9
Royal Insurance Corporation of Bhutan	429.0	459.9	487.7	527.8	735.2
Bhutan Insurance Limited	25.6	33.2	28.8	27.1	22.3
Total	**86,604.3**	**95,058.6**	**107,720.4**	**129,595.4**	**145,048.7**

Table 14: Deposit Base of Commercial Banks by Sector					
					Nu in Million
Items	2015/16	2016/17	2017/18	2018/19	2019/20
Total Deposits	**73,061.0**	**95,325.9**	**105,739.6**	**111,672.6**	**133,107.6**
Individuals	46,976.4	65,663.9	73,851.6	74,013.5	84,503.7
Govt. Corps.	8,746.7	8,716.4	10,901.5	14,987.3	18,870.6
Others	17,337.9	20,945.7	20,986.6	22,671.9	29,733.3
Demand Deposits	**38,831.9**	**51,935.6**	**57,061.0**	**59,459.3**	**73,792.8**
Individuals	29,482.1	47,724.0	51,135.0	47,587.9	57,140.1
Govt. Corps.	3,724.0	920.9	1,352.4	2,417.3	4,302.8
Others	5,625.7	3,290.8	4,573.7	9,454.1	12,350.0
Time Deposits	**34,229.1**	**43,390.3**	**48,678.6**	**52,213.4**	**59,314.8**
Individuals	17,494.25	17,939.88	22,716.6	26,425.6	27,363.7
Govt. Corps.	5,022.64	7,795.54	9,549.1	12,570.0	14,567.8
Others	11,712.22	17,654.90	16,412.9	13,217.8	17,383.4
% of total deposits					
Individuals	64.3	68.9	69.8	66.3	63.5
Govt. Corps.	12.0	9.1	10.3	13.4	14.2
Others	23.7	22.0	19.8	20.3	22.3
Demand Deposits	**53.1**	**54.5**	**54.0**	**53.2**	**55.4**
Individuals	40.4	50.1	48.4	42.6	42.9
Govt. Corps.	5.1	1.0	1.3	2.2	3.2
Others	7.7	3.5	4.3	8.5	9.3
Time Deposits	**46.9**	**45.5**	**46.0**	**46.8**	**44.6**
Individuals	23.9	18.8	21.5	23.7	20.6
Govt. Corps.	6.9	8.2	9.0	11.3	10.9
Others	16.0	18.5	15.5	11.8	13.1
Source: Commercial Banks					

Table 15: Annual Overall Balance of Payments Estimates

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19 revised	2019/20 (provisional)
A. CURRENT ACCOUNT	**-41,367.3**	**-35,926.1**	**-30,087.5**	**-35,430.2**	**-21,789.5**
Goods and Services	-39,535.6	-34,406.9	-29,479.1	-31,904.2	-22,636.2
Goods: Net (Trade Balance)	**-35,519.1**	**-31,149.2**	**-27,200.7**	**-28,338.6**	**-17,529.0**
Exports (fob)	32,789.3	36,872.0	39,231.7	42,951.6	47,057.0
Imports (fob)	68,308.4	68,021.2	66,432.4	71,290.2	64,585.9
Services	**-4,016.5**	**-3,257.7**	**-2,278.5**	**-3,565.6**	**-5,107.2**
Credit	9,728.6	10,623.7	12,428.1	11,902.5	9,727.9
Debit	13,745.1	13,881.4	14,706.6	15,468.2	14,835.1
Primary Income	**-11,385.4**	**-13,148.1**	**-13,799.2**	**-15,588.3**	**-11,511.3**
Credit	1,623.1	1,999.0	2,413.6	2,640.4	2,127.8
Debit	13,008.5	15,147.1	16,212.8	18,228.6	13,639.1
Secondary Income	**9,553.7**	**11,628.9**	**13,190.9**	**12,062.3**	**12,358.0**
Credit	11,358.5	13,256.5	15,019.1	14,232.5	13,871.4
o.w. Budgetary grants	8,373.3	6,415.8	6,204.9	6,999.3	6,807.6
Debit	1,804.8	1,627.7	1,828.2	2,170.2	1,513.3
B. CAPITAL ACCOUNT	**12,668.1**	**12,391.6**	**11,884.0**	**8,769.1**	**10,373.2**
o.w. Budgetary grants for investment	6,114.6	3,532.3	7,348.0	4,088.0	6,436.1
C. FINANCIAL ACCOUNT *	**-43,297.1**	**-15,724.3**	**-28,057.0**	**-25,384.4**	**-36,825.60**
Direct Investment in Bhutan: net incurrence of liabilities	**788.4**	**-1,640.4**	**460.0**	**923.6**	**-200.2**
o.w. Equity capital	677.8	-497.1	579.0	754.4	13.4
Other Investment	**-42,508.7**	**-17,364.7**	**-27,596.9**	**-24,460.8**	**-37,025.76**
Other Investment: net acquisition of financial assets	**1,450.8**	**734.2**	**928.2**	**1,420.1**	**2,759.2**
Other Investment: net incurrence of financial liabilities	**43,959.5**	**18,099.0**	**28,525.1**	**25,880.9**	**39,785.0**
o.w. RGOB loans **	30,052.8	13,078.4	18,530.6	18,094.5	26,095.5
o.w. Other loans	14,050.4	3,682.3	8,168.3	8,913.6	14,100.9
D. Net Errors & Omissions	**-2,013.3**	**9,456.1**	**31,637.5**	**-98.5**	**-4,090.2**
E. Overall Balance	**12,584.5**	**1,645.8**	**41,491.0**	**-1,375.1**	**21,319.2**
F. Reserve Assets	**12,584.5**	**1,645.8**	**41,491.0**	**-1,375.1**	**21,319.19**

