ROYAL MONETARY AUTHORITY OF BHUTAN

ANNUAL REPORT 2022

Royal Monetary
Authority of Bhutan

Annual Report 2022

Preface

This Report reviews the macroeconomic developments of the economy during the fiscal year 2021/2022. A summary of the medium-term outlook for Bhutan based on the quarterly updates as of October 2022 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

2022 marks another milestone for Bhutan with the successful containment of the COVID-19 pandemic and gradual return to normalcy, historic transformation initiatives across all sectors and consecration of new Wangduephodrang Dzong, which symbolize a national and cultural landmark.

Across the globe, Bhutan has been commended for its efficient handling of the pandemic, achieving around 97 percent vaccination coverage, saving lives and livelihood of people and avoiding deep contraction of the economy. The success was largely attributed to His Majesty the Druk Gyalpo's visionary and tireless leadership and guidance, and Kidu support to maintain the hope and confidence of the people. The ongoing reforms across all sectors, an outcome of Royal Kashos issued during the 113th National Day celebration in Punakha, remind us of the need for preparedness and timely action to build a resilient nation. The reforms reiterate service delivery and accountability, and the need to work hard to be more effective and efficient.

As we emerge from the pandemic, the global economy is faced with another formidable challenges - prolonged geopolitical tensions, rising global inflationary pressures and tightening of global financial conditions particularly in the advanced countries. The adverse spill-over-effects of uncertainty are squeezing cost of living, weakening currencies and increasing the debt burden in emerging markets and developing economies. As a result, the International Monetary Fund (IMF) foresees a global recession in 2023.

Despite global challenges, the Bhutanese economy rebounded to 4.1 percent in 2021, from negative 10 percent in 2020, supported by unprecedented fiscal and monetary measures. The stronger performance of service and industry sectors, are mainly supported by construction, mining & quarrying and transport.

While the overall unemployment rate improved in 2021 to 4.8 percent, youth unemployment continued to record double digit high at 20.9 percent. The domestic consumer price recorded at 6.5 percent in June 2022 due to rise in non-food prices which are driven by global fuel and commodity prices.

External imbalances continue to persist with the widening of current account deficit to 32.9 percent of GDP in 2021/22. The inflow of official grants and aid, external borrowings and hydro power proceeds supported the overall balance of payment, in meeting the constitutional requirement of 12 months of essential imports. Domestic credit, which is one of the main drivers of economic growth, picked up at 8 percent in June 2022, as economic activities regained momentum. The non-performing loans (NPL) improved from 14.1 percent in June 2021 to 8.6 percent in June 2022 with enforcement of prudential measures and other interventions undertaken as part of the broader transformation initiatives. While the credit market adjusts, the RMA will be more vigilant on the expansion of consumption-oriented loans and accordingly intervene so that monetary and fiscal expansionary policy do not adversely impact financial sector stability and trigger any further external imbalance.

Moving ahead, real GDP is projected at 4.8 percent in 2022 and 6.3 percent in 2023, supported by optimism of additional investment in both public and private sectors, as well as hydropower projects which are expected to expedite major capital work. CPI inflation is anticipated to remain elevated at 5.5 percent, as there is no sign of withdrawal of economic sanctions and global supply chain restoration. As the import for consumption goods and services are expected to increase, the current account deficit on an average is forecasted at 35.5 percent of GDP in the medium-term.

The persistent current account deficit combined with fiscal deficits reflects the weakness in Bhutan's economic fundamentals. While we have achieved robust economic growth over the period, Bhutan has failed to translate growth into higher productivity, exports diversification and employment generation. A stabilization of external imbalance is viewed as one of the singular macroeconomic challenges for the RMA. Our economic fundamentals continue to be entrenched as an aid, debt, fiscal and import driven economy, characterized by high current account deficits. Bhutan's annual imports of merchandize goods averaged at Nu 75 billion against exports of Nu 48 billion during the last five years. Of the total exports, more than 40 percent is hydroelectricity. At this pace of outflows, the foreign exchange reserves will not be sustainable in terms of meeting the constitutional requirements of 12 months of essential import coverage in the long run. Further safeguarding the integrity and stability of the exchange rate peg with India, remains the cornerstone of national economic strategy. To reiterate, foreign exchange reserves have been largely built through official inflows related to grants and concessional borrowings which constitutes around 26 percent of total foreign exchange reserves, while hydropower exports recorded at 14 percent and tourism receipts at 12 percent over the years.

The RMA in collaboration with the government is closely working on immediate relief measures to address challenges of external imbalance. The RMA availed additional currency swap of USD 200 million from the Reserve Bank of India (RBI) as a backstop line of funding and also, increased cash reserve ratio (CRR) from 7 percent to 8 percent to moderate imports through control of credit growth. Concessional borrowings from international agencies are being explored by the government to counter foreign exchange reserves depletion. While the measures implemented so far are a short-term and temporary solution, a long-term strategy to diversify the economy and bringing in investment remains paramount.

The rise in global food and commodity prices has also increased Bhutan's macroeconomic vulnerability. The import value of goods increased by 16 percent whereas Ngultrum has depreciated by 8.1 percent in September 2022 adding to higher cost-of-living and increasing the debt burden of households. Rising inflationary pressures also causes challenges in maintaining fixed exchange rate stability and returns on investments. In response to rising domestic prices, RMA pursue accommodative monetary policy in controlling the aggregate demand in economy through credit rationing and liquidity management, supported by fiscal interventions from supply front.

Although global financial stability risks have increased, the financial soundness indicators and stability affirms that the banks remain resilient to liquidity shocks with a comfortable level of capital buffer to absorb anticipated credit losses post-June 2022. The level of capital adequacy ratio remained manageable at 15 percent, which is above the minimum requirement of 10 percent. However, the RMA will continue to strengthen and follow risk-based approach to financial supervision to ensure that the financial system remains stable and continues to support the national economic recovery process. To further strengthen the resilience of the financial sector, the RMA has formulated a Non-performing Loans (NPLs) Management Strategy to address post COVID-19 NPLs, issued Guidelines on reclassification of old Non-performing Loans, the Rules and Regulations on Loan Restructuring, Foreclosure and Write-off and framework for business continuity plan along with strengthening of corporate governance practices. The RMA is also closely monitoring vulnerabilities that may emerge from deteriorating credit quality on loans exposed to pandemic-affected sectors.

Leveraging on technology and innovation continue to receive highest priority and it remains as one of the key catalysts to drive financial sector development and transform the payment system landscape to achieve economic growth and prosperity. As outlined in the Druk Nguldrel Lamtoen 2030, the RMA made a significant progress in the digital payment system, particularly in mobile banking and Bhutan Quick Response (QR) Code, which picked up during the pandemic. The recent initiatives to accept RuPay cards at domestic ATM has further strengthened cross-border interoperability between Bhutan and India which has facilitated inflow of Indian Rupees (INR) into the economy.

With regard to other initiatives on leveraging digital technology, the RMA has started experimenting the issuance of Central Bank Digital Currency (CBDC), which is expected to bring greater efficiency in payment system, promote financial inclusion and foster more competitions. Further, to enhance the quality of data collection and information management, the Data Warehouse and Bhutan TradeFin Net (BTFN) System projects have been initiated in close collaboration with government and data providers. As the RMA strives to embrace emerging digital technology, these flagship projects will not only strengthen the existing capabilities in undertaking the core central banking functions, but will also promote greater automation, and coordination among the key agencies in the economy, thereby improving the existing policy decision-making process to achieve overarching national objectives.

As we navigate through the pandemic and global economic turbulences, the RMA in collaboration with Financial Institutions (FIs) and government will continue to remain vigilant on developments in the financial sector and macroeconomic conditions.

I would like to express my deep appreciation to the Board of Directors, financial institutions, and staff of the RMA for their dedication and hard work during these difficult times. I also wish to gratefully acknowledge the Government, the private sector, and our development partners for their continued support and cooperation, particularly in times of crisis in the country.

Thank you and Tashi Delek!

(Dasho Penjore)
GOVERNOR

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VISION, MISSION, VALUES AND ORGANIZATIONAL STRUCTURE

Our Aspiration

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

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

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

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

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

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

Mission

Reinforce an inclusive, sustainable, and dynamic economy

Maintain stability and resilience of the financial system

Advance innovation and technology in financial services

We will fulfill our mission by:

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

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

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

Core Qualities

Credibility

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

Leadership

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

Knowledge

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

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

Values

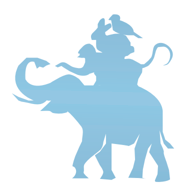
Upholding Tha-Damtshi (Integrity)

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

Being Nyamchung (Humility)

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

Exhibiting Dremba (Sensibility)

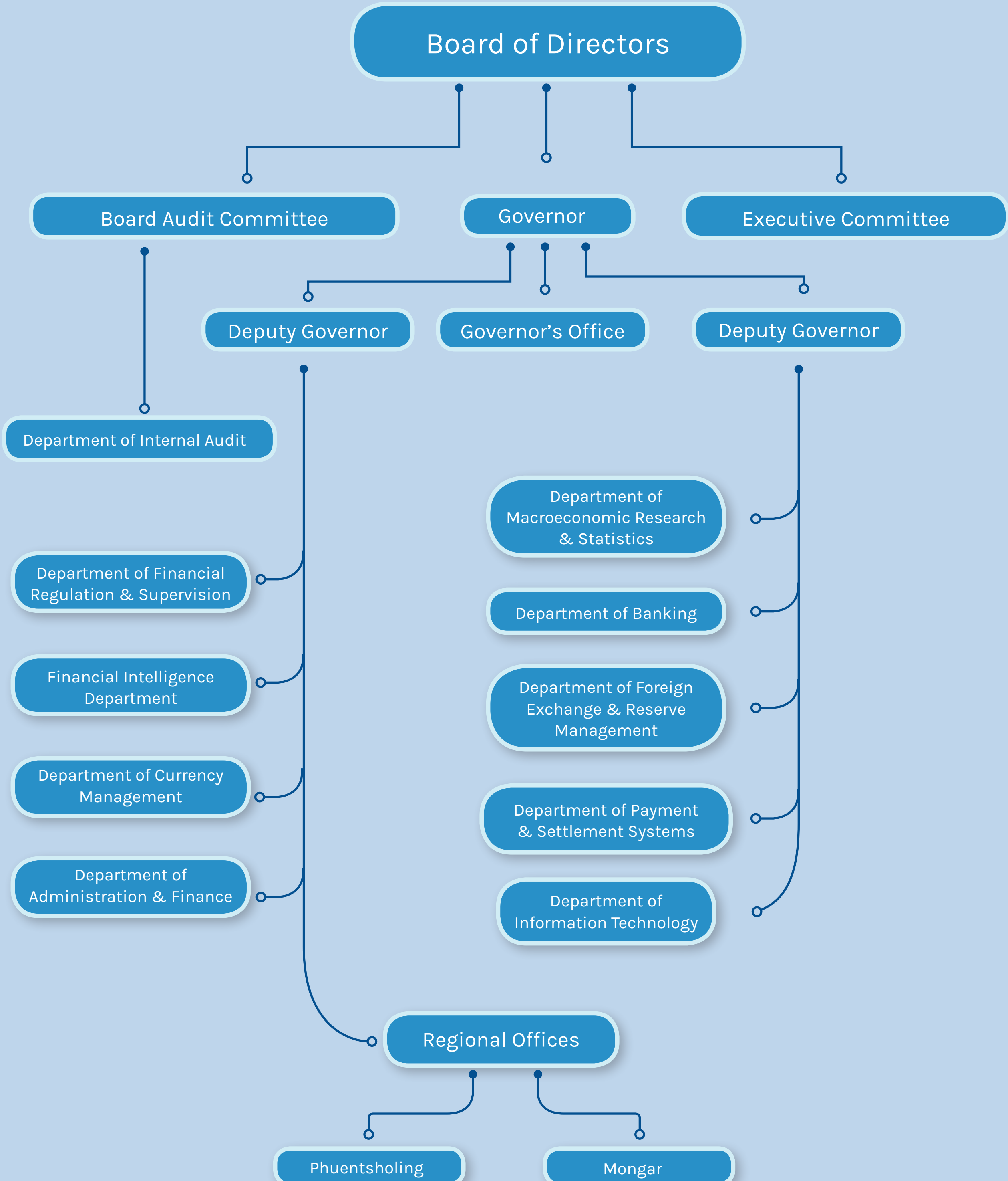


We will be alert and practical when discharging our duty, acknowledging and addressing challenges in an astute manner, perceptive to immediate exigencies and long-term sustainability.

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

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

Organizational Chart



Board of Directors

CHAIRMAN

Dasho Penjore was appointed as the Governor of the Royal Monetary Authority of Bhutan in December 2015 and was re-appointed for a second five-year term as the Governor of the RMA by His Majesty The Druk Gyalpo on 27th November 2020. 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 Northwestern University, Boston, USA. His Majesty The Druk Gyalpo awarded the Druk Thuksey (Heart Son of Bhutan) Medal during the 110th National Day Celebration in December 2017 for his dedicated service to the nation.

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

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

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

Ms. Yangchen Tshogyel was appointed as the Deputy Governor of RMA in September 2016 and subsequently re-appointed as Deputy Governor for a second term on 1st September 2021. Prior to her appointment as the Deputy Governor, she served as the Director of the Macroeconomic Research and Statistics. She has a Master's degree in Public Policy, with a specialization in Economic Policy from the Australian National University, Australia.

Mr. Han Hee Jan has more than 30 years of working experience in banking and finance. He started his banking career with Citibank Financial Control unit managing Accounting Compliance, Regulatory reporting and General Ledger management function. He was the Chief Financial Officer for Singapore Consumer business during which he led the Finance workstream in the incorporation of Citibank Singapore Limited. As a member of the key operating Committees covering Treasury, Compliance & Control, Accounting and Credit, he actively provides strategic direction and oversight on the management of liquidity, price, credit and operational risk of the consumer business. He joined Citibank Regional Team as the Chief of Staff for Citibank Asia Consumer business working with the Global office in setting the strategic direction for the Consumer Business. He led the monthly performance review process with 14 countries to drive business financial results. He was the project lead representing Asia Consumer Bank on Citigroup-wide Execution 2.0 initiative to optimise bank resources across Asia Consumer Businesses, and to drive cost efficiency in achieving the targeted Operating Efficiency for Asia Consumer Bank. Mr. Han holds a Master in Business Administration (MBA) in Finance.

Mr. Nelson Trevor Thackery is a New Zealander with over 30 years banking experience, working in countries from NZ, Singapore and Japan along with selected Asia Pacific countries. He began his banking career as a Money Market and Commercial Paper trader with Barclays (NZ) Ltd. After establishing the corporate sales & Advisory desk at Westpac (NZ) he went onto manage the Sales & Advisory desk for NZI Bank (NZ) Ltd. He joined Citibank N.A in Singapore to establish its retail foreign exchange unit before becoming Singapore Consumer bank treasurer. He moved onto a senior role in Citi's Asia Pacific Regional Treasury before being appointed as Corporate Treasurer for Citibank Japan Ltd where he served on the Citi Japan Executive Committee.

Along with bank treasury management, he was a leading panelist on the selection process for Citibank Singapore's consumer Management Associates (MA) program, including being Chief mentor for the MA batches from 2000-2010.

Since leaving the corporate world, Nelson has continued with specialist banking and treasury advisory roles along with ALM advisory, consulting and training. Focus being primarily on balance sheet management and optimization, Basel, Asset & Liabilities management, treasury product wealth management sales and advisory, funding and liquidity, Treasury management policy, Asset-liability Committee (ALCO) and governance. Mr. Nelson has a Bachelor of Commerce (BCA) from Victoria University of Wellington, NZ and an MBA from National University of Singapore. He is currently a Director of Waimahn Holdings Private Limited and a Special Advisor for Singapore Consultancy Pte Ltd.

Executive Directors

MS. DECHEN PELZOM
Executive Director,
Department of Foreign Exchange & Reserve Management

MS. TSHERING DEMA
Executive Director,
Department of Banking

MR. DOPHU DORJI
Executive Director,
Department of Currency Management

Directors (FY 2021/22)[1]

MR. SHERAB JAMTSHO
Director, Department of Information Technology

MS. DECHEN YANGZOM
Director, Department of Internal Audit

MS. GOPI NEPAL
Director, Department of Financial Regulation & Supervision

MR. TSHEWANG NIDUP
Officiating Director, Department of Administration and Finance

MS. TSHERING WANGMO
Director, Department of Payment and Settlement Systems

MR. GOPAL GIRI
Director, Department of Macroeconomic Research and Statistics

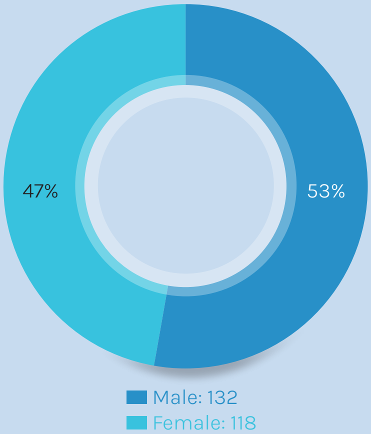
MR. SONAM TOBGAY
Director
Regional Office
Phuentsholing

MS. UGYEN CHODEN
Director, Department of Financial Intelligence

[1]The Board members, Executive directors and Directors are for the fiscal year 2021/22

Staff Strength

As of June 2022, RMA's total staff strength was 250 (Male:132, Female:118). Of the total, 229 employees were stationed at the Head Office, 14 employees at the Phuentsholing Regional Office and 7 employees at the Mongar Regional Office. During the FY 2021/2022, a total of 19 new employees were recruited (Male: 8, Female: 11) and a total of 13 employees separated from the RMA (Male: 8, Female: 5).



Recipients of the Service Medals in 2022

During the year, nine staff of the RMA received the service medals (1 gold and 8 silver medals).

2

MACROECONOMIC HIGHLIGHTS AND NEW INITIATIVES

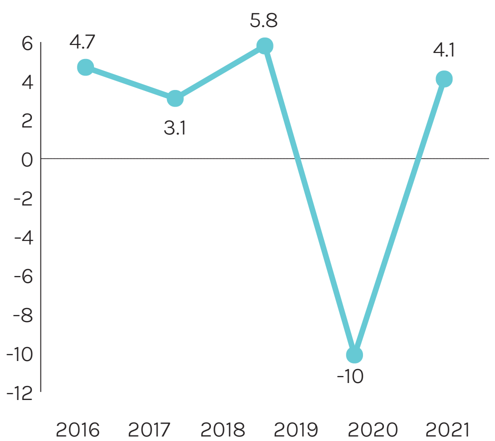
2.1 Key Macroeconomic Highlights - FY 2021/22

The easing of COVID-19 protocols, containment measures and wider coverage of vaccines, supported by the protracted monetary and fiscal measures, helped the revival of the Bhutanese economy in 2021. The economy recovered at 4.1 percent in 2021, from an all-time low of -10 percent in 2020. Sectors such as mining & quarrying, transport & communication, construction and trade activities contributed to the gradual recovery. The overall Consumer Price Index (CPI) inflation was recorded at 6.5 percent in June 2022 against 7.4 percent in June 2021 due to moderation in food prices.