* 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. BOP statistics were revised in line with the IMF's BPM6 methodology (from FY 2006/07 onwards)

Table 16: Annual Balance of Payments Estimates with India

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19 revised	2019/20 (provisional)
A. CURRENT ACCOUNT	**-38,312.6**	**-34,006.5**	**-34,034.3**	**-38,643.1**	**-26,644.2**
Goods and Services	-33,478.5	-28,105.4	-27,204.5	-29,022.5	-18,820.9
Goods: Net (Trade Balance)	**-28,878.4**	**-24,303.8**	**-25,478.9**	**-26,322.6**	**-15,896.7**
Exports (fob)	29,870.1	32,637.1	31,713.5	33,804.0	41,048.0
Imports (fob)	58,748.5	56,940.8	57,192.4	60,126.6	56,944.7
Services	**-4,600.1**	**-3,801.7**	**-1,725.5**	**-2,699.9**	**-2,924.2**
Credit	2,940.3	2,887.2	4,627.8	3,741.0	3,478.5
Debit	7,540.4	6,688.9	6,353.3	6,440.9	6,402.7
Primary Income	**-10,878.3**	**-12,798.7**	**-13,584.8**	**-15,527.6**	**-12,097.9**
Credit	817.5	1,157.2	1,327.0	1,021.8	893.4
Debit	11,695.8	13,955.9	14,911.7	16,549.4	12,991.3
o.w. Interest on hydropower loans *	1,344.6	1,243.7	1,325.2	764.4	8,582.2
Secondary Income	**6,044.2**	**6,897.6**	**6,755.0**	**5,907.0**	**4,274.6**
Credit	7,399.7	8,179.8	7,840.4	7,153.9	4,897.9
o.w. Budgetary grants	7,099.3	4,566.5	3,600.9	4,410.5	4,666.1
Debit	1,355.5	1,282.1	1,085.4	1,246.9	623.3
B. CAPITAL ACCOUNT	**12,122.0**	**12,337.7**	**11,862.2**	**8,709.7**	**10,346.6**
o.w. Budgetary grants for investment	5,568.5	3,478.5	7,326.2	4,028.6	6,409.4
o.w. Grants for hydropower development	6,553.5	8,859.2	4,536.0	4,681.1	3,937.2
C. FINANCIAL ACCOUNT	**-40,782.1**	**-12,777.0**	**-25,590.3**	**-23,242.2**	**-28,590.0**
Direct Investment in Bhutan: net incurrence of liabilities	**337.2**	**63.7**	**14.2**	**171.9**	**121.4**
o.w. Equity capital	313.0	0.0	1.9	39.0	1.4
Other Investment	**-40,444.9**	**-12,713.4**	**-25,576.1**	**-23,070.2**	**-28,468.6**
Other Investment: net acquisition of financial assets	**1,310.4**	**481.3**	**-494.5**	**1,161.1**	**2,591.8**
Other Investment: net incurrence of financial liabilities	**41,755.3**	**13,194.7**	**25,081.7**	**24,231.3**	**31,060.4**
o.w. Hydropower loans (incl. accrued interest)*	28,574.1	10,093.1	16,051.3	14,652.5	16,891.7
o.w. Other loans	13,443.8	2,840.3	8,705.0	9,152.6	14,277.3
D. Net Errors & Omissions	**-4,648.0**	**8,269.3**	**-4,406.2**	**6,926.1**	**-3,986.4**
E. Overall Balance	**9,943.5**	**-622.5**	**-988.0**	**234.8**	**8,305.9**
F. Reserve Assets	**9,943.5**	**-622.5**	**-988.0**	**234.8**	**8,305.9**