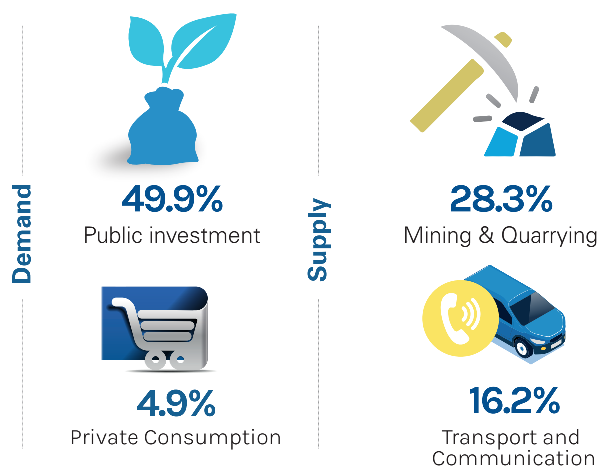
The domestic credit growth moderated at 8 percent in FY 2021/22 compared to 5.7 percent in FY 2020/21 due to pick up in construction sector. The liquidity in the banking sector continued to remain favorable to support the credit growth. With increase in the global inflationary pressure and rising import bills, the current account deficits peaked at Nu 63,403.8 million in June 2022 (32.9% of GDP). As a result, the Gross International Reserves depleted to USD 832.9 million, adequate to finance 15 months of essential imports. Despite the rising global economic and financial uncertainties, the Bhutanese financial sector continued to remain resilient and stable in terms of improved asset quality, capital base and liquidity.

The domestic economy rebounded to 4.1 percent in 2021 from all-time low of - 10 percent in 2020

Real GDP (Growth, %)

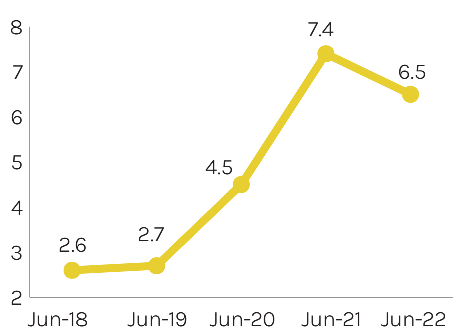


Key drivers of GDP in 2021 (Growth, %)



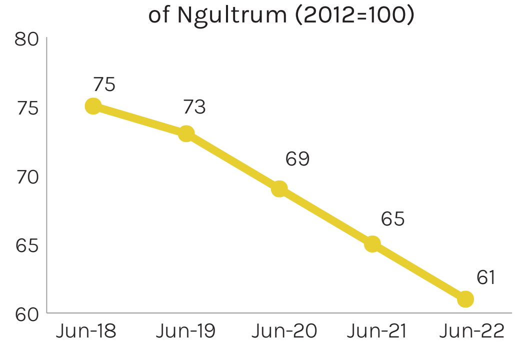
Headline inflation recorded at 6.5 percent as food prices moderate

Headline inflation (Growth, %)



The weight distribution in CPI basket
Food Items: 45.9%
Non-food Items: 54.1%

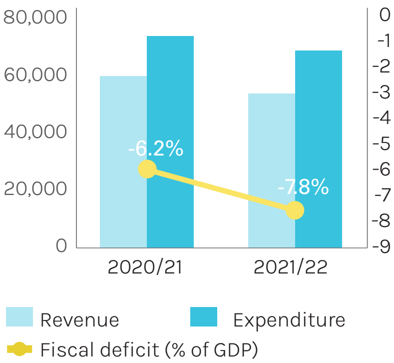
Purchasing power of Ngultrum (2012=100)



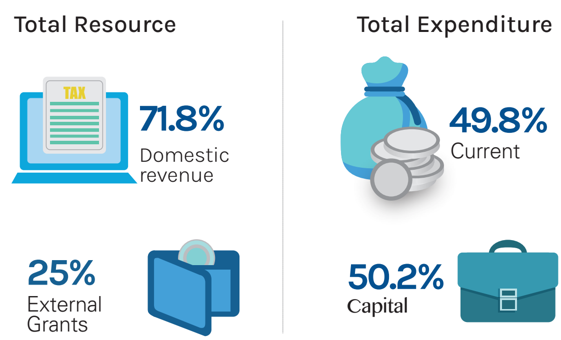
Nu 100 in June 2022 is worth only Nu 61 at December 2012 prices

Although the domestic revenue has increased, the fiscal deficit widens

Budgetary operations (Nu in million)

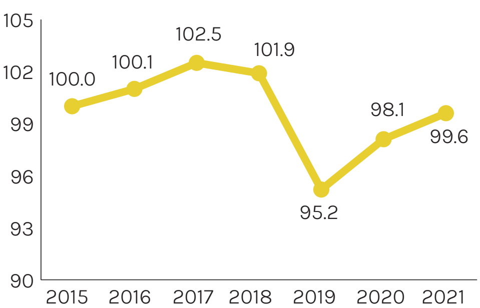


Key contributors (in % share)

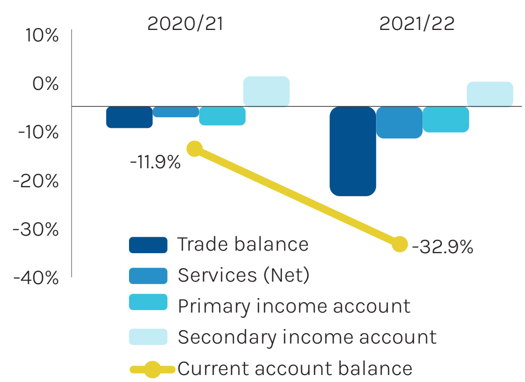


Current account deficits deteriorated further to all-time high as the trade deficits worsen

Terms of Trade (ToT)

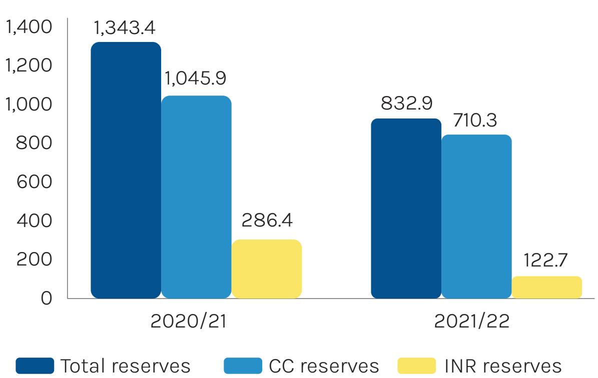


Current account components (% of GDP)

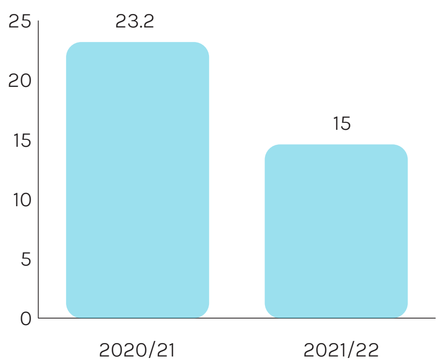


While Gross international reserves decreased, it is adequate to support 15 months of essential import coverage

Gross international reserves
(USD in million)

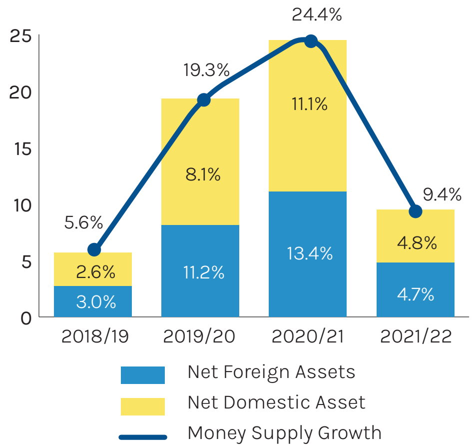


Months of essential import coverage

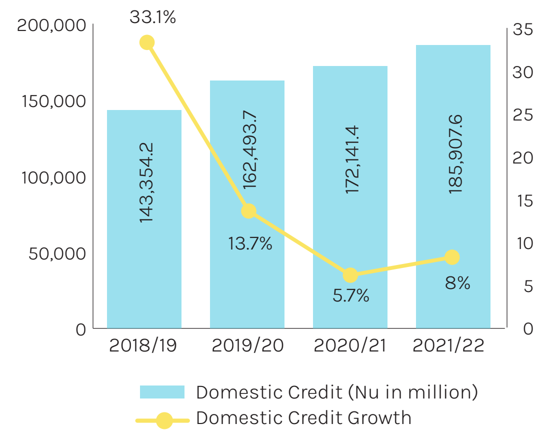


Notwithstanding the increase in nominal money supply, the growth rate slowed down

Money supply (growth) and sources of money supply

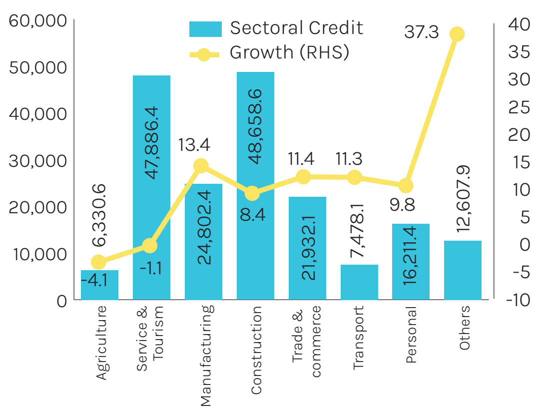


Domestic credit and growth

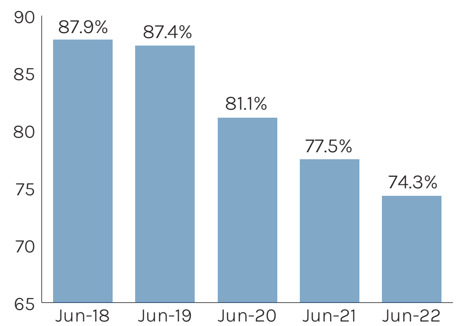


While domestic credit picked up, the construction and service & tourism sectors continued to reflect highest credit exposure with 26.2 percent and 25.8 percent respectively

Sectoral Credit and Growth in 2021/22

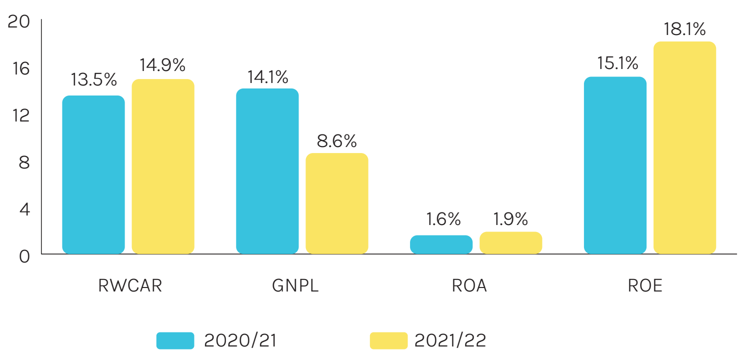


Loans to Deposits Ratio



Amidst tightening of global financial conditions, Bhutanese financial sectors remained resilient and shows sign of improvement

Financial Institution's Core Indicators



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

2.2 RMA's New Initiatives During FY 2021/22

I. In order to maintain **prudent lending standards** and to discourage speculation, prevent excessive leverage and reduce systemic risk associated with the rapid expansion of credit in the housing sector, a directive on housing (Commercial and Home) loans, vehicle loans, and personal loans were issued on 30th August 2021. The directive covers the extension of housing loan terms from 20 years to 30 years, enhancement of Loan-to-Value (LTV) ratio and relaxation of Risk Weighted Assets for Capital Adequacy Ratio requirement.

II. As a measure to promote home ownership, housing affordability and availability, and further reduce rental burden, the Royal Monetary Authority during its 181st Board meeting held on 27th August 2021 approved the revised **'Directives on Housing (commercial and home) Loans, Vehicle Loans and Personal Loans 2021'.**

III. The RMA adopted "Rules and Regulations for the Registered Private Money Lenders 2021" which came into effect from 1st November 2021. It repealed the Private Money Lending Rule and Regulation 2020 to establish proper systems of permitting and regulating private money lending businesses in Bhutan. The key objective of the revised regulation is to ensure that the private money lending business is brought under the surveillance of financial sector and prevent litigation & adverse socio-economic consequences.

IV. The RMA issued the **"Procedural Guideline for Bhutan Inter-Bank Real Time (BIRT) - Fund Transfer 2022"** with effect from February 2022. It applies to all participating banks in BIRT – Fund Transfer System, and is aimed to facilitate an efficient, secure, and seamless interbank fund transfer.

V. Guidelines on the **Reclassification of Old Non-performing Loans 2022** was issued as a counter-cyclical policy response to the COVID-19 pandemic as an interim measure to provide a one-time facility for reclassification of NPLs. This is intended to provide temporary relief to both borrowers and financial institutions. This guideline superseded the guidelines on the Transfer of NPL Asset 2020 with effect from 1st May 2022.

VI. **The Rules and Regulations on Loan Restructuring by Financial Service Providers (FSPs) 2022** was issued with effect from 1st May 2022. The main objective of the rules and regulation is to address existing stock of NPLs as well as to prevent the emergence and accumulation of new NPLs on FSP's balance sheets. It was proposed to strengthen the prudential regulations as well as to ensure that borrowers are treated fairly during the life cycle of the loans.

VII. **The Rules and Regulations on Foreclosure and Write-off of Non-performing Loans 2022 came into effect on 1st May 2022.** The rationale for issuing this guideline is to protect the interest of the FSPs and the borrowers through timely actions/interventions, in addition, to decongesting the books of accounts of the FSPs.

VIII. **The Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Rules and Regulations 2022 came into effect on 1st June 2022,** for all Reporting Entities (REs), Law Enforcement Agencies, and Supervisors. The regulation is targeted to create an effective legal framework to counter Money Laundering (ML) and Terrorism Financing (TF) in line with the international best practices and standards where Bhutan is the member of Financial Action Task Force (FATF).

IX. **The Cross-Border QR code payment with India** was digitally launched by Her Excellency Smt Nirmala Sitharaman, the Hon'ble Finance Minister of India, and His Excellency Mr. Namgay Tshering, the Hon'ble Finance Minister of Bhutan, on 13th July 2021.

X. Initiated **Cybersecurity and EMV Migration of all ATMs and Point of Sale (PoS)** which is a major advancement for the banks and RMA to strengthen security and cyber fraud as our systems are increasingly getting interconnected with regional and international payments.

XI. Initiated data warehouse project to enhance the financial and economic data quality and **Business Continuity Plans (BCP) Guidelines** to strengthen the resilience of banks in light of disasters.

XII. Developed **Data Privacy and Data Protection Guidelines** to ensure the confidentiality and integrity of financial data maintained at financial service providers.

XIII. To create **Awareness on the AML/CFT,** the Financial Intelligence Department (FID) at RMA conducted awareness workshop for RENEW, Reporting Entities (REs) and law enforcement agencies on 29th June 2022.

XIV. In order to improve and strengthen international cooperation, the FID virtually signed **Memorandum of Understanding (MoU) with Financial Intelligence Unit** (FIU) Australia on 8th February 2022 and FIU Japan on 27th May 2022.

XV. In October 2022, the RMA issued the **Rules and Regulations for Accountability of Key Responsible Persons of Regulated Entities 2022.** This is one of the several initiatives of the RMA to strengthen corporate governance of the Financial Service Providers (FSPs) for ensuring safety, stability and soundness of the financial system in Bhutan. The Rules and Regulations are expected to promote responsibility and accountability of the persons in the key positions of the FSPs.

2.3 Key Economic Indicators

Indicator	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
GDP Growth and Prices (percent change)						
GDP at Constant (2000) Price (a), (b)	8.1	4.7	3.1	5.8	-10.1	4.1
Inflation - June end (b)	4.9	2.5	2.7	4.5	7.4	6.5
Government Budget (Nu in million) (c)						
Total Revenue and Grants	42,673.1	52,113.2	42,033.3	54,603.9	59,696.1	54,354.6
of which: Foreign Grants	12,986.8	14,847.1	10,516.5	16,425.8	14,882.3	13,064.2
Total Expenditure*	48,018.0	56,331.4	46,724.9	57,989.2	70,835.9	69,156.6
of which: Current Expenditure	24,129.6	27,494.7	29,105.5	33,023.3	43,515.8	34,444.7
Overall Balance	-7,348.0	-2,623.4	-2,743.4	-3,385.4	-11,395.7	-15,032.0
(in percent of GDP)	-4.8	-1.6	-1.6	-1.9	-6.3	-7.8
Money and Credit (percent change, end of period)						
Broad Money, M2	31.5	10.4	5.6	19.3	24.4	9.4
Credit to Private Sector	15.4	15.7	20.5	13.3	6.5	8.6
Interest Rates (end of period)	3.0-7.0	3.0-7.0	3.0-6.0	3.0-6.0	3.0-6.0	3.0-6.0
One Year Deposits**	8.0-14.0	9.9-13.0	7.94-14.0	7.94-14.0	7.94-14.0	7.94-14.0
Lending Rate	0.7	2.5	4.3	2.8	4	0.3
91-day RMA Bills/ Treasury Bills						
Balance of Payments (Nu in million)						
Trade Balance (Goods)	-31,149.2	-27,200.7	-28,338.6	-22,726.4	-12,429.5	-45,242.1
With India	-24,303.8	-25,478.9	-26,322.6	-15,895.5	-9,117.1	-28,756.7
Current Account Balance	-35,926.1	-30,087.5	-35,430.2	-27,712.5	-21,403.7	-63,403.8
(In percent of GDP), (a)	-24.8	-18.9	-21.2	-15.5	-12.4	-33.8
With India	-34,006.5	-34,034.3	-38,643.1	-25,996.5	-22,184.2	-45,668.0
(In percent of GDP), (a)	-23.4	-21.3	-23.1	-14.6	-12.9	-24.3
RGoB Loans	25,743.3	23,774.9	20,146.1	28,509.0	18,621.3	23,641.9
Of which: India (including accrued interest on Hydro)	21,927.8	20,348.0	16,040.4	17,689.8	11,651.8	13,068.4
Errors and Omissions	12,495.3	-16,751.8	19,832.4	10,179.2	-10,464.9	-387.5
Overall Balance	-47.5	4,933.4	2,310.2	20,092.2	-4,059.5	-32,400.5
(In percent of GDP), (a)	-0.0	3.1	1.4	11.3	-2.4	-17.3
External Indicators (end of period)						
Gross Official Reserves in millions of USD	1,103.8	1,111.3	1,064.8	1,343.5	1,332.4	832.9
Reseves in months of merchandise imports	12.5	13.6	12.9	17.5	18.1	7.6
External Debt outstanding (USD millions)	2,505.4	2,642.1	2,728.4	2,872.7	3,203.2	3,162.8
External Debt (percent of GDP), (a)	114.7	107.8	115.1	116.6	137.0	127.0
CC debt outstanding (USD millions)	663.2	699.8	720.1	830.8	922.7	978.1
CC debt (percent of GDP), (a)	30.4	28.5	30.4	33.7	39.5	39.3
Rupee debt outstanding (INR millions)	118,770.1	133,190.7	138,409.4	154,218.0	169,546.9	170,576.4
Rupee debt (percent of GDP), (a)	81.9	83.5	82.7	86.4	98.4	90.8
Debt-Service Ratio (d)	27.4	26.4	44.0	33.5	38.1	39.2
Memorandum Items						
(Nu in million unless otherwise indicated)						
Nominal GDP (a), (b)	145,072.9	159,571.7	167,339.9	178,561.7	172,295.3	187,772.8
Ngultrum per USD (fiscal year average)	66.4	65.1	70.6	72.5	73.7	75.4
Money Supply, M2 (end of period)	104,113.6	114,973.7	121,416.7	144,890.5	180,314.2	197,301.4
Money Supply, M1 (end of period)	60,723.3	66,295.0	69,203.4	85,575.6	101,825.9	110,574.9
Counterparts (Nu in million)						
Foreign Assets (Net)	68,186.7	66,006.3	63,920.6	84,090.6	98,552.0	97,558.1
Domestic Credit	85,084.8	100,320.5	113,488.2	122,112.9	142,821.3	165,296.9
Claims on Private Sector	75,185.1	86,985.1	104,850.5	118,812.5	126,561.4	140,254.9
Components (Nu in million)						
Currency Outside Banks	8,787.7	9,234.0	9,744.1	11,782.9	11,874.9	10,241.7
Transferable Deposits	51,935.6	57,061.0	59,459.3	73,792.8	89,951.2	100,333.1
Other Deposits	43,390.3	48,678.6	52,213.4	59,314.8	78,488.3	86,726.6
Reserve Money, M0 (end of period)	34,327.9	33,469.8	31,973.9	45,049.7	61,429.4	54,707.1
of which: Banks' Deposits	22,798.9	21,201.5	19,427.9	30,414.0	46,016.1	41,187.2
Money Multiplier (M2/M0)	3.0	3.4	3.8	3.2	2.9	3.6
Income Velocity (GDP/M2)	1.4	1.4	1.4	1.3	1.0	1.0
Unemployment Rate (a)	2.1	2.4	3.4	2.7	5.0	4.8

a) GDP and Unemployment figures are on a calendar year basis (eg: entry under 2021/22 is for 2021).
b) Source: National Statistics Bureau
c) Data for 2021/22 are revised estimates.
d) Debt service payments in percent of exports of goods and services.