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

Table 17: Annual Balance of Payments Estimates with Countries Other than India

Nu in Million

Items	2015/16	2016/17	2017/18	2018/19 revised	2019/20 (provisional)
A. CURRENT ACCOUNT	**-3,054.7**	**-1,919.6**	**3,946.8**	**3,212.9**	**4,854.7**
Goods and Services	-6,057.1	-6,301.5	-2,274.6	-2,881.7	-3,815.3
Goods: Net (Trade Balance)	**-6,640.7**	**-6,845.4**	**-1,721.7**	**-2,016.0**	**-1,632.3**
Exports (fob)	2,919.2	4,234.9	7,518.3	9,147.6	6,008.9
Imports (fob)	9,559.9	11,080.4	9,240.0	11,163.6	7,641.2
Services	**583.6**	**543.9**	**-552.9**	**-865.8**	**-2,183.0**
Credit	6,788.2	7,736.4	7,800.4	8,161.5	6,249.4
Debit	6,204.6	7,192.5	8,353.3	9,027.3	8,432.4
Primary Income	**-507.1**	**-349.4**	**-214.4**	**-60.6**	**586.6**
Credit	805.6	841.7	1,086.6	1,618.6	1,234.4
Debit	1,312.7	1,191.2	1,301.0	1,679.2	647.8
Secondary Income	**3,509.5**	**4,731.3**	**6,435.9**	**6,155.3**	**8,083.4**
Credit	3,958.8	5,076.8	7,178.8	7,078.7	8,973.4
o.w. Budgetary grants	1,274.0	1,849.3	2,604.0	2,588.7	2,141.4
Debit	449.3	345.5	742.9	923.4	890.0
B. CAPITAL ACCOUNT	**546.0**	**53.8**	**21.8**	**59.5**	**26.7**
o.w. Budgetary grants for investment	546.0	53.8	21.8	59.5	26.7
C. FINANCIAL ACCOUNT *	**-2,515.0**	**-2,947.3**	**-2,466.7**	**-2,142.2**	**-8,235.6**
Direct Investment in Bhutan: net incurrence of liabilities	**451.2**	**-1,704.1**	**445.9**	**751.6**	**-321.5**
o.w. Equity capital	364.7	-497.1	577.0	715.4	11.9
Other Investment	**-2,063.8**	**-4,651.4**	**-2,020.8**	**-1,390.6**	**-8,557.2**
Other Investment: net acquisition of financial assets	**140.5**	**252.9**	**1,422.7**	**259.0**	**167.5**
Other Investment: net incurrence of financial liabilities	**2,204.2**	**4,904.3**	**3,443.5**	**1,649.6**	**8,724.6**
o.w. RGOB loans	1,478.7	2,985.3	2,479.2	3,441.9	9,203.9
o.w. Other loans	606.5	842.1	-536.6	-239.0	-176.4
D. Net Errors & Omissions	**2,634.8**	**1,186.8**	**36,043.7**	**-7,024.6**	**-103.8**
E. Overall Balance	**2,641.0**	**2,268.3**	**42,479.1**	**-1,610.0**	**13,013.2**
F. Reserve Assets	**2,641.0**	**2,268.3**	**42,479.1**	**-1,610.0**	**13,013.2**

* 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 18: Composition of Imports from Countries Other than India

Nu in Million

Sl. No.	Import Category	2015	2016	2017	2018	2019	% Share in Total	Annual % change
1	Live Animals & Animal Products	92.1	107.4	109.7	121.3	93.3	0.7	-23.1
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	111.9	84.0	85.8	56.2	63.4	0.5	12.8
3	Animal or Vegetable Fats & Oils	14.3	8.9	2.8	149.2	193.6	1.6	29.8
3.1	Palm Oil (Crude & Other)	11.9	7.2	0.0	146.5	189.8	1.5	29.5
4	Processed Foods & Beverages	493.9	482.2	618.5	666.3	693.5	5.6	4.1
5	Mineral Products inc. oils & fuels	120.6	351.8	99.2	515.4	527.9	4.2	2.4
6	Products of Chemical & Allied Industries	700.7	427.2	456.8	709.1	1,028.3	8.3	45.0
6.1	Medicines / Pharmaceutical Products	309.1	50.9	96.2	128.5	842.9	6.8	556.0
6.2	Photographic / Cinematographic goods	11.6	0.8	11.0	1.0	0.3	0.0	-72.3
7	Plastic & Rubber Products	906.0	832.2	758.4	679.0	575.9	4.6	-15.2
8	Wood and Wood Products	21.3	28.0	27.6	31.4	73.5	0.6	133.7
9	Wood Pulp Products	187.4	173.0	123.3	118.6	203.8	1.6	71.8
10	Textiles, Footwear & Hats/Headgear	208.9	280.4	305.4	335.5	277.7	2.2	-17.2
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	57.5	68.2	76.8	105.0	72.1	0.6	-31.3
11.1	Ceramic Products	16.5	17.3	33.6	42.3	22.0	0.2	-48.0
12	Pearls and Products of Precious/Semi-precious Metal & Stones	14.2	39.5	41.6	19.8	42.6	0.3	114.8
13	Base Metals and Articles of Base Metal	978.9	856.8	838.9	457.7	728.4	5.8	59.1
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	4,607.8	6,021.0	7,887.1	5,298.1	4,661.6	37.4	-12.0
14.1	Magnetic Discs & Media (recorded/unrecorded)	387.8	199.4	339.2	172.1	33.9	0.3	-80.3
15	Transport Vehicles & Aircraft and Engines & Parts	5,199.8	1,613.0	996.4	963.5	2,446.7	19.6	153.9
16	Optical, Photographic, Cinematographic & Measuring Equipment	349.6	478.3	357.5	1,005.4	473.6	3.8	-52.9
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	8.5	7.8	0.9	0.1	0.8	0.0	696.5
18	Miscellaneous Manufactured Products	223.5	215.3	236.9	301.8	296.5	2.4	-1.7
	Total	**14,296.8**	**12,075.1**	**13,023.5**	**11,533.5**	**12,453.1**	**100.0**	**8.0**

Table 19: Composition of Exports to Countries other than India

Nu in Million

Sl. No.	Export Category	2015	2016	2017	2018	2019	% Share in Total	Annual % change
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,284.8	1,342.9	1,259.4	1,287.4	1,383.1	18.0	7.4
1.1	Oranges	446.5	425.6	470.7	349.7	521.5	6.8	49.1
1.2	Apples	61.4	39.7	21.9	8.3	17.6	0.2	113.0
1.3	Cardamoms	565.4	708.5	552.6	613.0	606.0	7.9	-1.1
2	Processed Foods & Beverages	24.9	19.8	5.3	16.0	24.6	0.3	53.6
3	Mineral Products inc. oils & fuels	713.8	1,206.0	2,219.0	3,944.1	5,229.4	68.1	32.6
3.1	Limestone & other calcereous stone	338.1	169.4	319.0	326.2	422.7	5.5	29.6
3.2	Dolomite	520.3	205.6	241.6	202.2	242.2	3.2	19.8
3.3	Bituminous Coal	-	-	5.0	219.1	83.6	1.1	-61.9
4	Products of Chemical & Allied Industries	645.2	263.6	134.1	258.5	63.7	0.8	-75.3
5	Plastic & Rubber Products	0.0	2.3	0.0	0.6	35.6	0.5	5,629.3
6	Wood and Wood Products	0.8	3.9	0.4	11.4	22.4	0.3	96.9
7	Wood Pulp Products	0.1	1.1	0.4	2.2	0.2	0.0	-89.3
8	Textiles, Footwear & Hats/Headgear	4.7	2.9	2.0	0.1	0.6	0.0	508.3
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	2.3	5.3	0.6	10.7	0.8	0.0	-92.0
10	Articles of Precious/Semi-precious Metals	0.0	-	-	-	-	0.0	0.0
11	Base Metals and Articles of Base Metal	745.1	353.2	2,054.1	3,703.1	899.2	11.7	-75.7
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	-	0.0	-	-	-	0.0	0.0
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	-	-	-	-	-	0.0	0.0
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	4.6	1.6	3.4	6.4	8.5	0.1	32.2
14	Miscellaneous Manufactured Products	1.6	3.2	0.5	2.9	8.8	0.1	205.1
	Total	**3,428.0**	**3,205.7**	**5,679.1**	**9,243.4**	**7,677.0**	**100.0**	**-16.9**

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 20: Composition of Imports from India

Nu in Million

Sl. No.	Import Category	2015	2016	2017	2018	2019	% Share in Total	Annual % change
1	Live Animals & Animal Products	2,755.5	2,713.7	2,690.2	2,679.9	2,893.7	5.1	8.0
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	3,412.9	3,757.0	3,738.1	3,572.2	3,957.8	7.0	10.8
3	Animal or Vegetable Fats & Oils	976.0	1,032.2	1,129.4	1,199.4	1,241.8	2.2	3.5
4	Processed Foods & Beverages	2,159.5	2,306.0	2,375.9	2,354.7	2,455.8	4.3	4.3
5	Mineral Products inc. oils & fuels	12,341.9	12,423.9	13,963.5	16,106.0	14,675.4	25.9	-8.9
6	Electricity	249.7	173.0	74.9	295.0	206.0	0.4	-30.2
7	Products of Chemical & Allied Industries	2,098.7	2,129.6	2,098.0	2,269.8	2,517.5	4.4	10.9
7.1	Medicine / Pharmaceutical Products	338.2	297.1	262.5	303.8	503.7	0.9	65.8
8	Plastic & Rubber Products	1,793.1	1,807.8	2,105.7	2,642.9	2,873.4	5.1	8.7
9	Wood and Wood pulp products	2,391.1	1,868.3	2,330.1	3,306.6	2,922.6	5.2	-11.6
9.1	Wood and Wood Products	1,683.1	1,183.7	1,585.4	2,504.6	2,106.9	3.7	-15.9
9.2	Wood Pulp Products	707.9	684.6	744.8	802.0	815.7	1.4	1.7
10	Textiles, Footwear & Hats/Headgear	925.2	826.7	874.3	878.9	827.8	1.5	-5.8
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	899.1	905.1	1,111.3	1,314.1	1,390.2	2.5	5.8
11.1	Ceramic Products	320.1	316.2	329.3	429.1	513.2	0.9	19.6
12	Pearls and Products of Precious/Semi-precious Metal & Stones	0.9	0.3	0.8	0.9	1.7	0.0	100.7
13	Base Metals and Articles of Base Metal	9,257.0	6,298.4	6,876.5	7,389.2	8,163.2	14.4	10.5
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	9,282.4	12,198.0	9,302.1	9,233.7	7,308.6	12.9	-20.8
14.1	Magnetic Discs & Media (recorded/unrecorded)	21.8	14.0	19.4	44.1	16.1	0.0	-63.5
15	Transport Vehicles & Aircraft and Engines & Parts	4,319.5	5,758.7	4,268.7	5,807.8	4,104.9	7.2	-29.3
16	Optical, Photographic, Cinematographic & Measuring Equipment	300.8	497.2	449.8	403.6	356.5	0.6	-11.7
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.4	0.0	0.0	1.4	4.8	0.0	236.4
18	Miscellaneous Manufactured Products	577.0	588.8	583.4	652.0	757.2	1.3	16.1
	Total	**53,740.5**	**55,284.7**	**53,972.7**	**60,108.1**	**56,659.0**	**100.0**	**-5.7**