* Total expenditure in FY 2021/22 includes net lending and other payments.
** Refers to time deposits rate for 3 months to 1 year

3

MACROECONOMIC REVIEW

3.1 Real Sector

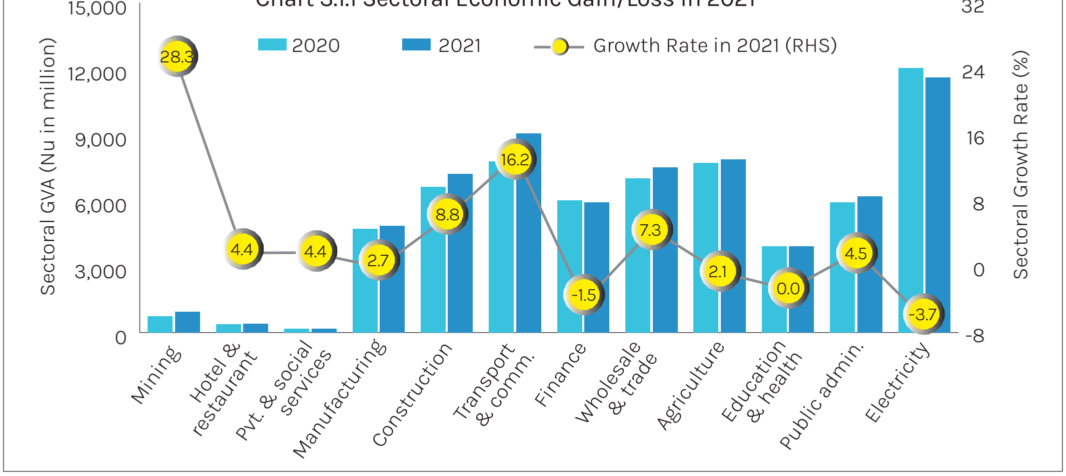
With the easing of containment measures, the domestic economy recovered a growth of 4.1 percent in 2021 from -10 percent in 2020. Favorable performances in tertiary and secondary sectors led to economic recovery.

The real GDP growth rebounded to 4.1 percent in 2021 from all-time low of -10 percent in the previous year. The key sectors that contributed to the recovery of economy were mainly mining & quarrying at 28.3 percent followed by transport & communication at 16.2 percent, construction at 8.8 percent, and wholesale & retail trade at 7.3 percent. On the other hand, the electricity & water supply, and financial & insurance activities, witnessed a drop of -3.7 percent and -4.2 percent in 2021 from 25.4 percent and -12.6 percent in the previous year, respectively.

The agriculture sector which has remained resilient during the pandemic witnessed a marginal growth of 2.1 percent compared to 4.6 percent of the previous year. The growth in crop production led to this marginal growth due to priority accorded by the government to boost agriculture products.

Similarly, the industry output witnessed a significant improvement at 1.9 percent in 2021 compared to -12.8 percent in the previous year. This was contributed by mining & quarrying which grew by 28.3 percent compared to -80.4 percent in the previous year because of the resumption of exports of coal, dolomite, limestone and stone. The manufacturing sector also revived at 2.7 percent growth from -20.8 percent in 2020, due to an improvement in production of cement, food, and other industrial products with normalization of economic activities. The construction sector, which largely depends on expatriate workers, also grew by 8.8 percent in 2021 compared to -20.6 percent in the previous year. The significant growth in the construction sector was due to lifting of COVID-19 restrictions on foreign workers mobility for major government projects.

Chart 3.1.1 Sectoral Economic Gain/Loss in 2021

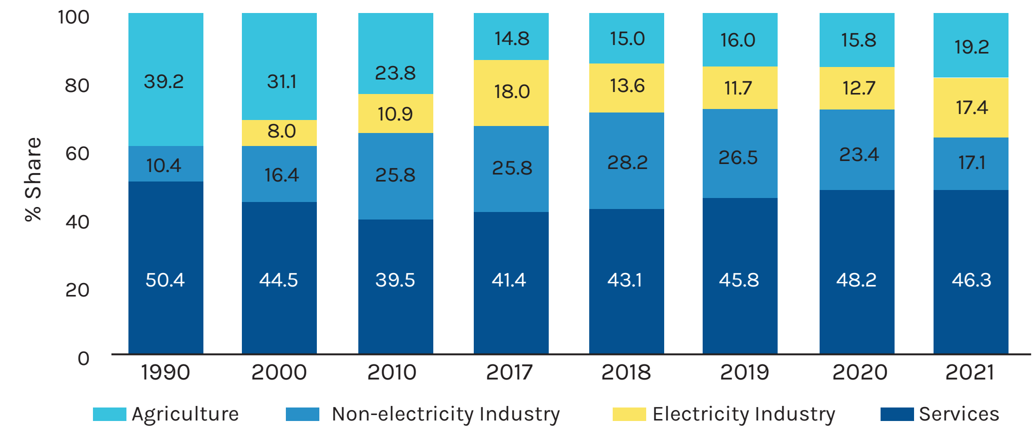


On the contrary, the production of electricity which remained a notable contributor during the pandemic witnessed a sharp decline of -3.7 percent in 2021 from 25.4 percent in the previous year. The drop in electricity generation was attributed to major repairing work carried out for the Tala and Chukha hydropower plants coupled with other hydrological factors.

The service sector which constitutes 51.8 percent of the GDP continued to drive the GDP, witnessed a positive growth of 6.1 percent in 2021. A significant improvement was recorded in transport & communication at 16.2 percent and wholesale & retail trade at 7.3 percent. Apart from finance and insurance, all other activities under the service sector recorded a positive growth. The decline in the finance and insurance sector at -4.2 percent in 2021 was due to fall in the investment and operating income of the banks.

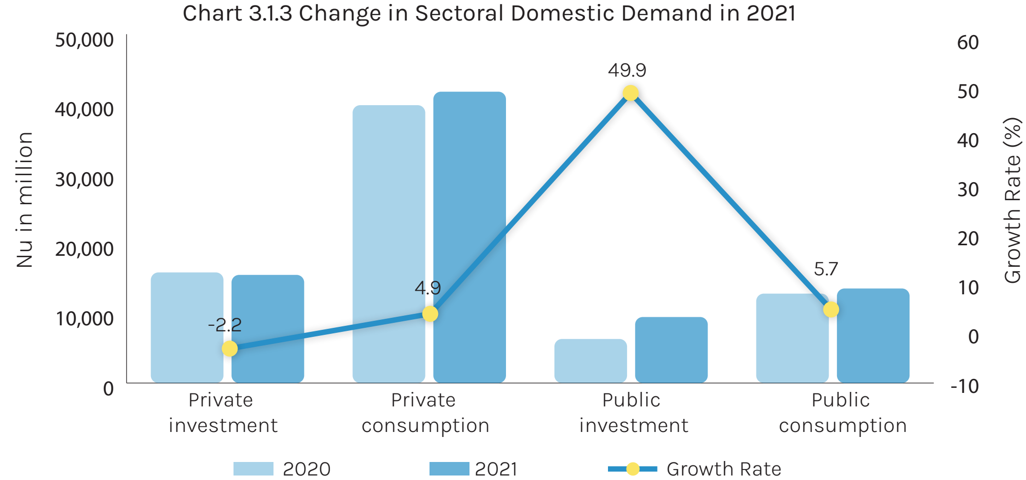
In terms of broad sectoral development in nominal terms, the service sector recorded the highest share with 46.6 percent of GDP, followed by the industry sector at 34.2 percent and the primary sector at 19.2 percent. The highest shares in the service sector indicates that the economy is largely driven by the tourism driven activities which is exposed to external vulnerabilities and uncertainties.

Chart 3.1.2 Sectoral Share of GDP: Economic Transformation



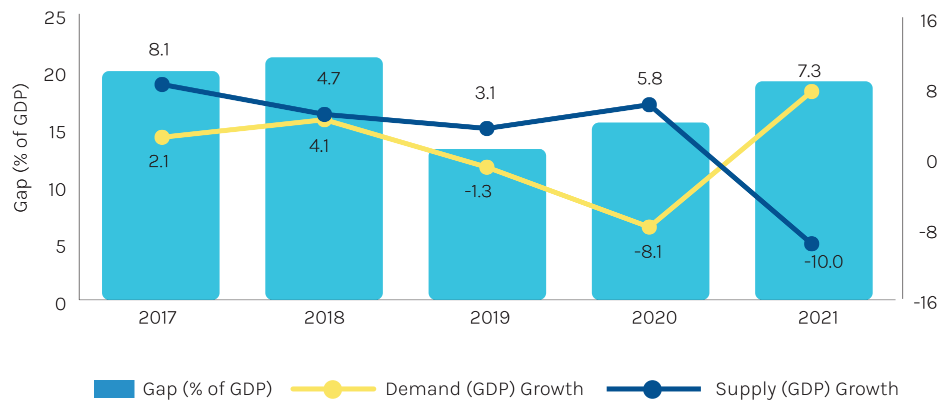
On the expenditure front, the aggregate demand increased to 7.3 percent, which is an increase of 0.2 percentage points from the previous year on account of pickup in economic activities after implementation of policy measures. The marginal increase in aggregate demand was contributed by uptick in private consumption and public investment.

Chart 3.1.3 Change in Sectoral Domestic Demand in 2021



While private expenditure grew negatively at -2.2 percent in 2021, public expenditure recorded significant growth at 49.9 percent in 2021 from 21.1 percent in 2020. This indicates that government investment (21.7% of GDP) remains as one of the key drivers of economic growth. Likewise, private consumption (63.4 % of GDP) growth recovered from -6.8 percent to 4.9 percent in 2021, likely due to increase in private income and rise in inflationary pressure. The growth in government consumption remained the same at 5.7 percent over the last two periods.

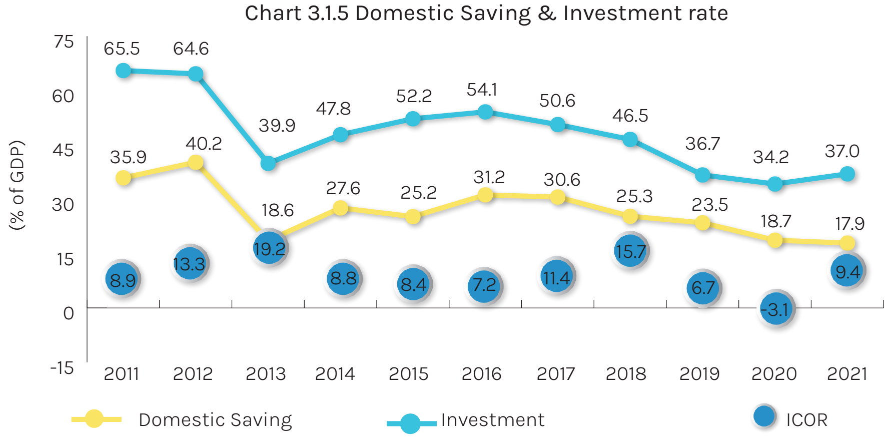
Chart 3.1.4 Supply & Demand Gap: Trade Deficit



Being an import-dependent economy, the trade balance has always remained unfavorable. With exports recording a marginal increase, imports surged significantly due to reprioritization of capital expenditure in 2021. Import increased by 15.7 percent while export increased marginally by 8.9 percent resulting in a trade deficit at 19.1 percent of GDP in 2021, an increase of 3.6 percentage points from the previous year.

Analysis on domestic investment rates indicates a continuous declining trend after 2016 with 37 percent in 2021. Similarly, the domestic saving rate declined to 17.9 percent from 18.7 percent in 2020. However, the productivity of capital has declined as the Investment Capital Output Ratio (ICOR) increased to 9.4 percent.

Chart 3.1.5 Domestic Saving & Investment rate



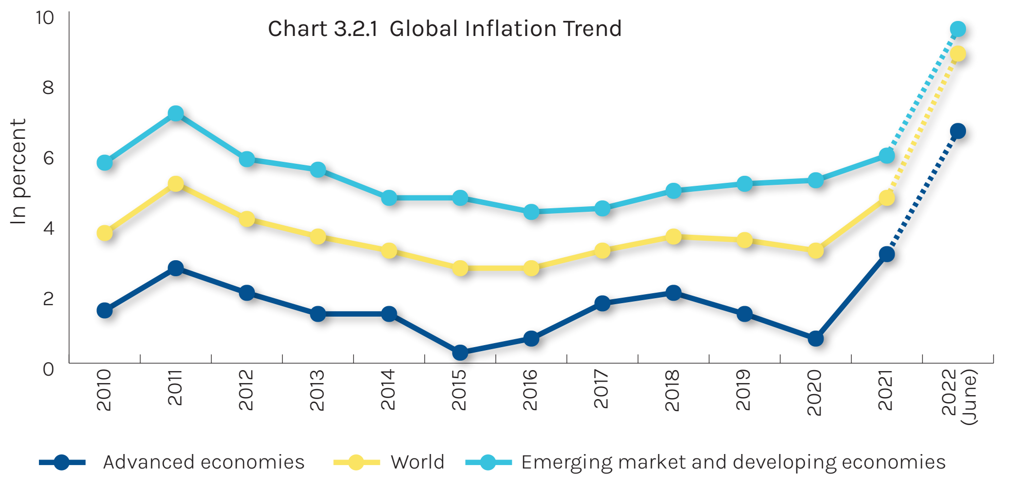
3.2 Inflation

Annual headline CPI inflation grew by 6.5 percent in June 2022, largely due to moderation of food prices. However, the spill-over-effect of global fuel and commodity price rise is adversely impacting the domestic non-food prices, particulalry in transport and communication sector.

3.2.1 Global and Regional Inflation

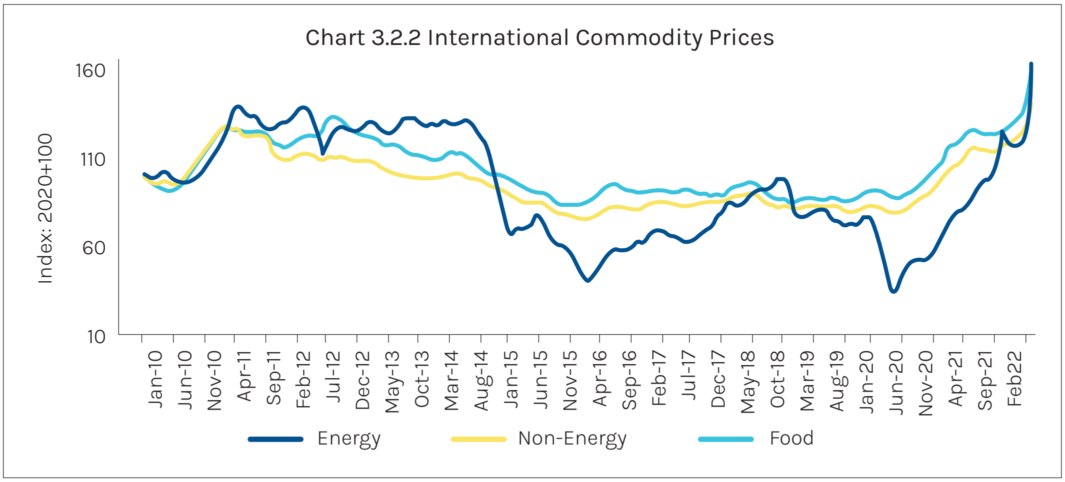
Global inflation remains elevated due to the COVID-19 pandemic and further aggravated by geo-political tension. Headline Inflation rose sharply across both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) beginning from 2020. In Advanced Economies, inflation was recorded at 3.1 percent and EMDEs inflation stood at 5.9 percent in 2021, due to disruptions in supply chain and prolonged Russian invasion of Ukraine. The persistent rise in inflation in advanced countries led to tightening of monetary conditions, which has resulted in capital flight and exchange rate depreciation. Due to broadening of price pressure, global headline inflation increased from an average of 3.2 percent in 2020 to 4.7 percent in 2021. Rise in fuel and commodity prices has adverse spill-over effect on non-food prices.

Chart 3.2.1 Global Inflation Trend

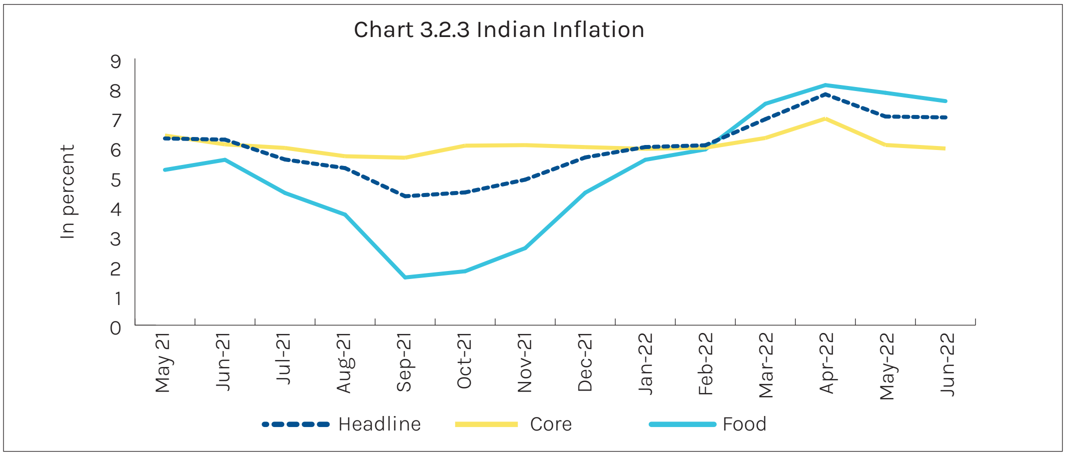


According to Organisation of Petroleum Exporting Countries (OPEC), global crude oil prices rose sharply to USD 112 per barrel in March 2022 from USD 49 per barrel in December 2020. A signficant increase in price was mainly due to the decision to limit the production of crued oil by the OPEC. Global food prices also remained elevated during the year with an average growth of food index by 36.6 percent, primarily driven by edible oils and grain prices.

Source: World Economic Outlook, IMF, October 2022 (Chart 3.2.1) and World Bank Pink Sheet Database



On the regional front, Indian headline inflation moderated at 7.1 percent in June 2022 after it peaked at 8.1 percent in April 2022. The rise in headline inflation was mainly due to pass through effect of increasing global crude oil price and of INR against US dollar.