Table 21: Composition of Exports to India

Nu in Million

Sl. No.	Export Category	2015	2016	2017	2018	2019	% Share in Total	Annual % change
1	Live Animals & Animal Products	6.8	12.9	20.9	50.5	1.9	0.0	0.0
1.1	Raw Hides & Skins	-	-	-	-	-	0.0	0.0
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1,132.0	1,535.7	1,562.7	1,101.5	1,577.2	4.0	43.2
2.1	Potatoes	370.9	542.1	458.7	492.8	2.8	0.0	-99.4
3	Animal or Vegetable Fats & Oils	8.0	9.7	9.5	265.0	150.4	0.4	-43.3
3.1	Palm Oil	-	-	-	-	-	0.0	0.0
4	Processed Foods & Beverages	897.4	1,067.4	1,010.7	1,043.7	1,165.5	2.9	11.7
5	Mineral Products inc. oils & fuels	4,813.8	4,646.5	4,683.2	4,959.9	7,904.8	19.9	59.4
6	Electricity	12,124.5	13,032.1	11,983.5	10,578.0	16,237.0	40.8	53.5
7	Products of Chemical & Allied Industries	1,990.0	1,714.7	1,722.1	1,128.9	804.0	2.0	-28.8
8	Plastic & Rubber Products	678.8	678.2	783.7	559.0	528.9	1.3	-5.4
9	Wood and Wood Pulp Products	353.0	318.2	255.9	488.0	255.8	0.6	-47.6
9.1	Wood Pulp Products	19.8	14.7	19.2	20.6	17.9	0.0	-13.0
10	Textiles, Footwear & Hats/Headgear	10.8	1.1	2.4	0.4	2.7	0.0	540.8
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	168.4	150.2	113.0	68.5	19.6	0.0	-71.3
12	Base Metals and Articles of Base Metal	9,605.8	8,874.6	9,459.0	11,905.0	11,132.6	28.0	-6.5
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	2.3	3.2	4.7	16.1	24.1	0.1	49.3
14	Transport Vehicles & Aircraft and Engines & Parts	-	-	0.1	-	-	0.0	0.0
15	Optical, Photographic, Cinematographic & Measuring Equipment	0.0	-	-	0.2	0.1	0.0	-58.9
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	-	0.3	-	0.3	0.7	0.0	114.3
17	Miscellaneous Manufactured Products	9.8	7.5	6.7	4.8	4.5	0.0	-5.8
	Total	**31,801.4**	**32,052.4**	**31,618.1**	**32,169.8**	**39,809.5**	**100.0**	**23.7**

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 22: Direction of Trade

Nu in Million

Items	2015	2016	2017	2018	2019
Exports					
India	31,801.4	32,052.4	31,618.1	32,169.8	39,809.5
Bangladesh	1,817.5	2,398.0	3,486.3	5,948.4	6,095.4
Italy	152.2	27.0	428.2	917.9	506.9
Nepal	80.7	152.4	321.2	525.1	427.8
Turkey	-	0.0	96.1	102.5	100.3
Vietnam	4.1	26.2	50.2	43.9	73.8
Netherlands	434.1	51.2	351.0	550.3	67.8
Japan	16.8	22.1	103.9	49.0	47.0
Singapore	169.8	7.6	63.0	100.0	42.0
Belgium	-	-	16.8	68.4	38.2
Hongkong	110.1	77.2	138.5	104.9	36.4
United Kingdom	12.8	0.2	9.5	8.4	34.9
United States	292.9	171.2	29.3	11.2	34.4
South africa	-		10.6	25.1	29.7
Thailand	23.1	40.6	33.6	52.3	28.9
Spain	-	-	-	-	28.7
Germany	186.2	122.0	186.8	423.2	15.5
Canada	0.1	1.0	0.1	0.0	11.9
Poland		0.0	51.6	14.5	11.9
Malaysia	11.0	16.0	24.5	31.0	10.3
Others	109.0	92.9	195.4	144.7	32.6
Total Exports	**35,221.7**	**35,258.1**	**37,214.6**	**41,290.5**	**47,484.1**
Imports					
India	53,740.5	55,284.7	53,972.7	60,108.1	56,659.0
China	1,333.5	1,476.2	1,609.9	1,613.7	1,809.4
France	3,548.9	407.4	66.2	54.3	1,605.6
Singapore	1,391.3	1,206.3	1,066.0	1,486.2	1,213.1
Thailand	1,169.0	1,486.7	1,262.1	1,050.2	974.2
South Korea	344.1	1,262.7	2,592.2	1,665.0	854.8
Japan	1,466.6	1,298.9	1,655.0	783.9	636.8
Bangladesh	169.7	218.2	329.2	454.0	625.2
Sweden	732.8	260.2	496.6	181.6	507.2
Indonesia	119.9	97.2	56.3	163.7	349.0
Germany	416.8	407.6	577.3	340.5	287.9
United States	176.8	360.9	224.1	254.7	230.5
Nepal	94.8	76.1	63.3	91.3	217.5
Malaysia	192.4	175.1	48.5	143.6	214.1
Poland	12.3	18.3	0.0	2.6	197.3
Hong Kong	133.7	179.1	154.5	172.8	133.5
Norway	14.1	78.5	147.3	158.2	132.0
UAE	161.2	306.6	372.1	401.7	126.2
Qatar	136.9	147.6	103.7	161.9	109.5
Vietnam	98.6	39.9	107.3	91.0	81.4
Others	2,583.5	2,571.4	2,091.5	2,262.6	1,735.4
Total Imports	**68,037.3**	**67,359.8**	**66,996.0**	**71,641.6**	**68,699.4**

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 23: Bhutan's Outstanding External Loan

Items	Rupee/Ngultrum Million					USD Million				
	2015/16	2016/17	2017/18	2018/19	2019/20	2015/16	2016/17	2017/18	2018/19	2019/20
1. Convertible Currency Debt	**41,178.5**	**42,759.0**	**47,990.2**	**49,629.3**	**62,744.9**	**609.0**	**663.2**	**699.8**	**720.1**	**830.8**
Public	**40,502.3**	**40,824.9**	**45,932.9**	**47,643.5**	**60,705.4**	**599.0**	**633.2**	**669.8**	**691.3**	**803.8**
World Bank	12,507.2	13,475.7	17,058.7	18,936.3	24,354.8	185.0	209.0	248.8	274.8	322.5
IFAD	2,442.7	2,276.0	2,491.4	2,464.5	2,731.2	36.1	35.3	36.3	35.8	36.2
ADB	17,115.1	17,700.5	18,997.0	19,869.2	26,340.0	253.1	274.5	277.0	288.3	348.8
Govt of Austria	4,918.1	4,315.5	4,139.7	3,497.2	3,108.5	72.7	66.9	60.4	50.7	41.2
Govt. of Denmark	48.8	-	-	-	-	0.7	-	-	-	-
JICA	2,997.5	2,593.7	2,742.6	2,876.3	3,189.0	44.3	40.2	40.0	41.7	42.2
SAARC Development Fund					981.9					13.0
Private	**676.2**	**1,934.1**	**2,057.3**	**1,985.8**	**2,039.6**	**10.0**	**30.0**	**30.0**	**28.8**	**27.0**
2. Rupee Debt	**115,393.8**	**118,770.1**	**133,190.7**	**138,409.4**	**154,218.0**	**1,706.6**	**1,842.2**	**1,942.3**	**2,008.3**	**2,041.9**
Hydropower debt	**101,677.0**	**111,770.1**	**119,452.8**	**124,432.8**	**132,940.7**	**1,503.7**	**1,733.6**	**1,741.9**	**1,805.5**	**1,760.2**
Chukha	-	-	-	-	-	-	-	-	-	-
Kurichhu	-	-	-	-	-	-	-	-	-	-
Tala	3,356.5	2,013.9	671.3	-	-	49.6	31.2	9.8	-	-
Punatsangchhu-I	42,543.7	44,543.7	46,043.7	46,673.7	48,274.5	629.2	690.9	671.4	677.2	639.2
Punatsangchhu-II	27,487.5	35,982.2	39,182.2	41,804.5	46,732.2	406.5	558.1	571.4	606.6	618.7
Mangdechhu	28,289.3	29,230.3	32,706.6	34,397.0	35,088.4	418.4	453.4	476.9	499.1	464.6
Nikachhu Project(SBI)			849.1	1,557.6	2,845.7			12.4	22.6	37.7
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
RBI Swap	6,716.8	-	6,737.9	6,976.6	14,277.3	99.3	-	98.3	101.2	189.0
Total (CC + Rupee)	**156,572.3**	**161,529.1**	**181,180.9**	**188,038.7**	**216,963.0**	**2,315.6**	**2,505.4**	**2,642.1**	**2,728.4**	**2,872.7**
Convertible Currency Debt										
As a % of Total Debt						**26.3**	**26.5**	**26.5**	**26.4**	**28.9**
Rupee Debt										
As a % of Total Debt	**73.7**	**73.5**	**73.5**	**73.6**	**71.1**					
Total Loans in % of GDP	**121.8**	**111.3**	**113.5**	**114.2**	**121.8**					
Nominal GDP(Calendar Year)	128,534.6	145,072.9	159,571.7	167,326.8	178,201.9					
Exchange Rate										
Ngultrum/USD exchange rate	67.6	64.5	68.6	68.9	75.5					

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-Ministry of Finance, Royal Monetary Authority of Bhutan & private sector enterprises.

Table 24: External Debt Indicators

External Debt Indicators	2015/16	2016/17	2017/18	2018/19	2019/20
Total Outstanding (USD millions)	**2,315.6**	**2,505.4**	**2,642.1**	**2,728.4**	**2,872.7**
Convertible Currency (USD millions)	609.0	663.2	699.8	720.1	830.8
Indian Rupee (in millions)	115,393.8	118,770.1	133,190.7	138,409.4	154,218.0
Debt/GDP ratio *					
Total	**121.8**	**111.3**	**113.5**	**112.4**	**121.8**
Convertible Currency loan	32.0	29.5	30.1	29.7	35.2
Indian Rupee loan	89.8	81.9	83.5	82.7	86.5
GDP (Nu in Millions)	**128,534.6**	**145,072.9**	**159,571.7**	**167,326.8**	**178,201.9**

* 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 25: Rupee Debt Indicators

Millions of Indian Rupees

	2015/16	2016/17	2017/18	2018/19	2019/20
Total INR Debt Outstanding	**115,393.8**	**118,770.1**	**133,190.7**	**138,409.4**	**154,218.0**
Hydropower Debt	**101,677.0**	**111,770.1**	**119,452.8**	**124,432.8**	**132,940.7**
Tala	3,356.5	2,013.9	671.3	-	-
Punatsangchhu - I	42,543.7	44,543.7	46,043.7	46,673.7	48,274.5
Punatsangchhu - II	27,487.5	35,982.2	39,182.2	41,804.5	46,732.2
Mangdechhu	28,289.3	29,230.3	32,706.6	34,397.0	35,088.4
Nikachhu Project			849.1	1,557.6	2,845.7
Non-hydropower Debt	**13,716.8**	**7,000.0**	**13,737.9**	**13,976.6**	**21,277.3**
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0
RBI SWAP	6,716.8	-	6,737.9	6,976.6	14,277.3
Debt Service Payments	**4,127.6**	**9,802.3**	**9,556.0**	**15,858.1**	**14,564.9**
Principal	2,423.3	8,059.4	7,749.4	14,522.6	13,851.3
Interest	1,704.3	1,742.8	1,806.5	1,335.5	713.7
Debt Service Ratio (%)	**12.6**	**27.4**	**26.4**	**42.2**	**33.5**
Interest Payments / Export of Goods & Services (INR)	5.2	4.9	5.0	3.6	2.0
Principal Repayments / Exports of Goods & Services (INR)	7.4	22.6	21.4	38.7	31.6
Debt Outstanding/GDP (%)	**89.8**	**81.9**	**83.5**	**82.7**	**86.5**