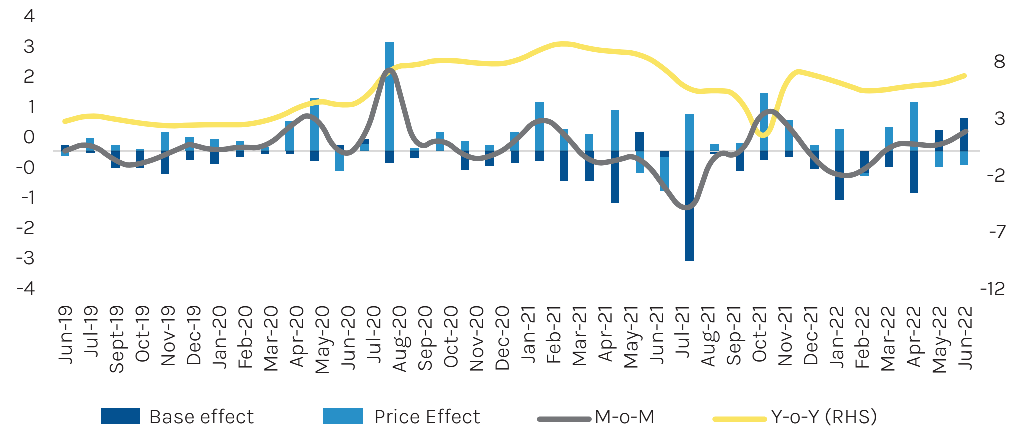
3.2.2 Domestic Inflation

Given that 80 percent of Bhutan's imports is from India, domestic inflation closely tracks inflation in India. Any fluctuation in Indian inflation has a direct impact on the Bhutanese consumption baskets. As a result, the inflation targeting monetary policy at 4 +/- 2 percent range of Reserve Bank of India will, to some degree, cushion and ensures price stability in Bhutan.

Domestic CPI headline inflation was recorded at 6.5 percent in June 2022 compared to 7.4 percent in June 2021, due to moderation of food prices and favorable base effects[2]. It is important to identify the base effects to understand the actual impact of price on inflation. During the period of January to June 2022, inflation grew from 6 percent to 6.5 percent, an increase by 50 basis points.

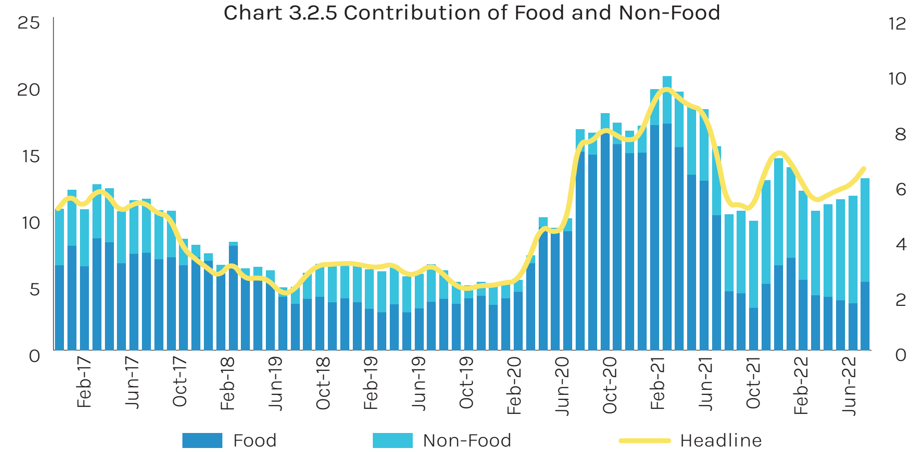
[2] *Base effect refers to inflation in corresponding period of the previous year.*

Chart 3.2.4 Movements in Headline Inflation



Non-food remained the main driver of headline inflation which grew at a monthly average of 7.2 percent in June 2022. Increase in non-food inflation was mainly due to volatility of global crude oil prices, which rose sharply during the period as a result of limited supply chain and geopolitical tension in the region. In June 2022, non-food inflation particularly transport, which constitutes 15.6 percent of weight, contributed more than 50 percent to non-food inflationary pressure compared to 40 percent in June 2021.

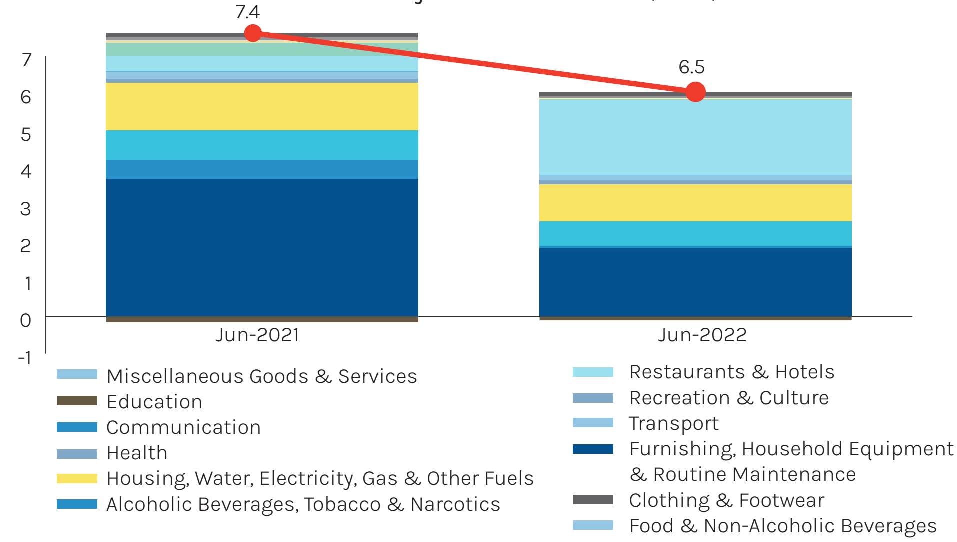
Chart 3.2.5 Contribution of Food and Non-Food



On the other side, food inflation grew moderately at 5.1 percent in June 2022 against 10.1 percent in June 2021 due to supply side measures implemented by the government.

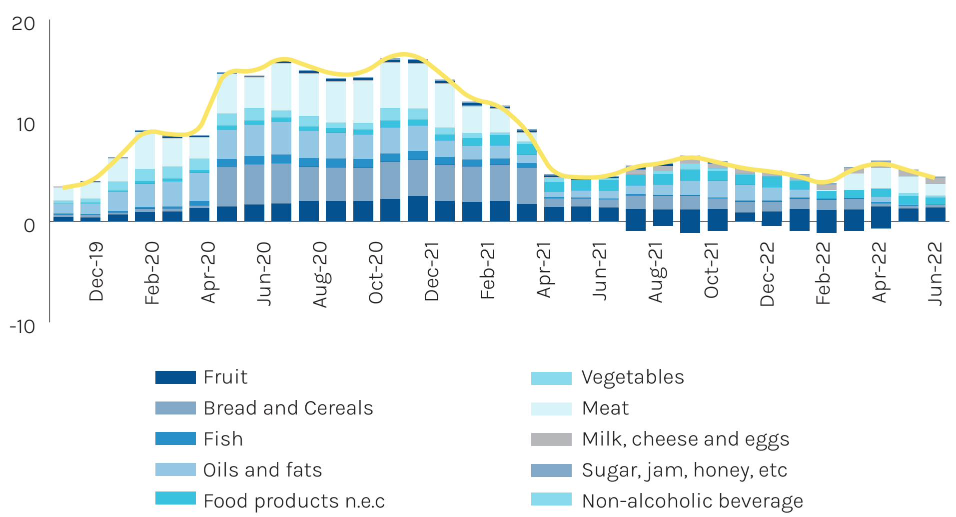
In June 2022, the drivers of CPI headline inflation showed notable changes compared to June 2021. The major components of CPI during the review period include transport and food & non-alcoholic beverages. Inflation in food & non-alcoholic beverages remained the primary drivers of headline inflation although its contribution in absolute terms declined to 1.8 percent in 2022 from 3.7 percent in the previous year. Transport, on the other hand, scaled new peaks and reached as high as 14.7 percent in the current inflation series in June 2022 due to the sharp rise in prices of petrol and diesel. Therefore, during the review period, the average percentage contribution of transport to headline inflation increased to 23.9 percent from 10.5 percent in June 2021.

Chart 3.2.6 Major driver of Inflation (Y-o-Y)

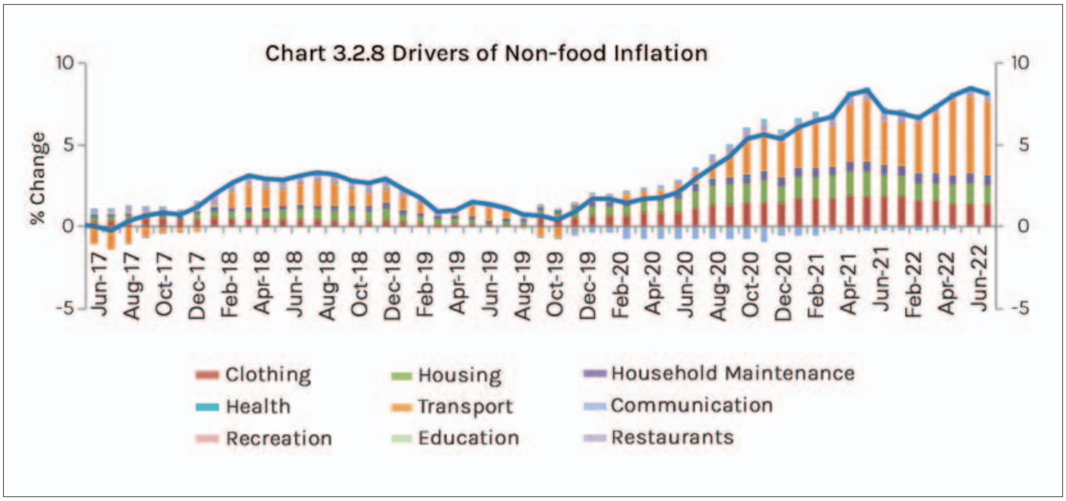


Food inflation which constitutes about 45.9 percent of CPI basket, fluctuated within a range of 3 percent to 6.5 percent between June 2021 to June 2022. Food inflation averaged at 4.5 percent in 2022, compared to 9.1 percent in 2021, mainly due to easing of COVID-19 restrictions and gradual normalization of pandemic related supply and logistic disruptions. The movements in food inflation are because of change in price of vegetables, bread and cereals, oil and fats.

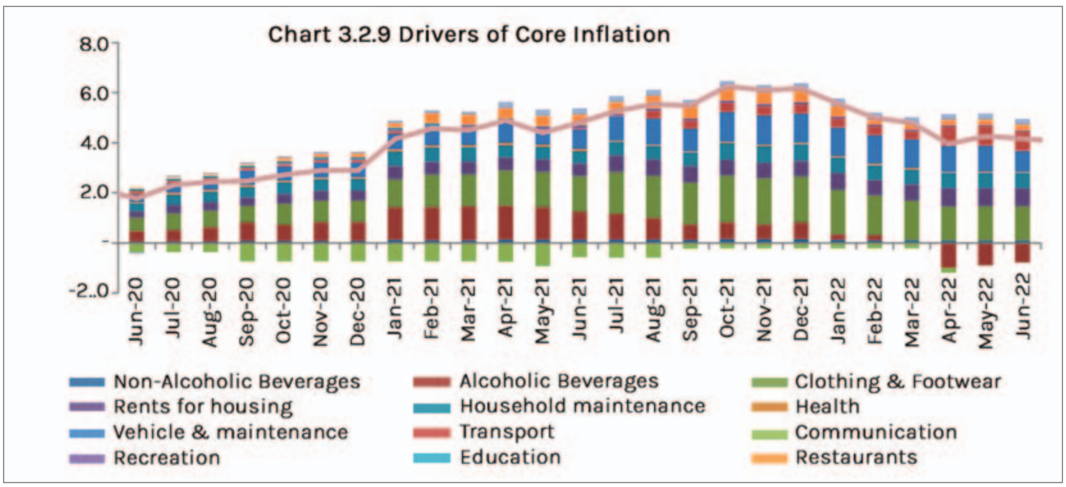
Chart 3.2.7 Drivers of Food Inflation



Among the major drivers of food inflation, vegetables prices (19.7 percent in CPI food) witnessed a negative average growth at 2.8 percent due to increase in domestic production in the wake of the pandemic, which exerted downward pressure on food inflation. Oil and fats, which constitutes 5.2 percent of food inflation, saw slower growth at 13.6 percent in June 2022 compared to 21.6 percent in the June 2021, resulting from restoration of supply chain.



Non-food inflation saw an upward trend beginning 2021 recording a historically high of 8.1 percent in May 2022 on the back of rising global fuel and commodity prices. The year-on-year (y-o-y) non-food inflation stood at 5.2 percent in June 2021, which incessantly increased to 7.7 percent in June 2022. The rise in non-food price was mainly due to seepage of fuel price increase to the cost of transportation (weight of 15.6 percent in CPI). The spill-over-effect of rise in transportation cost led to increase in price of other sectors.

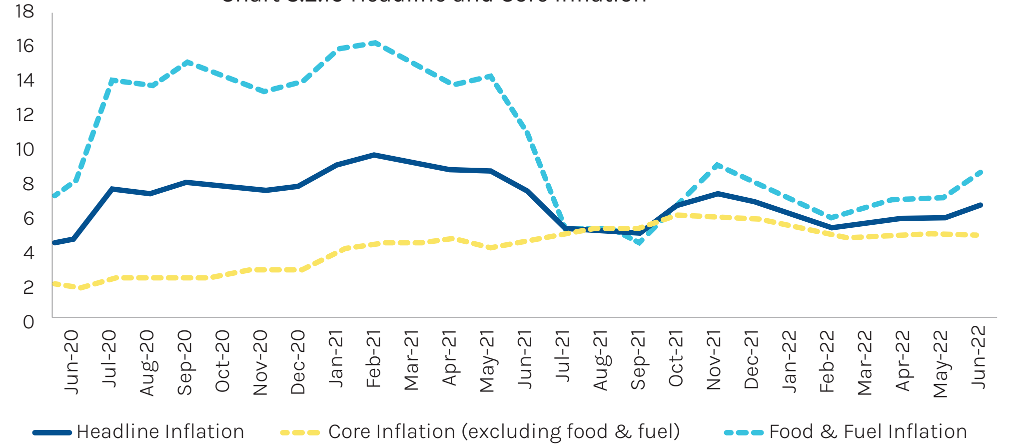


Core inflation (excludes food and fuel which are highly volatile in nature) sustained a small change during the FY 2021/22 to 4.8 percent from 4.6 percent in the FY 2020/21. The rise in price of housing led to marginal increase in core inflation.

On the other hand, following the trend since 2020, the price for communication declined gradually at an average of -4.7 percent between July 2021 to June 2022 due to revisions of data charges and incentives to mark special events by telecom service providers.

Given the current ongoing geo-political tension and global uncertainties, the headline inflation is expected to remain elevated in the medium term.

Chart 3.2.10 Headline and Core Inflation



Inflation Dynamics in Bhutan

Monetary policy affects the central bank's mandate of price stability with a lag. Therefore, monetary policy should be forward-looking (i.e., monetary policy should react to expected, rather than past, output and inflationary developments). In this context, understanding inflation becomes a critical element for an effective monetary policy operation.

The RMA operates its monetary policy within the framework of a one-to-one exchange rate arrangement with the Indian Rupee. Given a close trade and development partner of Bhutan, the monetary policy objective of the RMA is mandated to keep the inflation trend closer to that of the RBI's medium-term inflation target.

For exposition purposes, we follow an augmented Philips Curve approach for modelling inflation in Bhutan using data from 1999 to 2021. The Phillips curve framework postulates that the inflation rate in the short run (over the course of the business cycle) is determined by three main factors - (i) the level of economic activity in relation to its potential (which can be proxied by estimates of the output gap) (ii) expected inflation and (iii) supply shocks. Cross-country experience suggests that inflation expectations are largely adaptive in nature (i.e., past inflation trends have a large influence on inflation expectations), and this phenomenon may be more relevant for emerging and developing countries including Bhutan. Thus, inflation in Bhutan can be considered backward-looking.

$$Inf_t = \beta_1 Inf_{t-1} + \beta_2 gap_{t-1} + \beta_3 ind\_inf_t$$

Where,

Inf_t = CPI Inflation in Bhutan

gap= output gap in Bhutan

ind_inf= Inflation in India.

Regression Result

$$Inf_t = 0.7\ inf_{t-1} + 0.31\ Ygap_{t-1} + 0.5 ind\_inf_t$$

(9.28***) (2.21***) (4.47***)

Figures in parentheses are t-statistics and **** indicates the significance at 1% ** at 5% and * at 10 %. The sample period for the estimation is 1999-2021.

R-square = 0.86

Root Mean Squre Error (MSE)=1.9

Durbin-Watson d-statistic = 8.3

The model has a good explanatory power and all the variables are statistically significant. The regression results suggest that inflation in Bhutan is highly inertial with a coefficient of 0.7 on lagged inflation. The output gap (an indicator of excess demand pressures in the economy) is statistically significant and positive. The point estimate suggests that an increase of one percentage point in the output gap could increase inflation by 0.31 percent with a lag of one year. This highlights the role of demand conditions on inflationary developments in Bhutan and signifies the critical role of monetary policy in managing domestic demand and inflation.

Lastly, the role of imported inflation from India is confirmed by the regression estimates. The estimates indicate that a one percentage point in Indian inflation (measured by wholesale manufactured products inflation) pushes up inflation in Bhutan by 0.5 percent. Thus, higher inflation in India contributes to inflationary pressures in Bhutan and ebbing of inflation in India eases inflationary pressure in Bhutan.

3.3 Employment and Labour Market

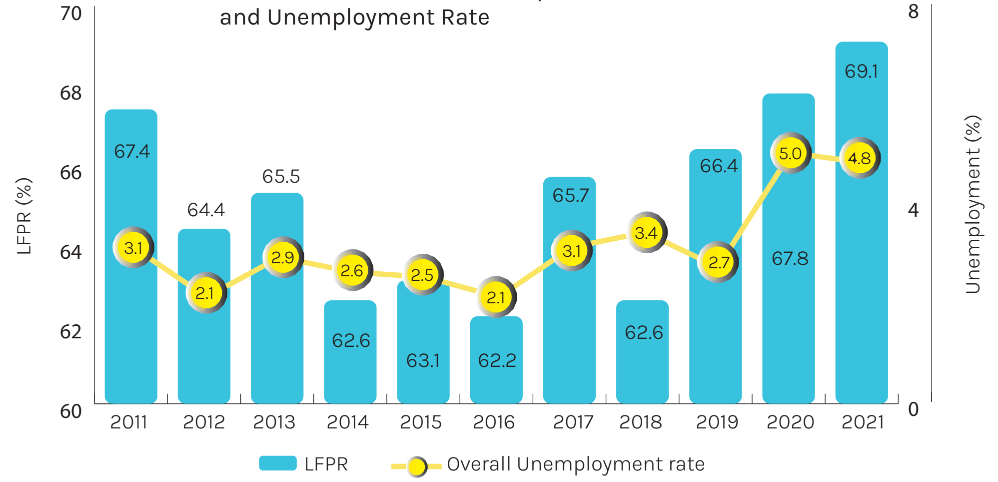
The overall unemployment situation improved from 5 percent in 2020 to 4.8 percent in 2021 with the improvement in the overall economic situation and implementation of numerous skilling programs.

As per the Population and Housing Census of Bhutan (PHCB) 2017, the estimated population in 2021 was 756,129, which was about 1 percent growth from 2020. Of the total population, 394,323 were male (52.2%) and 361,806 were female (47.8%). Furthermore, according to the recent Labour Force Survey (LFS) 2021, working age population (15 years and above) was estimated at 489,732, which constitute 64.8 percent of the total population[3], of which 48.7 percent were male and 51.3 percent were female. On an average, for every ten persons, there were seven potential workers, reflecting higher level of economic working support ratio.

However, in 2021 a total of 151,356 persons of the working age population remained economically inactive[4]. This was an improvement from the previous year, where the total number of working age population that were economically inactive was 157,114 persons. The economically inactive population constitutes 31 percent (151,356 persons) of working age population, largely composed of students or engaged in trainings (54.5%), attending family duties (16.6%), elderly citizen (16.1 %) and others[5].

In terms of inactive population by age, more than 50 percent were youth aged between 15-24 years, and 19.3 percent were aged 65 and above. The share of youth and elderly citizen to the economically inactive population remained high at 54.5 percent and 19.3 percent in 2021 compared to 51.1 percent and 17.7 percent in 2019 respectively. However, the overall economically inactive population dropped from 33.6 percent in 2019 to 32.2 percent in 2020 and to 30.9 percent in 2021.

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



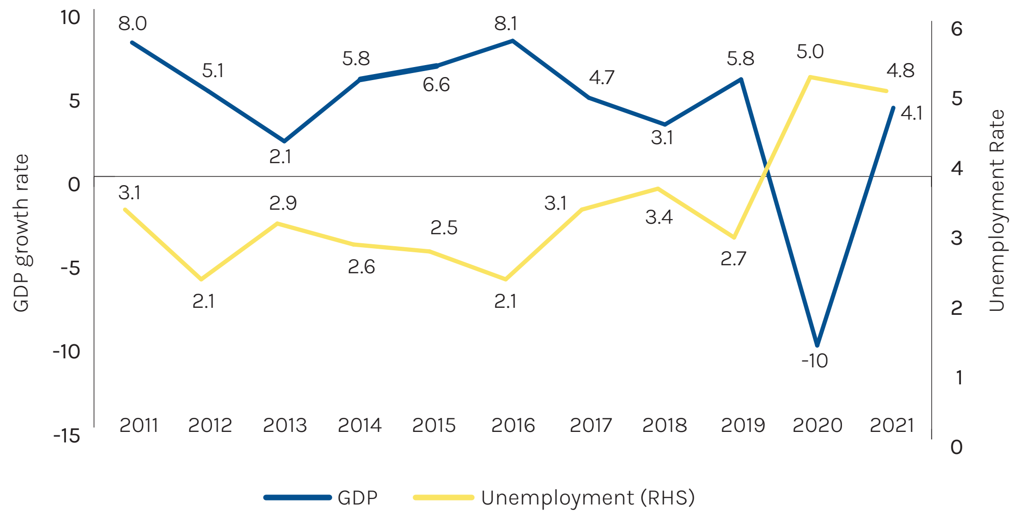
[3]According to Population Projections Bhutan 2017-2047, ratio of working-age population to total population is 76.1 % in 2021. In absence of total population figure in LFS 2021, overall population data is sourced from Population Projections of Bhutan 2017-2047.

[4]All persons who neither worked nor were seeking/available for work during the reference period is referred to as economically inactive population.

[5]The remaining inactive population includes waiting for recall from previous job, waiting for result (academic), illness, disability, retired/pensioner, those with lack of skills, those planning to go for further studies, planning to go for further studies/abroad.

During the review period, the Labour Force Participation Rate (LFPR)[6] increased to 69.1 percent compared to 67.8 percent in 2020. This was largely contributed by continuous influx of labour supply as indicated by the drop in inactive population of persons attending family duty (-19.6%) in 2021. Similarly, there has been an increase in female labour force (2,509 persons:1.8%), resulting in 65.3 percent of female LFPR in 2021 compared to 63.5 percent in 2020. However, there has been only a marginal increase in male LFPR, hovering around 73 percent.

Chart 3.3.2 GDP Growth & Unemployment



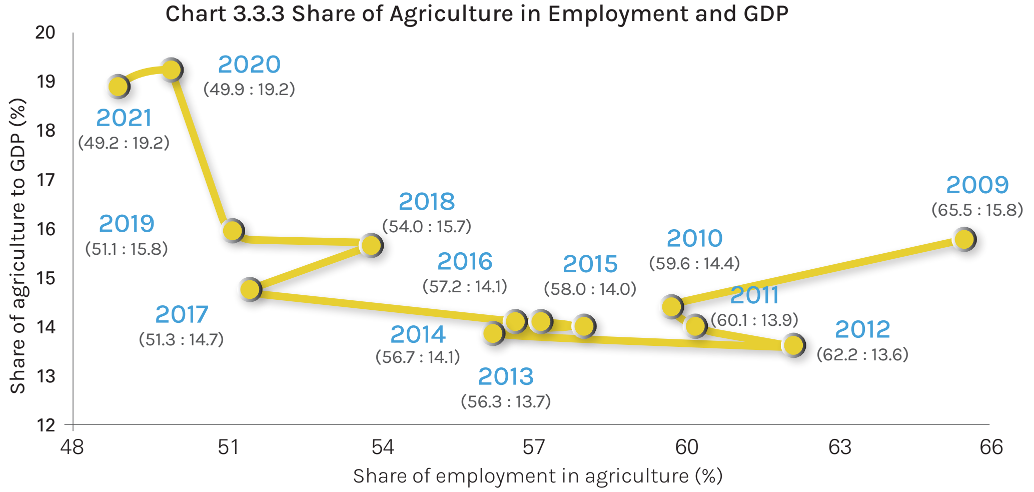
In terms of LFPR by area, labour force participation was still higher in rural areas (71.1%) compared to urban areas (65.3%). Higher rural LFPR was driven by higher rural female labour participation (69.6%) against 57.2 percent in urban areas, indicating higher gender disproportion in the LFPR. As a result, 42.8 percent of the potential female workforce is economically inactive in urban areas compared to only 30.4 percent in rural areas. Moreover, female work force in urban areas is largely engaged in family duty whereas in rural areas female work force is actively engaged in household chores and agriculture activities.

[6]The LFPR is defined as the proportion of the economically active population to the working-age population.

To promote employment opportunities, the government has initiated numerous skilling programs such as Skill Development Plans (SDP), Entrepreneurship course, Build Bhutan Project (BBP), Youth Engagement in Livelihood Program (YELP) and De-suung Skilling Program (DSP). The improvement in labour market situation and easing of COVID-19 restrictions has led to pick up in business activities.

With the recovery in GDP growth from -10 percent in 2020 to 4.1 percent in 2021, the overall unemployment rate correspondingly improved from 5 percent in 2020 to 4.8 percent in 2021. In terms of numbers, the total number of unemployed was recorded at 16,254 persons in 2021, compared to 16,660 persons in 2020. The number of unemployed persons in the past two years (2021 & 2020) is comparatively higher than preceding years, largely attributed to the adverse impacts of the pandemic on household and business activities, which resulted in job displacement.

Chart 3.3.3 Share of Agriculture in Employment and GDP



Similarly, youth unemployment[7] also improved from 22.6 percent in 2020 to 20.9 percent in 2021. The lower youth unemployment was on account of strategic interventions and programs initiated by the government to enhance skills of youth. However, the increasing numbers of new entrants in labour market after completion school, college and training, in addition to existing unemployed, exerted further pressure to unemployment, especially among youth, in 2020 and 2021 compared to previous years.

Sector-wise, the agriculture sector (crops, livestock & forestry) is still a key economic activity in the labour market employing almost half (49.2 %) of the total labour force, while its contribution to GDP is about one-fifth. Of 158,511 persons employed in the agriculture sector in 2021, about 68.9 percent were engaged in rural farming, dominated by females (57.8% of total female employed). However, in the recent years, there has been a gradual economic transition from the agriculture sector to the industry and service sector.

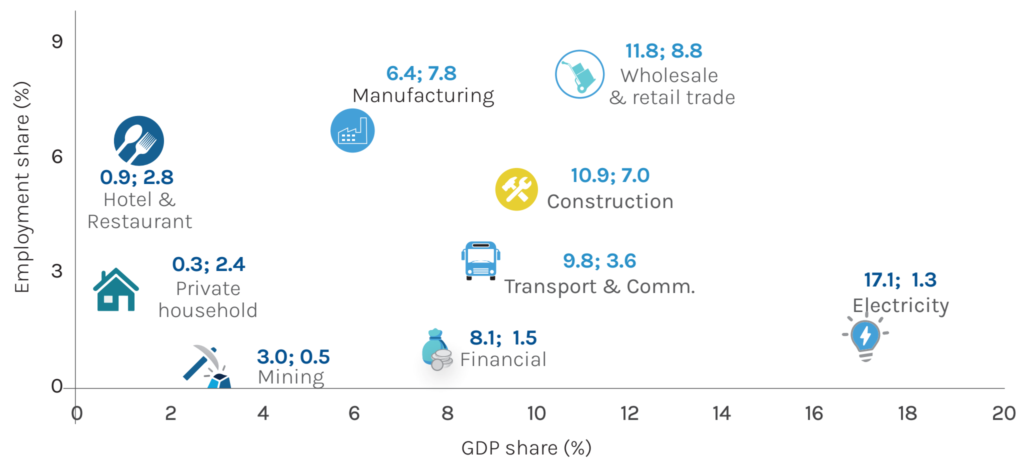
Despite increasing GVA in the agriculture sector from 14 percent in 2015 to 19.2 percent in

[7] *Youth employment refers to those unemployed persons aged 15-24 years.*

2021, the sectoral employment share steadily declined from 58 percent to 49.2 percent during the same period. As of 2021, the majority of persons employed in the agriculture sector were in the rural areas (68.9%), while in the urban areas, about 74.1 percent of persons were employed in the service sector and 20.8 percent in the industry sector. The proportion of females (57.8%) working in the agriculture sector was higher than males (41.3%). More than 70 percent of female employment in rural areas was in the agriculture sector compared to 7.2 percent in urban areas. This indicates that the agriculture sector continued to retain a large share of employment during the post pandemic period. Despite the large share of employment, labour productivity in agriculture sector remained comparatively lower than industry and service sectors due to lack of diversity, low technology and mechanization.

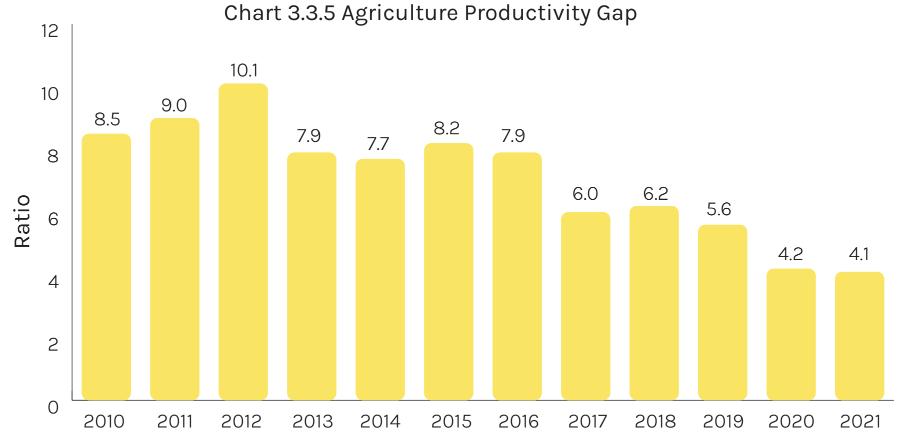
Compared to the agriculture sector, labour productivity is higher in the service sector driven by the electricity sector which is largely capital intensive in nature. Overall, the mean hours worked by employed persons are 53 hours per week at the national level. The mean hours for a week in agriculture, industry and service sectors are 52 hours, 49 hours and 49 hours respectively. This is higher than the international standard of a maximum of 40 hours per week.

Chart 3.3.4 Non-agriculture Sector GDP and Employment Contribution



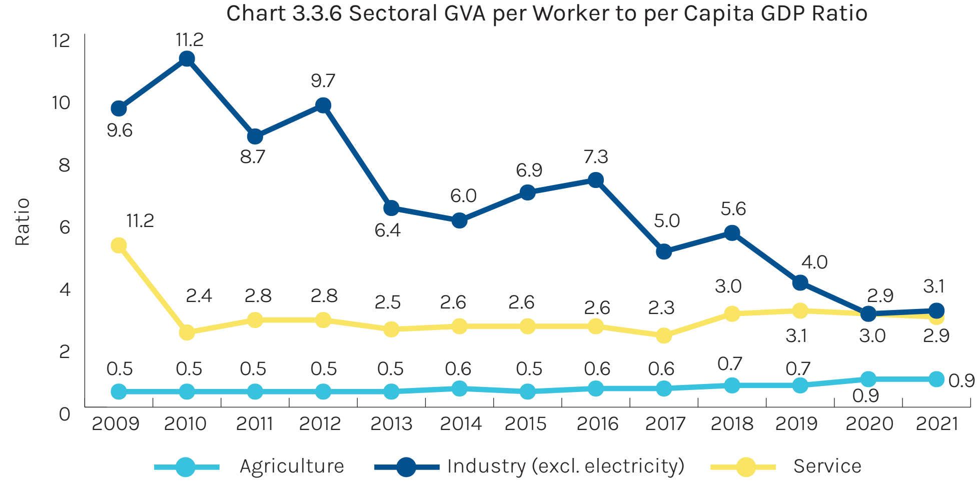
As depicted in the chart above (3.3.4), the growth intensifying sectors such as electricity, transport & communication and financial services have a small share to employment creation. At the same time, other economic sectors such as manufacturing and hotel & restaurant activities, have a higher contribution to employment generation than to GDP. Therefore, agriculture, manufacturing and hotel & restaurant sectors, continue to remain the key sectors with potential to generate employment in the post pandemic period.

Chart 3.3.5 Agriculture Productivity Gap



In 2021, the agriculture productivity gap decreased to 4.1 percent from a high of 4.2 percent in 2020, showing an improving trend with the gradual economic transformation from agriculture to industry and service sectors. Despite an improvement in the agriculture sector GVA contribution, it is still a major concern as a large work force is still concentrated in agriculture with limited labour productivity. The agriculture productivity gap indicates misallocation of labour in the economy. In such a situation, reallocation of workforce from agriculture to more productive sectors will enhance output without requiring additional production inputs in the post pandemic period.

Chart 3.3.6 Sectoral GVA per Worker to per Capita GDP Ratio

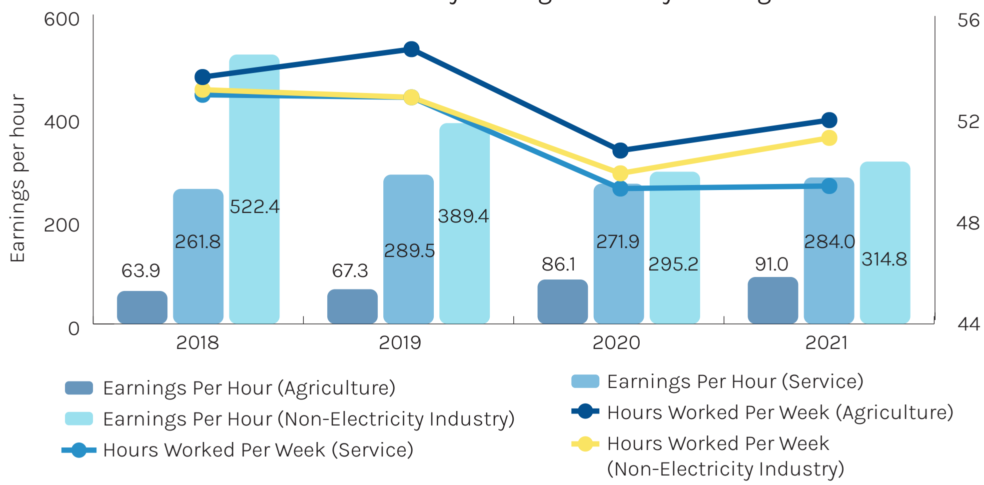


In addition, while measuring sectoral per capita income earnings relative to the GDP per capita, despite increase in agriculture output in 2021, GVA per capita in agriculture sector (Nu 227,346) is about 9 percent below GDP per capita (Nu 248,334). Similar to 2020, even the 2021 GVA per capita of non-electricity industry (Nu 764,998) and service sectors (Nu 724,654) is three times higher than the GDP per capita.

The relative income of the employees by sectors (measured in terms of sectoral GVA per employee vis-à-vis per capita GDP) shows that the GVA per capita in agriculture (Nu 246,614.1 million p.a) has witnessed a slight improvement over the decade, nonetheless, it is still less than the per capita GDP (Nu 248,334.3 p.a). While, the GVA per capita of industry (excluding electricity) and service sector are significantly higher than that of per capita GDP by three folds.

There is a slight improvement in underemployment rate[8] in 2021 compared to 2020, mainly due to ease of lockdown and relaxation of restrictions. The underemployment rate in 2021 was 4.7 percent compared to 5.3 percent in 2020. Underemployment is a rural phenomenon with 86.2 percent of the underemployed persons dwelling in rural areas. The main reason for underemployment is largely on account of financial constraints, resulting in a large number of people willing to work an additional hour for additional income. Of the total 15,052 underemployed persons, about 97 percent were willing to work for additional income, indicating that underemployment can be reduced by efficient utilization of human resources, improvement in payroll and other employment benefit schemes.

Chart 3.3.7 Sectoral Hourly Earnings & Weekly Working Hours



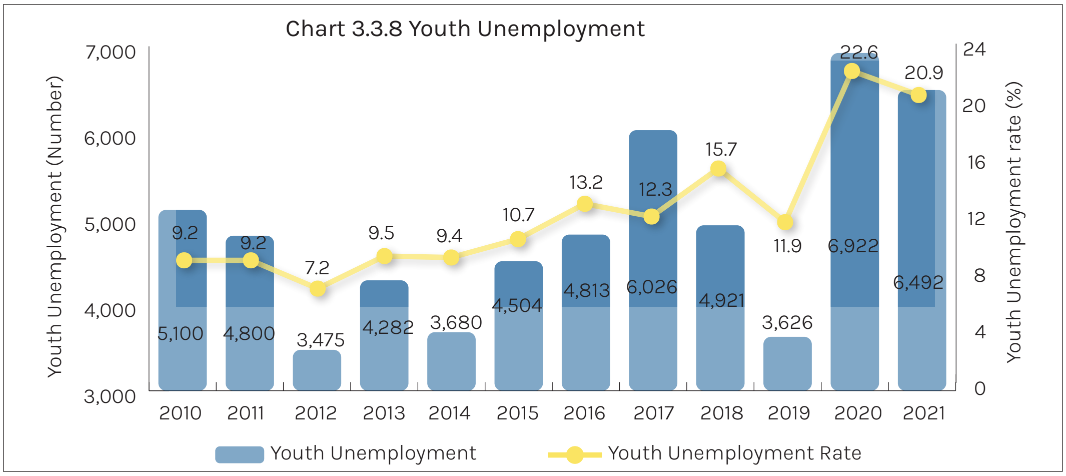
There is an overall improvement in the labour productivity with increment in the hourly earnings in all three sectors in 2021. As reflected in the sectoral labour productivity, there is not much change in the number of working hours for all the sectors but the earnings per hour have marginally increased on an average from Nu 218 in 2020 to Nu 230 in 2021 for all sectors.