Source: Department of Public Accounts, Ministry of Finance & RMA

Table 26: Gross International Reserves (*)

Items	2015/16	2016/17	2017/18	2018/19	2019/20
1. Rupee Reserves (INR in Million)	**20,811.9**	**21,092.4**	**16,111.2**	**15,237.5**	**23,713.7**
Royal Monetary Authority of Bhutan	19,017.7	19,433.1	14,534.3	12,924.0	22,011.7
Bank of Bhutan Limited	830.3	1,075.9	363.2	460.9	523.4
Bhutan National Bank Limited	142.0	212.2	514.6	867.8	379.3
T Bank Limited	175.9	122.4	480.0	630.9	550.4
Druk PNB Limited	645.9	248.8	193.7	342.8	238.9
Bhutan Development Bank Limited			25.3	11.1	10.0
2. Convertible Currency Reserves (USD in Million)	**811.0**	**776.6**	**876.3**	**843.7**	**1,029.6**
3.Total Reserves (USD in Million) (1+2)	**1,118.8**	**1,103.8**	**1,111.3**	**1,064.8**	**1,343.5**
4. Exchange rates used	**67.6**	**64.5**	**68.6**	**68.9**	**75.5**
5. Months of Merchandise Imports (2)	**12.9**	**12.6**	**13.8**	**12.4**	**18.9**
Total Reserves	4.3	4.4	3.4	3.0	5.0
Rupee Reserves	57.1	54.2	78.0	62.5	122.1
Convertible Currency Reserves					
6. Months of Imports (Merchandise + Services) (2)					
Total Reserves	**10.8**	**10.4**	**11.3**	**10.1**	**15.3**
Rupee Reserves	3.8	4.0	3.0	2.7	4.5
Convertible Currency Reserves	37.1	32.9	41.0	34.6	58.1

(*) 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

2017

- Signed Board-Management Performance Commitments and implemented the guidelines on Certificate of Deposits (CDs) on January 3, 2017.
- Bhutan Immediate Payment Service (BIPS) was launched on January 27, 2017.
- The new design of Nu 100 denominated Commemorative Banknote was launched on February 5, 2017 to celebrate the First Birth Anniversary of His Royal Highness The Gyalsey, Jigme Namgyel Wangchuck.
- RemitBhutan was launched in Perth, Australia by the Finance Minister on February 5, 2017.
- Implemented the new Private Money Lending Rules and Regulations on April 1, 2017.
- In collaboration with the Ministry of Labour and Human Resources and Ministry of Finance, the RMA introduced the Overseas Education and Skill Development Scheme on April 7, 2017.
- Signed MoU on Cross Border Supervision with the Reserve Bank of India on April 13, 2017.
- As the inaugural BEFIT event, the International Financial Inclusion Summit on the theme "Equitable Growth through Financial Inclusion" was hosted on May 24-26, 2017.
- Launched the Internet-based Point of Sales at fuel stations in collaboration with the commercial banks and the Department of Trade, Ministry of Economic Affairs (MoEA), on June 15, 2017.
- Signed the MoU on Money Laundering and Terrorist Financing with Bhutan Narcotic Control Agency on July 7, 2017. The MoU on Anti-Money Laundering and Terrorist Financing was also signed with FIU Sri Lanka and FIU Cambodia on July 16 and 19, 2017, respectively.
- Implemented web-based Cheque Truncation System on August 15,2017.
- Approved the e-Money Issuer Rules and Regulations during its 130th Board Meeting held on September 29, 2017.
- Opened Currency Exchange Counter at the Paro International Airport on October 9, 2017.
- Launched the RemitBhutan in United Arab Emirates (UAE) and Kuwait respectively on October 19 and 21, 2017.
- Signed the MoU with Myanmar Financial Intelligence Unit concerning cooperation in the exchange of financial intelligence relating to money laundering

associated predicate offences and terrorist financing on October 31, 2017.

- Lyonchhen Dasho Tshering Tobgay launched the Guidelines for Priority Sector Lending (PSL) on December 13, 2017.
- His Majesty awarded the prestigious Druk Thuksey Medal to Dasho Penjore and the RMA during the 110th National Day Celebrations in Haa on December 2017.

2018

- Implemented the Reserve Management Policy with effect from January 01, 2018.
- Implemented the Whistle Blowing (WB) Policy as proposed on December 29, 2017.
- The RMA Board endorsed the adoption of the BAS in Accounting Policy from January 1, 2018.
- Signed a Memorandum of Understanding (MoU) with Royal Bhutan Police and Civil Society Organizations Authority on February 20, 2018.
- Launched Druk MicroFin, an integrated MFI and CSI banking platform, on May 16, 2018.
- Approved the Amended Regulation for establishment of commercial banks and RENEW's proposal for establishment of DMFI (RENEW Microfinance Private Ltd) on May 22, 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 July 1, 2018, and the Corporate Governance Rules and Regulations 2018 (CGRR 2018) on July 1, 2018.
- Opened the INR Exchange Counter at the Department of Immigration Office in Phuentsholing on July 6, 2018.
- Signed a Memorandum of Understanding (MoU) with Financial Intelligence Unit (FIU), India, on July 26, 2018, during the 21st Annual Meeting of Asia Pacific Group (APG) in Kathmandu, Nepal.
- Issued the Rules and Regulations for Cottage and Small Industries (CSI) Bank.
- Bhutan Care Credit Microfinance Project was licensed on August 14, 2018 as the 4th MFI.
- Introduced exchange counter at Mongar Regional Office on September 1, 2018.
- Jointly conducted workshop on the Modernization of Monetary Policy Frameworks in Bhutan, India and Nepal on September 10 -11, 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 October 3, 2018.
- Launched "Jabchor"- a platform to help youth nurture and grow their business ideas through access to equity financing on December 13, 2018.
- The RMA signed a Memorandum of Understanding (MoU) with the Royal Education Council (REC) for financial literacy curriculum integration on December 31, 2018.

2019

- The RMA signed the MoU with Tourism Council of Bhutan (TCB) and the Department of Immigration (DoI), MoHCA, for cooperation in the exchange of information relating to Financial Intelligence on money laundering associated predicate offences and terrorist financing on June 12, 2019.
- Issued license to Microfinance Bhutan Private Limited (MBPL) as a Deposit Taking Microfinance Institution on June 18, 2019.
- The second BEFIT 2019, with the theme of "Catalyzing CSIs to Drive Bhutan's Economic Diversification" was held from 16-18 July, 2019.
- The Royal Securities Exchange of Bhutan (RSEBL) 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 July 22, 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 August 17, 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 October 11, 2019.
- The Beneficial Ownership Guideline for Reporting Entities 2019 was issued.
- The AML/CFT (Anti-Money Laundering and Combating the Financing of Terrorism) 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

- 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 November 02, 2020

• With the onset of the COVID-19 pandemic, the RMA reduced the CRR by 100 basis points from 10 percent on March 17, 2020.

• On April 27, 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 29th October, 2020.

ACRONYMS

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	Automated Teller Machine
BAFRA	Bhutan Agriculture and Food Regulatory Authority
BAOWE-Pelzing	Bhutan Association of Women Entrepreneurs
BCCL	Bhutan Care Credit Limited
BDBL	Bhutan Development Bank Limited
BIL	Bhutan Insurance Limited
BIPS	Bhutan Immediate Payment Service
BIT	Business Income Tax
BNBL	Bhutan National Bank Limited
BoBL	Bank of Bhutan Limited
BOIC	Business Opportunity and Information Centre
BOP	Balance of Payments
BPM6	Balance of Payments Manual (Sixth edition)
BSB	Bhutan Standards Bureau
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
DCSI	Department of Cottage and Small Industry
DGRK	Druk Gyalpo's Relief Kidu
DHI	Druk Holding and Investments
DLMS	Domestic Liquidity Management System
DMB	Deposit Money Bank
DPNBL	Druk PNB Bank Limited
ESP	Economic Stimulus Plan
e-PEMS	Electronic Public Expenditure Management System
FDI	Foreign Direct Investment
FI	Financial Institution
FSP	Financial Service Provider
FY	Fiscal Year (July-June)
FYP	Five Year Plan
GBRL	GIC-Bhutan Re. Limited
GDP	Gross Domestic Product
GIFT	Global Interchange for Financial Transaction
GIR	Gross International Reserve

GoI	Government of India
GVA	Gross Value Added
IIP	International Investment Position
IMF	International Monetary Fund
INR	Indian Rupee
JICA	Japan International Cooperation Agency
LFPR	Labor Force Participation Rate
M0	Reserve Money
M1	Narrow Money
M2	Broad Money
MBPL	Microfinance Bhutan Pvt Limited
MFCC	Macroeconomic Framework Coordination Committee
MFCTC	Macroeconomic Framework Coordination Technical Committee
MFI	Microfinance Institutions
MHP	Mangdechhu hydropower Project
MLR	Minimum Lending Rate
MoEA	Ministry of Economic Affairs
NBFI	Non-Bank Financial Institution
NCGS	National Credit Guarantee Scheme
NCSIDB	National CSI Development Bank
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NPL	Non-Performing Loan
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese
OGOP	One Gewog One Product
OIN	Other Items Net
PIT	Personal Income Tax
PoS	Point of Sale
PPI	Producer Price Index
PPN	Purchasing Power of Ngultrum
REDCL	Rural Enterprise Development Corporation Limited
REER	Real Effective Exchange Rate
RICBL	Royal Insurance Corporation of Bhutan Limited
RS	Regulatory Sandbox
SARTTAC	South Asia Regional Training and Technical Assistance Center
SDR	Special Drawing Rights
SOE	State Owned Enterprise
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunications
TBL	TBank Limited
TOT	Terms of Trade
WB	World Bank
WPI	Wholesale Price Index

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
( )	negative

Note: Discrepancies in the totals are due to rounding.

READERS' FEEDBACK ON THE ANNUAL REPORT

Dear Reader,

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.

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