In term of sectoral earnings, the agriculture sector hourly earnings increased from Nu 86 per hour in 2020 to Nu 91 per hour in 2021. This can be attributed to various government initiatives to improve agriculture productivity. Similarly, labour productivity in the service sector and non-electricity industry shows improvement in 2021, leading to an increase in hourly earnings from Nu 272 to Nu 284 and Nu 295 to Nu 315 respectively.

More than 90 percent of employees work beyond 40 hours per week and 86.3 percent of employees work more than 50 hours a week, which is comparatively higher than the international threshold of 40 hours per week. The longer working hours have both demand

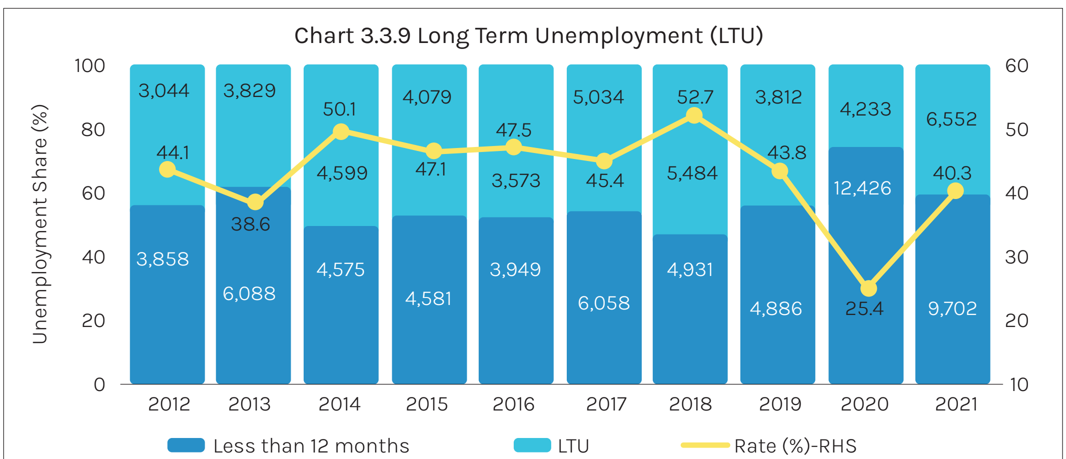
[8]Underemployment refers all persons in employment who wants to work more and is available for additional hours of work if given an opportunity to work more. It is mainly to meet economic needs or mismatch in job and skills or at less than full-time on regular jobs.

and supply side factors. According to the LFS 2021, around 49.2 percent of employees work more than 48 hours to earn additional income and 48.5 percent work more than 48 hours as demanded by the job. This indicates that labour productivity is still lower to earn an adequate income for employees and at the same time contributing less acceptable output without compromising decent employability.



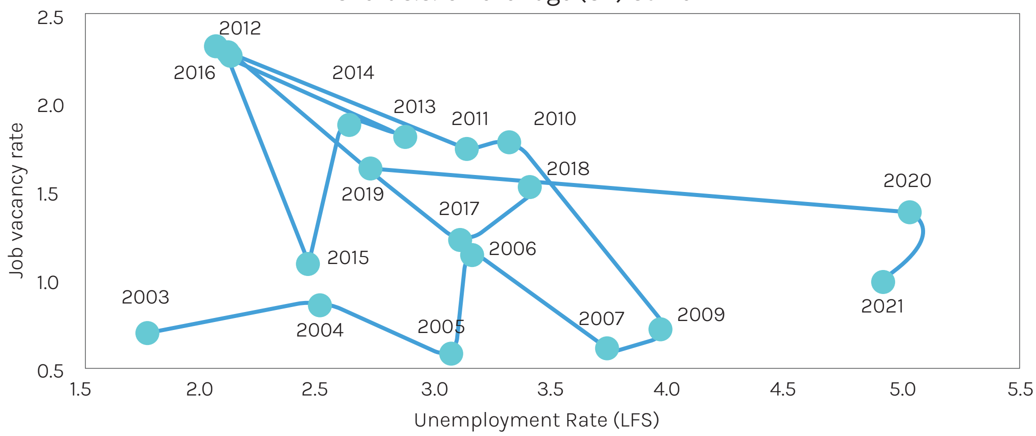
Youth unemployment is a major issues and concern of all countries and remains one of the highest priorities. Similarly, youth unemployment in Bhutan continued to pose a challenge with staggering rise over the period. Youth unemployment rate has fluctuated over the years recording the highest rate in 2020 (22.6%) and lowest at 7.2 percent in 2012.

In 2021, the youth unemployment rate stood at 20.9 percent, down by 1.7 percentage points as compared to 22.6 percent in 2020. This reduction is attributed to various government initiatives and intervention programmes to navigate the impact of COVID-19 pandemic. However, the annual increase in the number of school leavers and graduates from training centers and university, added to the existing youth unemployment.



In addition, the limited scope for full employment opportunities over the period, further aggravated the unemployment situation. In 2021, the long-term unemployment[9] (LTU) increased to 6,552, equivalent to 40.3 percent of the total unemployment (who have been unemployed for more than one year), an increase of 14.9 percentage points from 2020. The increase in overall LTU is due to the increasing number of new entrants in the job market. However, the momentary engagement of past unemployed in various programs, initiated to safeguard against the impact of COVID-19 pandemic, helped ease the LTU.

Chart 3.3.10 Beveridge (UV) Curve



As economic activities pick up, the Beveridge curve[10] (UV) reflects a shift of vacancy and unemployment variables towards the top left corner with increased job prospects. In the last two years, the movement of UV curve reflected an asymmetrical shift. In 2020, the reduction in job vacancies rate pushed the unemployment rate beyond 5 percent. However, in 2021 the overall unemployment rate shifted toward the left (decrease) along with a sharp fall in the job vacancy rate. Despite decline in the job vacancy rate, the unemployment rate also fell mainly due to the introduction of social security measures adopted by the government to protect the livelihoods of those impacted by the COVID-19 pandemic.

[9]Long-term unemployment rate is expressed as the percentage of unemployed (12 months or more) person to economically active population.

[10]The Beveridge (UV) curve shows an inverse relation between vacancy and unemployment rates.

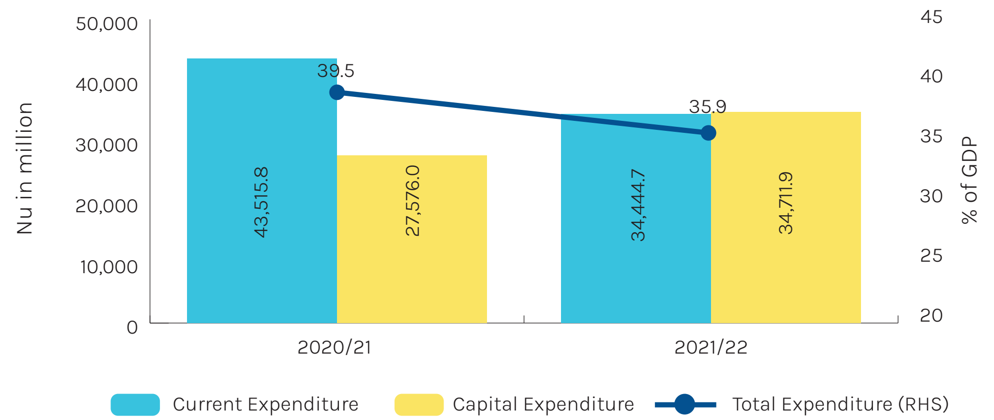
3.4 Government Finance

The highest portion of capital outlay in the FY 2021/22 was allocated to building infrastructures, with the objective of achieving 'Sustained Economic Stability for a Resilient Recovery'. The five objectives under this theme includes maintaining public confidence, sustaining economic activities, transforming health and education system, leveraging on Information & Communications Technology (ICT) and innovation, and enabling reform initiatives.

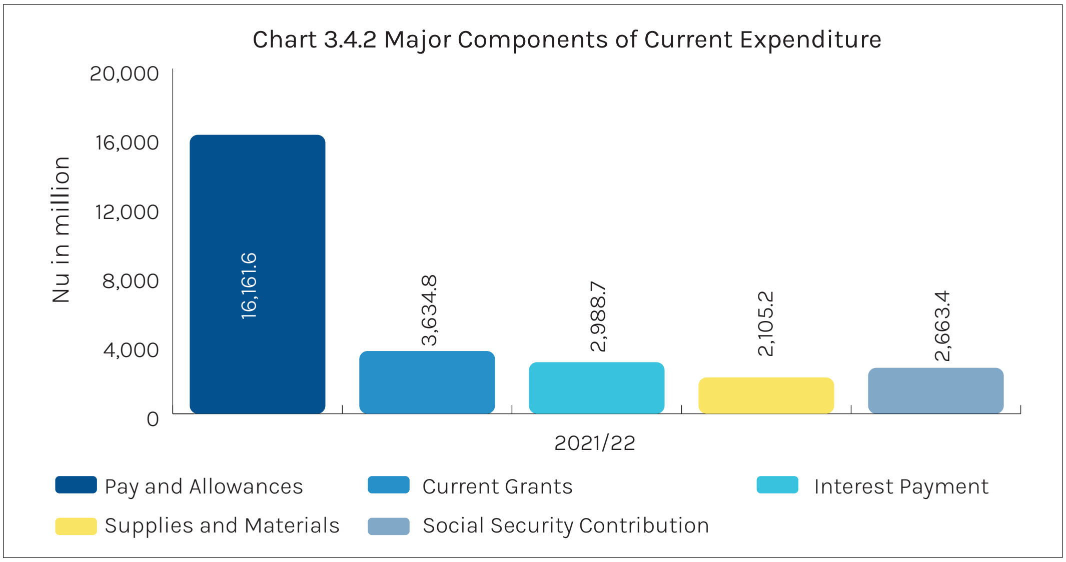
In view of the severe economy downturn brought by the pandamic and global uncertainties, the fiscal policy continued to remain supportive in stimulating sustainable and inclusive economic growth. Major government spending was allocated for supporting priority activities and business continuity for economic recovery. As a result, the economy gradually recovered with resumption of activities supported by expansionary fiscal policy, leading to an increase in capital spending.

The total government expenditure in the FY 2021/22 amounted to Nu 69,156.6 million, a decrease by Nu 1,935.2 million (-2.7%) from the previous FY, accounting for 35.9 percent of GDP. Of the total government expenditure, 49.9 percent was current expenditure and the remaining was capital expenditure. While capital expenditure increased by 25.8 percent, driven by the expenditure on roads & buildings and disaster relief response, current expenditure declined by 20.9 percent, due to exclusion of Druk Gyalpo's Relief Kidu Fund from the Annual Financial Statement (AFS) consolidation. Considering the domestic revenue performance and the constitutional requirement on meeting current expenditure from domestic resources, current expenditure remained within the domestic revenue.

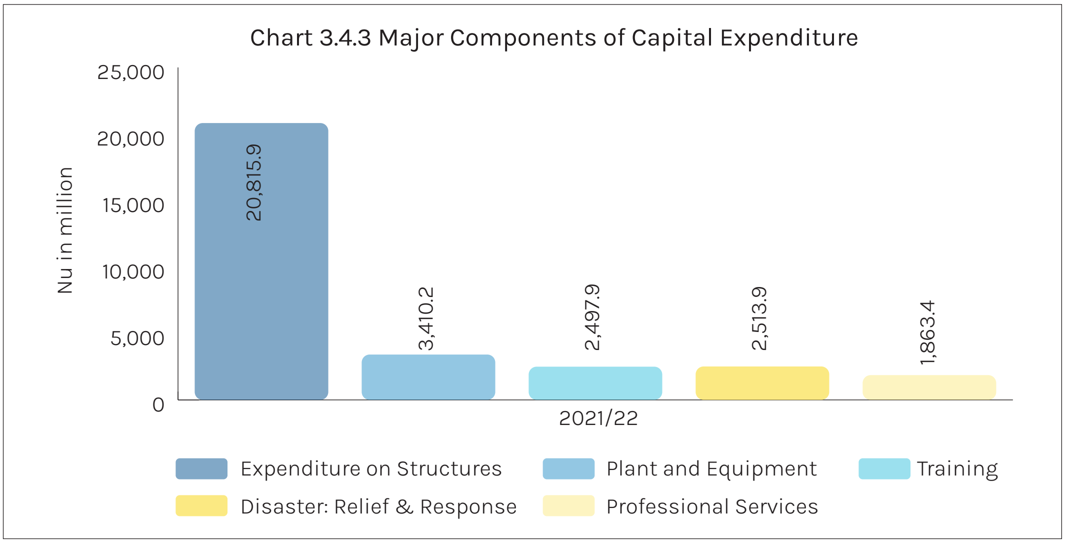
Chart 3.4.1 Government Expenditure



On the major current budget allocation, the share of current expenditure on pay and allowances was the highest, accounting for 46.9 percent followed by current grants and interest payment with 10.6 percent and 8.7 percent respectively. The increase in external loan to Nu 2,721.8 million from Nu 1,721.3 million in previous fiscal year resulted in increase in interest payment.



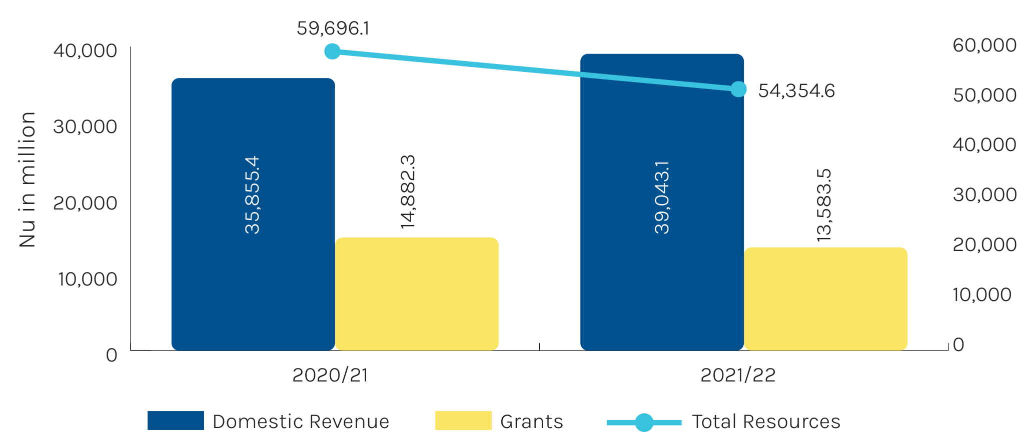
In terms of capital budget allocation, the expenditure on roads and buildings accounted the highest share with 60 percent followed by plant & equipment and disaster-relief & response constituting 9.8 percent and 7.2 percent respectively. These three components made up 77 percent of the total capital expenditure in FY 2021/22.



On the resource front, the total resources during the FY 2021/22 stood at Nu 54,354.6 million compared to Nu 59,696.2 million in FY 2020/21 due to lower inflow of official grants and other receipts. Of the total resources, domestic revenue and grants accounted for 71.8 percent and 24.9 percent respectively in FY 2021/22. The revenue was sufficient to finance 56.5 percent of total expenditure in FY 2021/22 compared to 50.6 percent in previous fiscal year. The improved coverage by 6 percent was on account of decline in expenditure with relative corresponding to increase in revenue.

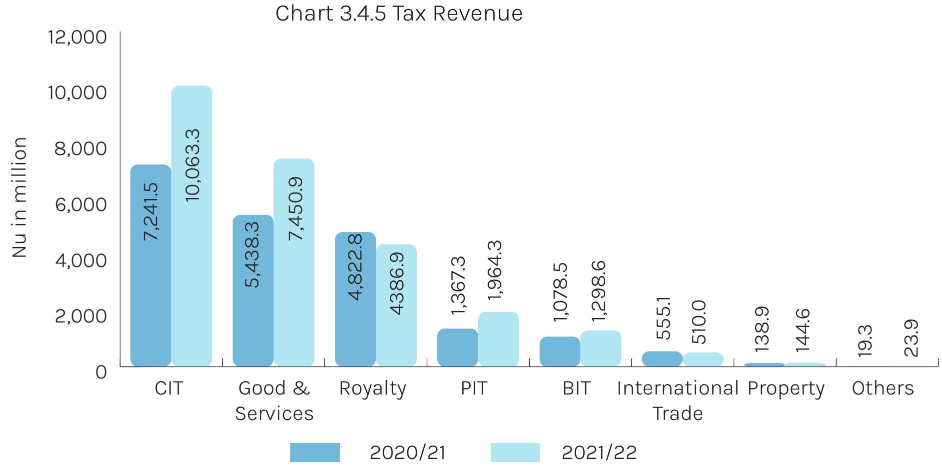
On the domestic revenue front, the domestic revenue for the FY 2021/22 stood at Nu 39,043.1 million, an increase of 8.9 percent from the previous fiscal year. The improvement in domestic revenue during the review fiscal year was mainly attributed to increase in tax revenue by 25.1 percent, amounting to Nu 25,842.5 million. In addition, increase in indirect taxes such as sales tax (Nu 1,489.1 million) and dividend receipts (Nu 1,042.2 million) also contributed to increase in domestic revenue. Of the total domestic revenue, 66.2 percent accounted for tax revenue and 33.8 percent for non-tax revenue.

Chart 3.4.4 Budgetary Resources



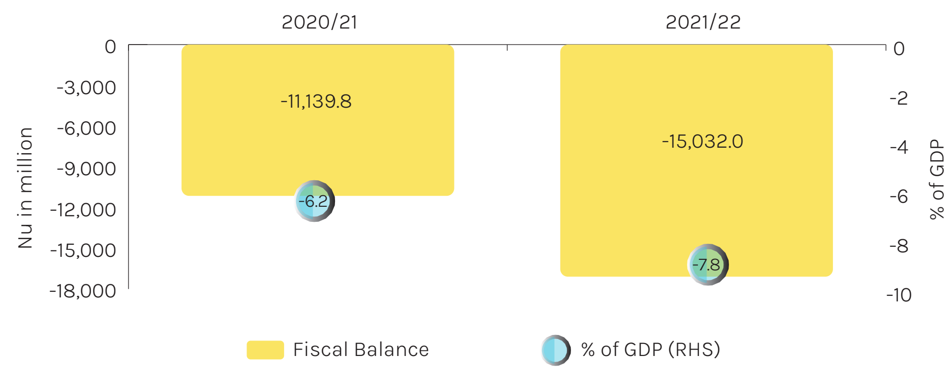
Despite a positive growth in domestic revenue, grants and other receipts reduced, resulting in declining total budgetary resources. The grants received declined from Nu 14,882.3 million to Nu 13,583.5 million in the FY 2021/22. A fall in total grants was mainly on account of fall in program grants by 50 percent from the previous fiscal year. Of total grants received, 93.7 percent were project-tied grants and remaining were program and internal grants.

Chart 3.4.5 Tax Revenue



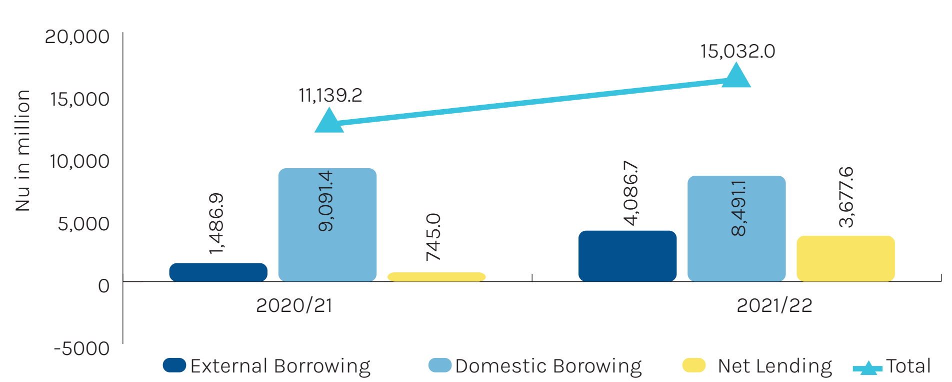
The tax revenue improved supported by rationalization of expenditure coupled with strengthened tax collection and compilation. Consequently, the tax revenue in the FY 2021/22 stood at Nu 25,842.5 million (13.4% of GDP) compared to Nu 20,661.8 million in the previous fiscal year. Of the major tax components, Corporate Income Tax (CIT), Goods & Services Tax (GST) and Royalty, were 38.9 percent, 28.8 percent and 17 percent respectively, contributing the highest share to the total tax revenue during the FY 2021/22. These three major components comprised 84.7 percent of the total tax revenue. The increased in CIT was mainly on account of higher tax revenue collected from State Owned Enterprises (SOEs) amounting to Nu 5,030.9 million in FY 2021/22, an increase of 86 percent from FY 2020/21. On the other hand, international trade and royalty from hydropower and mines & mineral recorded a slight decrease compared to FY 2020/21.

Chart 3.4.6 Fiscal Balance



Higher government expenditure coupled with a fall in total resources resulted in widening of fiscal deficit at 7.8 percent of GDP (Nu 15,032 million) in FY 2021/22 compared to 6.2 percent of GDP (Nu 11,139.8 million) in the previous FY. The fiscal deficit was financed through external concessional and domestic borrowings, which are sourced from bilateral and multilateral development partners and the domestic market. In FY 2021/22, the net external borrowings stood at Nu 4,086.7 million and net domestic borrowings of Nu 8,491.1 million which was availed through issuance of T-bills and long-term government bonds.

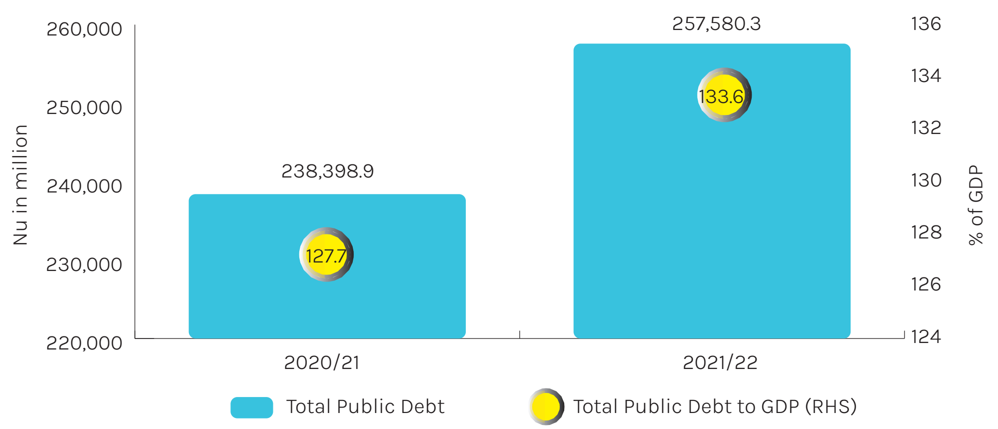
Chart 3.4.7 Government Financing



Consequently, total public debt stock for FY 2021/22 increased to Nu 257,580.3 million (133.6% of GDP) from Nu 238,398.9 million (127.7% of GDP) in the previous fiscal year to meet the deficit financing and program loans. In terms of composition, external debt amounted to Nu 229,519 million and domestic debt amounted to Nu 28,061.3 million during the review fiscal year. Increase in public debt stock was primarily due to internal borrowing through issuance of T-bills of Nu 86,500 million and long-term Government bonds of Nu 5,800 million for cash management and economic revival activities. In addition, program borrowing for financial market development program and COVID-19 related loans availed from World Bank and Japan International Cooperation Agency (JICA) contributed to increase in total public debt in FY 2021/22.

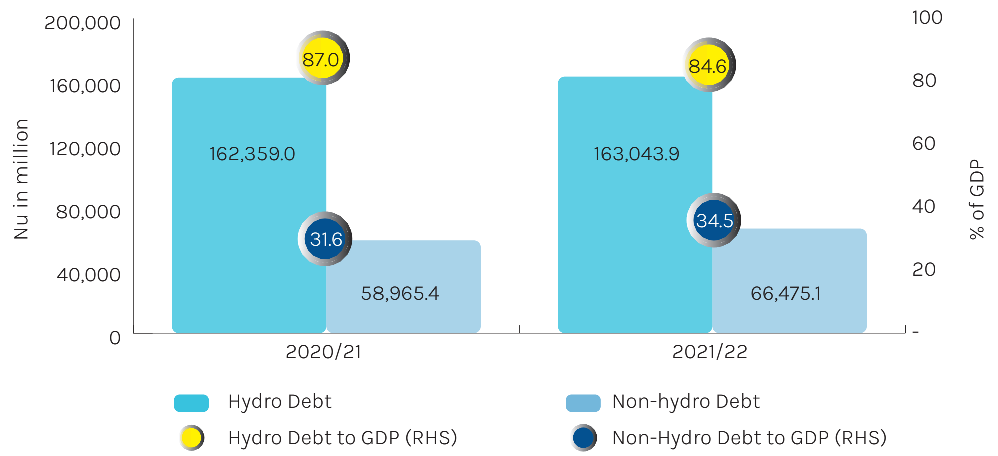
The domestic debt stock increased to Nu 28,061.3 million in the FY 2021/22 from Nu 17,074.4 million in the previous fiscal year, accounting for 14.6 percent of GDP and 10.9 percent of total public debt stock. It also includes Nu. 361.3 million of loan availed from the National Pension and Provident Fund (NPPF) for hydropower projects. Of the total domestic debt stock, the T-Bills stock (Nu 15,500 million) remains the largest component of domestic debt, contributing to rise in domestic debt stock during the review fiscal year.

Chart 3.4.8 Public Debt



In terms of external debt, the total external debt stock recorded a growth of 3.7 percent, amounting to Nu 229,519 million in FY 2021/22 as both hydro and non-hydro debt grew by 0.4 percent and 12.7 percent respectively from the previous fiscal year. Of the total external debt, 71 percent accounted for hydro debt and remaining 29 percent for non-hydro debt. The hydro debt comprises debt stock of six hydropower projects of Mangdechu, Puna-I, Puna-II, Nikachu, Dagachu and Basochu. While hydro debt to GDP stood at 84.6 percent, the non-hydro to GDP constituted 34.5 percent, which is within 35 percent threshold prescribed in the Public Debt Policy 2016. By currency composition, INR-denominated debt including hydro and non-hydro debt was recorded at INR 155,397.6 million and convertible currency debt to US $ 937.7 million.

Chart 3.4.9 External Debt



3.5 External Sector

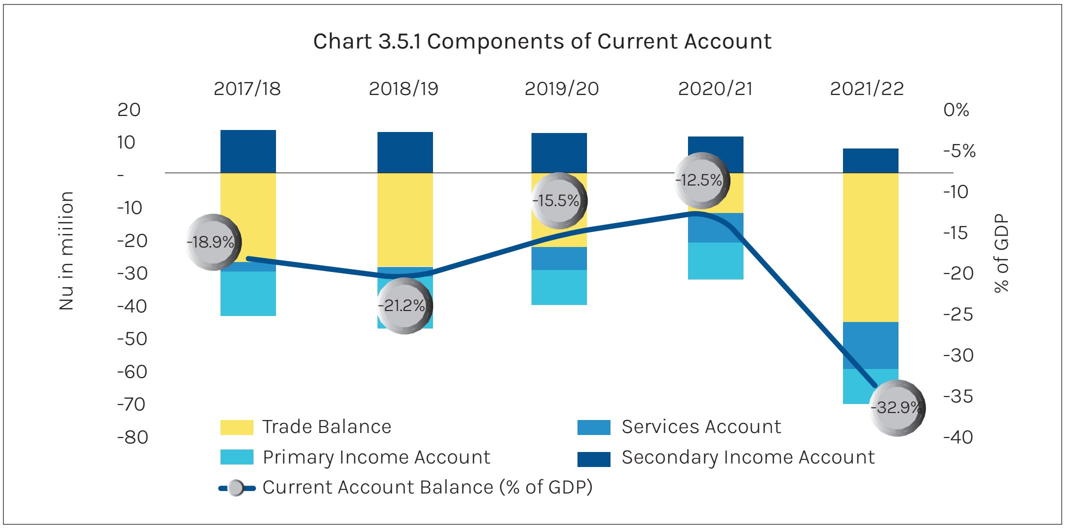
External vulnerability heightened with further deterioration of current account deficit at 33.8 percent of GDP in FY 2021/22 from the previous year, triggered by historically high level of merchandise imports against a marginal export.

Amidst recovery from the pandemic, the global economy is again adversely affected by the prolonged geopolitical conflicts, rising food and energy prices due to disruptions in supply chain and sanctions. Rising global inflation and tightening monetary policy across advanced and emerging economies have intensified external vulnerabilities and risks. The decrease in capital inflows, rising external debt and weakening of currency against the US Dollar are some of the risks faced by emerging economies.

In the wake of rising global uncertainties, the RMA continued to facilitate seamless flow of external trade and payments. However, rising global prices amongst the trading partners and weakening of currency against the US Dollar translated into higher import price, contributing to high current account deficits, depletion of foreign currency reserves and inflationary pressure.

3.5.1 Current Account Balance

As usual, the trade deficit continued to deteriorate at Nu 45,242.1 million (23.5 % of GDP) during the FY 2021/22, an increase by more than three folds from the previous year. A significant rise in merchandise imports by 58.9 percent to Nu 104,134.7 million from Nu 65,529.4 million in previous year resulted in higher trade deficit. Under merchandise



import, commodities such as base metals (Iron and steel), machineries, vehicle & transport equipment, and mineral products combinedly constituted 60 percent during the review fiscal year. The import payments for special projects related to machineries such as processing units and storage units alone stood at Nu 32,109.3 million, constituting almost 30 percent of the total imports.

On the export front, total export recorded Nu 58,892.6 million, recording growth of 10.9 percent in FY 2021/22. With a fall in electricity generation, electricity export during the FY 2021/22 witnessed notable decrease by Nu 2,445.6 million to Nu 23,710.4 million from the previous fiscal year. From the total export, hydropower export constitutes 40.3 percent, a 9 percent drop from total export (Nu 53,099.9 million) of the previous year. The decrease in electricity generation was mainly on account of shutting down of Chhukha and Tala hydropower plants for few months coupled with other hydrological factors. While export of electricity dropped, domestic sales relatively picked up by 9.5 percent from Nu 3,739.2 million in FY 2020/21.

In a similar line, net service payment also expanded drastically by 66.9 percent from Nu 8,591.2 million in FY 2020/21 due to higher other modes freight payments (Nu 6,107.5 million) on imports from COTI. While service exports such as telecommunication, travel and government goods & services, show a trivial improvement by 11.8 percent, service imports recorded a significant increase by 58.9 percent to Nu 15,983.9 million during the review fiscal year, thus adversely affecting the overall current account balance.

The net primary payments widened by 2.3 percent from Nu 11,221.4 million in FY 2020/21, largely because of regular servicing of external debt. During the FY 2021/22, no compensation was paid to cross-border workers and other short term foreign employees due to restriction on cross-border movements. Similarly, the compensation to Bhutanese working outside the country also dropped marginally by 2.2 percentage points to Nu 103.3 million.

The net secondary income receipts declined by 29.3 percent to Nu 7,664.1 million mainly on account of substantial drop of non-investment budgetary grant inflows and net inward remittances during the review period. The drop in net inward remittance was recorded at Nu 4,333.3 million, a decrease by 27.6 percent. The total inward remittance dropped to Nu 6,861.7 million in FY 2021/22 from Nu 8,801.4 million in the previous year. The labour payments which constitute outward remittance doubled from the previous year's payments at Nu 2,528.5 million, owing to gradual relaxation of labour import.

Given the higher surge in trade deficit followed by increased net service payments and fall in net secondary income receipts, the current account deficit hit an all-time high of Nu 63,403.8 million (32.9 % of GDP).

The total merchandise goods complied by the RMA for balance of payments differs from merchandise goods sourced from Department of Revenue and Custom (DRC), Ministry of Finance, on account of different treatments and calculations. Based on the trade figures reported by DRC, the RMA carries out its own calculation as per the Balance of Payment Manual 6 (BPM6) guideline. Merchandised export figures are taken as it is, however, when it comes to the import from Countries Other Than India (COTI) in particular, CIF/FoB (20% freight and 1.125% insurance services) are adjustment with the DRC import figure and, in addition, goods procured in ports by carriers are also added to total imports. Therefore, the above-mentioned treatments give a lower import figure compared to the DRC statistics.

Table 3.5.1 Reconciliation between merchandise source data from DRC & total goods on a Balance of Payments basis

Nu in Million	2019/20		2020/21		2021/22	
	Export	Import	Export	Import	Export	Import
Merchandise trade statistics as provided by DRC [1]	**24,267.8**	**70,118.2**	**26,943.8**	**67,937.0**	**35,269.5**	**110,408.3**
Adjustments						
+ Hydropower exports [2]	22,595.0	-	26,156.1	-	23,710.4	-
+ Goods procured in ports by carriers [3]	-	1,628.9	-	116.8	-	176.5
+ Informal Trade at the Border	-	1,034.2	-	-		-
+ Net exports of goods under merchanting	-	-	-	-	-	-
- CIF/FOB adjustment for COTI	-	3,192.1	-	2,524.4	-	6,451.1
Total goods on a balance of payments basis	**46,862.8**	**69,589.2**	**53,099.9**	**65,529.4**	**58,979.9**	**104,133.7**

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

3.5.2 Capital Account

The capital account in FY 2021/22 improved by 44 percent from Nu 7,415.2 million mainly due to growth in budgetary grants inflow for non-hydropower development projects, which grew by 48.7 percent to Nu 9,142.3 million. In terms of growth, grants inflow for hydropower developments during the review year stood at 21.4 percent, equivalent to Nu 1,538.9 million, while, non-hydro grants inflow increased by 48.7 percent to Nu 9,142.4 million. Notably, over the past five years, the hydro related grants inflow has declined significantly, with major hydropower project nearing completion.

The three major hydro plants, Nikachhu, Punatsangchhu-I & II, have reached more than 85 percent completion, utilizing more than 90 percent of the loan disbursement for the projects.

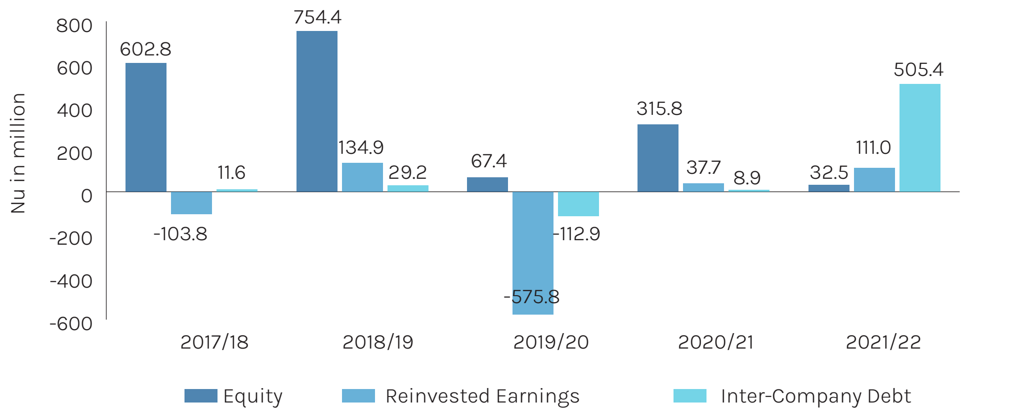
However, non-hydro grants inflow continued to grow to finance government infrastructure developments and other project-tied development activities in the economy.

3.5.3 Financial Account

The financial account is a tracking mechanism for shifts in international asset ownership and liabilities. Despite an increase in net direct investment by 79.1 percent to Nu 648.9 million during the FY 2021/22, and increase in external borrowings by government from multilateral agencies for the pandemic recoveries, the financial account during the review year is recorded at Nu 17,924.6 million against Nu 20,393.8 million of the previous year.

Net other investment under the financial account was recorded an inflow of Nu 17,075.6 million during the review year against Nu 18,424.8 million of the FY 2020/21. This development was on account of a marginal fall in net hydropower related borrowings by 12.2 percent from the previous year to Nu 11,651.8 million including interest accrued during construction of hydropower projects. While the net government concessional convertible currency borrowings during the review period was recorded at Nu 10,573.5 million. At the same time, Nu 2,785 million was incurred for principal repayment of hydropower loans and Nu 2,736.4 million for concessional convertible currency loans.

Chart 3.5.2 FDI Inflows

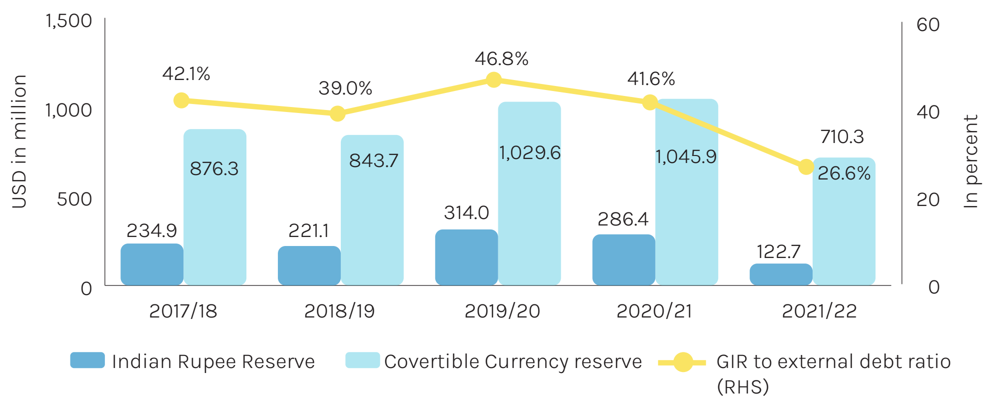


The Capital and Financial account balance during the review year was recorded at Nu 28,605.8 million which is adequate to finance only 45.1 percent of the current account deficit.

Consequently, overall balance (change in reserve assets) was recorded huge at negative Nu 32,400.5 million, exerting immense pressure on the international reserve during the review year. The country's overall balance of payments position is primarily supported by grants and borrowings which is not reliable in the long run. With this, the economic fundamentals continue to remain weak without any structural transformation as the foreign capital source of the country is confined only to borrowings and grants.

3.5.4 Gross International Reserves (GIR)

Chart 3.5.3 Gross International Reserve (GIR)



Given the persistent widening of current account deficit and lower financial inflows, the gross international reserves have depleted. As of June 2022, the GIR stood at USD 832.9 million (Nu 65,753.8 million) against USD 1,332.4 million (Nu 99,057 million) in June 2021[11], a decrease by 37.5 percent. Of the total international reserves, USD 710.3 million were convertible currency while 9,684.2 (USD 122.7 million) were Indian Rupee. As a result, the total international reserves were sufficient to finance 7.6 months of total merchandise imports and 15 months of essential imports, thereby meeting the Constitutional requirements of 12 months essential imports coverage. Looking at the external vulnerability indicator, the ratio of international reserves to external debt stood at 26.6 percent as of June 2022.

3.5.5 Balance of Payment with India

Balance of payment with India continued to remain unfavorable as more than 80 percent of trade is with India, dominated by imports. In the recent year, imports from India increased significantly by 42.7 percent.

[11]*Gross International Reserve figures from August 2020 onwards has been revised due to the exclusion of the foreign currency bonds from the convertible currency reserve.*

The trade deficit with India stood at Nu 28,756.7 million during the FY 2021/22, comprising around 63.6 percent of overall trade deficit. The deficit grew by Nu 19,639.7 million from the previous year mainly due to significant increase in imports by 42.7 percent from Nu 55,996 million in the previous year, driven by machineries like processing units and storage units import for special projects. Although total exports recorded a marginal increase of 9.2 percent (Nu 51,170.7 million), the hydro export dwindled by 9.4 percent to Nu 23,710.4 million, owing to shutting down of Tala and Chukha hydropower plants for few months to carry out repair and maintenance work. Unfavorable hydrological flows also brought down overall electricity generation. On the non-hydro exports, base metals export, especially iron and metal export, increased by 45.3 percent (Nu 18,721.01 million). With increased in imports against marginal growth in exports, the current account deficit with India has further widened to Nu 45,668 million (23.7% of GDP) from Nu 22,184.2 million in FY 2020/21.

The net primary income payments with India increased to Nu 12,108.1 million in FY 2021/22 from Nu 11,221.2 of previous year, attributing to an increased interest payment on the hydropower loans, particularly the Mangdechhu hydropower project. The continued restriction on the labor import and the suspension of the import of foreign workers during the pandemic has resulted to drop in compensation payments to short term and cross border Indian labour force.

However, the net secondary income receipts remarkably dropped by 97.3 percent from Nu 2,385.6 million of FY 2020/21 mainly on account of decrease in budgetary grant inflows by 52.8 percent from Nu 3,593.2 million from the previous year. The increased outward remittance by 91.5 percent to Nu 1,415 million and 59 percent drop in non-life insurance premium receipts to Nu. 64.57 million have further reduced the net secondary income receipts from India.

In capital account, a notable increase of grants has been received for both hydropower and non-hydropower development. Non-hydro grants which are primarily spent on public infrastructure development increased by 44.3 percent to Nu 8,377.2 million and hydropower development by 21.4 percent to Nu 1,538.9 million during the review year.

With these developments, overall balance with India stood at negative Nu 11,411.7 million during the FY 2021/22 leading to decrease in Indian Rupee Reserves to Nu 9,684.2 million from Nu 21,295.8 million of the previous year.

3.5.6 Balance of Payment with Countries Other Than India (COTI)

Over the years, Balance of Payment with COTI remained favorable with positive current account balance. However, in the review year, due to increased imports from COTI, the trade exposure with COTI also increased substantially from 14.5 percent to 23.2 percent of total imports in FY 2021/22, leading to current account deficit.

Similarly, trade deficit with COTI has also widened to Nu 16,485.4 million from Nu 3,312.4 million in FY 2020/21. The exponential widening in trade deficit is mainly due to spike in import by almost three times of previous year import. Import during the FY 2021/22 amounted to Nu 24,207.3 million, while the export witnessed an increase of 24.1 percent from Nu 6,221 million of the previous year. In addition, a substantial increase in net service payments to Nu 9,473.6 million (from Nu 4,359.7 million in the FY 2020/21) dragged the current account deficit to Nu 17,735.8 million (9.2% of GDP) in FY 2021/22 from a surplus of Nu 780.6 million of FY 2020/21.

Driven by 87.6 percent increase in returns on investment to Nu 1,139.2 million, the net primary income receipt accounted to Nu 624.2 million against net payment of Nu 0.12 million in the FY 2020/21.

Net secondary receipts dropped by 10.1 percent from Nu 8,452.8 million of the previous year. Under this, non-investment budgetary grants inflow declined by 48.2 percent from Nu 2,124 million in FY 2020/21. In addition, net remittances outflow is recorded with 10.8 percent which contributed to lower net secondary income receipts. The inward remittance in the form of Australian dollar which is a major inbound remittance currency fell by 16.4 percent to Nu 3,201.7 million (AUD 85.9 million). While other currency remittances witnessed a marginal increase except for the Japanese Yen which declined to Nu 67.6 million (JPY 103.4 million) from Nu 150.2 million (JPY 216.2 million in the previous year).

The net inflows in capital account were recorded at Nu 765.2 million in FY 2021/22 against Nu 341.8 million in the previous year driven solely by grants inflow related to investment. The net financial inflows in financial account have increased to Nu 8,097.5 million during the review year from Nu 4,165.0 million of the previous year mainly due to increase in concessional borrowings by the government. As such, overall balance with COTI stands at negative Nu 20,988.8 million, which indicates drawing down the external reserves.

3.5.7 External Debt[12]

The government borrows fund from external sources mainly to finance fiscal deficit and current account deficit (short-term & long-term) emanated from exogenous shocks. Importantly, current account deficit remains key determinant factors for the evolution of debt. The persistent current account deficit will exert pressures on the external reserves of the country. An economy resorting to finance its current account deficit through external borrowings will not only increases the higher debt burden, but also lead to external vulnerabilities and economic crisis.

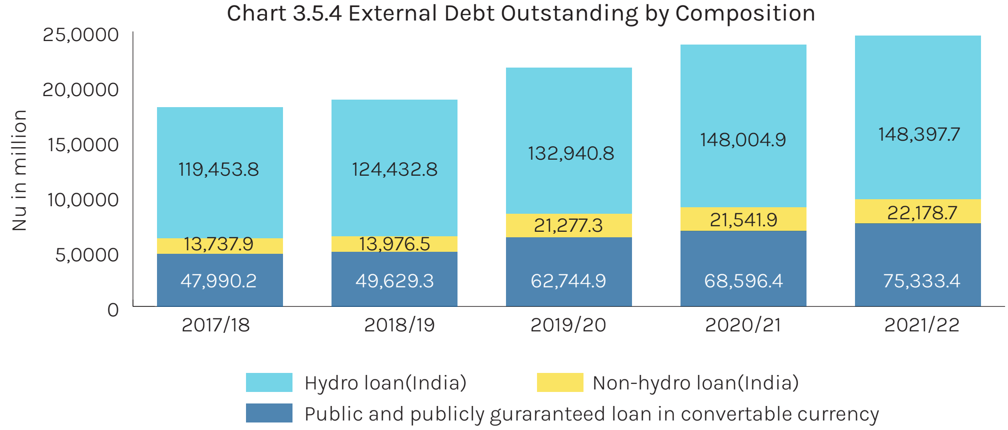
Past trend indicate that Bhutan has followed non-debt financing modalities to meet current account deficit largely through grants and aids, remittances and Foreign Direct Investment (FDI). As of now, the large portion of external debt stock constitutes mainly for investment in hydropower developments, which are self-liquidating in nature.

The total outstanding external debt for the FY 2021/22 stood at USD 3,162.8 million (Nu 246,947.9 million) which constitutes 131.5 percent of GDP. The external debt stock increased by 3.7 percent from Nu 238,143.3 million of FY 2020/21 mainly due to an increase in convertible currency borrowings from multinational institutions by 11.3 percent (Nu 76,371.6 million).

[12] *The external debt compiled by the RMA comprises public and private debt, therefore the figures are not comparable to the debt figure published by MoF.*

On Rupee debt, hydropower loans increased slightly by 0.3 percent as major three main hydropower plants are nearing completion (Nikachu, Punatsangchu-I & II). From the total external debt outstanding, 69.1 percent was Rupee debt and remaining 30.9 percent convertible currency debt.

Chart 3.5.4 External Debt Outstanding by Composition



In terms of Rupee debt, 87.0 percent were self-liquidating in nature relating to hydropower projects debt, while 13 percent were non-hydro debt mainly borrowings in the form of GoI Standby Credit and RBI currency Swap, to meet balance of payment (BoP) obligations with India. Similarly, of the total convertible currency debt of Nu 76,371.6 million (USD 978.1 million), the concessional public debt constituted 97.3 percent of the total convertible currency loans and the remaining 2.7 percent constituted private sector loans.

Overall debt servicing on both convertible currency and Indian Rupee debt for FY 2021/22 was USD 315.2 million compared to USD 282 million in FY 2020/21. Bhutan's debt service ratio measured as a percent of export earnings from goods and services is recorded at 39.2 percent during the review year.

3.5.8 International Investment Position

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.

As of June 2022, the external financial assets stood at USD 983.7 million, 33.1 percent down from USD 1,470.9 million in June 2021. A majority of financial assets are represented by reserve assets followed by trade credits, currency and deposits respectively. Unlike past trend, drop in assets by 33.1 percent in the review year was particularly due to a fall in reserve assets followed by other assets which is mainly comprised of short-term investment. The short-term investment fell to USD 1.3 million (Nu 100 million) against USD 4 million (Nu 300.1 million) in FY 2020/21.

The external financial liabilities have increased slightly by 0.4 percent from USD 4,453.9 million in June 2021 to USD 4,471.3 million in June 2022, largely contributed by loan. In addition, to enhance access to global liquidity and help member countries cope up with impact of covid-19 pandemic, IMF released an additional SDR of USD 650 million (SDR 456 billion) with effective from August 23, 2021 to the member countries. Bhutan received additional 19.6 million of SDR totaling up to SDR 25.5 million for the review year.

As a result, the net International Investment Position of Bhutan stood at negative USD 3,487.6 million in June 2022 against USD 2,983 million in June 2021, indicating Bhutan is net debtor to the rest of the world.

Table 3.5.2 International Investment Position (USD in million)

Item	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
Net IIP	**-2,044.0**	**-2,353.8**	**-2,557.9**	**-2,412.3**	**-2,983.0**	**-3,487.6**
Assets	**1,245.2**	**1,226.0**	**1,277.2**	**1,577.7**	**1,470.9**	**983.7**
Currency and deposits	64.9	65.2	66.6	63.4	62.3	62.7
Trade credits	73.4	49.8	83.2	122.9	97.0	116.0
Reserve assets[1]	1,011.6	1,079.1	1,115.9	1,366.2	1,307.6	803.8
Others	95.3	32.0	11.4	25.2	4.0	1.3
Liabilities	**3,289.2**	**3,579.8**	**3,835.0**	**3,990.0**	**4,453.9**	**4,471.3**
Direct investment in Bhutan	117.2	124.3	147.3	129.8	134.7	138.5
o.w. Equity	90.7	98.0	120.8	106.1	110.9	109.2
o.w. Intercompany debt	26.4	26.4	26.6	23.7	23.8	29.3
Currency and deposits	95.1	97.5	81.0	69.4	67.5	64.5
Loans	3,038.2	3,308.1	3,541.9	3,740.1	4,201.5	4,189.3
Trade credits	30.4	41.5	56.5	42.5	41.7	45.1
SDR allocations	8.3	8.4	8.3	8.2	8.5	33.9
Exchange rate to USD (end of period)	**64.5**	**68.6**	**68.9**	**75.5**	**74.3**	**78.9**

[1]Excludes US dollar pledge on any outstanding overdraft as of the reference date (Differences in value of reserve assets reflected here from gross international reserves appearing elsewhere in the report may be due to exchange rates for individual components); Revisions made to this series: (1) Coverage of data on trade credits and FDI are being continuously improved (3) The C&D liabilities include accrued interest where available.

3.6 Exchange Rate

Bhutan issued its first paper currency (Ngultrum) in denominations of one, five and ten notes in 1974, coinciding with the coronation of His Majesty the Fourth Druk Gyalpo. Since then, it has been pegged at par with the Indian Rupee (INR). According to the Annual Report on Exchange Arrangements and Exchange Regulations (AREAER), 2021, International Monetary Fund (IMF), the exchange rate system of Bhutan has been categorized as conventional pegged arrangement. As such, the INR is used as a nominal anchor for price stability and includes as part of country's external reserves.

Given the geographical proximity, and close economic and financial integration with India, the conventional pegged exchange rate arrangement has served the economic interest and trade facilitation for the country. This arrangement has cushioned the country from external economic uncertainties, thereby, anchoring prices stability, promoting trade & investments and political ties. In addition, a free convertibility of INR to Ngultrum has helped in boosting the confidence of the Ngultrum, as well as minimize the transaction cost for businesses through avoiding exchange volatility. The empirical findings also shows that the current fixed exchange rate regime with India remains optimal and appropriate at this point of time. However, the pegged arrangement has limited the autonomy of monetary policy operations and carrying out effective foreign exchange market intervention.

Therefore, it is crucial to closely monitor the development of exchange rate market, considering that it has considerable influence on financial and economic performance in the country. Since Bhutan's exchange rate is pegged with India, any fluctuation in the exchange rate calls for immediate policy intervention, as it affects trade & investment, debt service obligations and value of domestic currency.

As the global economy was already struggling to recover from the COVID-19 pandemic, a new set of challenges with a varying degree of consequences has further deteriorated the global economic situation. The higher crude oil price resulting from the ongoing Russia-Ukraine conflict has soared oil prices, leading to a rise in global inflation. The rise in global inflation has led to tightening of monetary policy in advanced economies, causing capital outflow and currency weakening in emerging economies. It has been observed that many of the global currencies have depreciated against USD due to the hike in policy interest rates by the Federal Reserve, USA, to curtail inflationary pressure. As a result, the cost of foreign exchange liabilities has been surging in emerging economies.

This section assesses the performances of Ngultrum vis-a-vis US Dollar and its major trading partners.

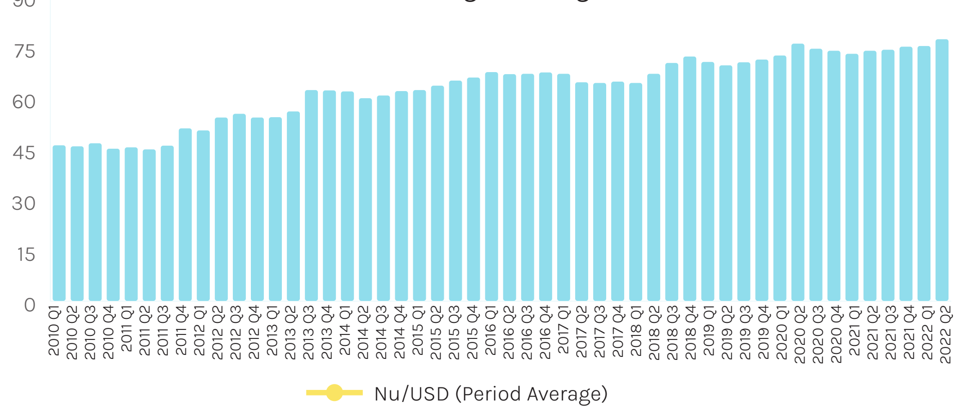
3.6.1 Nominal Exchange Rate

As per the Monthly Statistical Bulletin report published by the RMA, average exchange rate in first quarter of 2000 was Nu 43.6 per USD, which has now peaked at Nu 77.2 per USD in second quarter of 2022. Historical trend of Ngultrum vis-a-vis USD exchange rate started depreciating since 2000, except for a sharp appreciation in fourth quarter of 2007 and first quarter of 2008. The average exchange rate for January 2008 was recorded at 39.4, the lowest in last 22 years. Even the Fiscal Averages in FY 2007/08 was Nu 40.4 per USD, a dramatic departure from the past trends. During the same period, the INR also appreciated by 12.5 percent against the US Dollar reaching to INR 41.6 per USD, as a result of investors optimism in the Indian economy and large capital inflows into Indian market.

The episode of exchange rate trend completely changed in the last ten years; the Ngultrum vis-à-vis USD experienced a huge fluctuation in the exchange rate market. The Ngultrum vis-à-vis USD, which was hovering around Nu 40 mark per USD, set into Nu 50 per USD towards the end of 2011 and within 22 months, it had already reached the Nu 60 mark. In the last four years, the Ngultrum vis-à-vis USD have been fluttering around Nu 70 per USD.

The nominal exchange rate depreciated by 4.6 percent from Nu 73.8 per USD in FY 2020/21 to Nu 77.2 in FY 2021/22. The US Dollar is currently peaked at the highest level, with considerable macroeconomic implications in many countries, as it continues to dominate international market. The volatility of Ngultrum is ultimately determined by performance of the INR in the international market. During FY 2021/22, INR depreciated continuously against the US Dollar and hit a record intraday low on 29th June 2022 at INR 78.9 against the US Dollar.

Chart 3.6.1 Nominal Exchange Rate (Ngultrum / USD)



The surge in global oil prices, higher inflationary pressure and outflow of US dollar from Indian market due to rise in US short-term yields are some of the main causes of INR depreciation. For instance, more than 85 percent of India's energy requirement depends on crude oil imports. As such, demand for the US Dollar to import crude oil increases, resulting in the depreciation of INR. During FY 2021/22, the Organization of the Petroleum Exporting Countries (OPEC) Basket price per barrel peaked at USD 128.3 on March 9, 2022 from a low of USD 66.1 per barrel on 19th August 2021. This represents a substantial increase in crude oil price, by 94.1 percent, in a span of little more than 200 days.

Since the onset of Russian-Ukraine conflict, the United States and European Union have cut down import of Russian oil. In addition, a temporary production cut, political instability and economic sanctions have contracted global oil supply. These uncertainties have aggravated the price rise, coupled with the OPEC+ decision to reduce the oil production by two million barrels a day.

On the Foreign Portfolio Investment (FPI), one of the key factors determining the strength of INR is the foreign currency inflows into the Indian market and when there are large capital outflows, the INR depreciates. As of July 2022, more than USD 29 billion worth of financial assets in the form of Indian equity and debt have been sold by the Foreign Portfolio Investors (FPIs). Thus, to ensure macroeconomic and financial stability, the RBI undertook measures to further diversify and expand the sources of foreign exchange funding. The key measures include exemption from the maintenance of CRR & SLR on Foreign Currency Non-Resident Bank and Non-Resident (External) Rupee deposit liabilities.

The FPIs can invest in government securities and corporate bonds through three different channels such as Medium-Term Framework, Voluntary Retention Route and Fully Accessible Route. On the external commercial borrowings, eligible borrowers are allowed to raise funds through the Authorized Dealer without approaching the RBI. The limit for the same has also been increased from USD 750 million to USD 1.5 billion per financial year.

According to the U.S Bureau of Labor Statistics, over 12 months ending June 2022, the CPI for All Urban Consumers increased to 9.1 percent. As a result, the US Fed raised the interest rate three times in FY 2021/22, resulting in interest rate differential between US assets and emerging markets. The increase in key interest rates by the US Fed to curve inflation has led to capital outflows from Indian foreign exchange market.

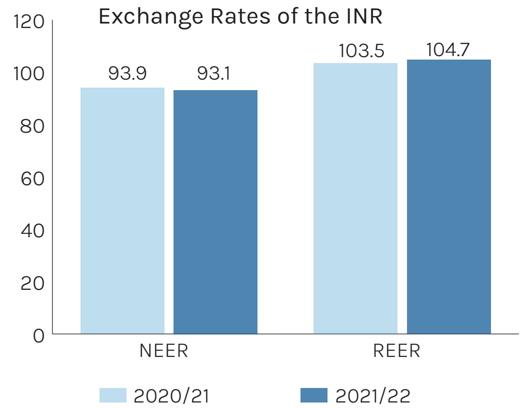
Recently, India has been experiencing a fall in foreign exchange reserve due to rising trade deficits on account of surge in global oil prices and merchandise imports.

3.6.2 Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER)[13] and Real Effective Exchange Rates (REER)[14] are indicators used for assessing the fair value of currency and the country's external competitiveness. An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners. On the other hand, an increase in REER entail exports is more expensive and imports are cheaper.

Bhutan's trade with India constituted more than 87 percent of exports and 78 percent of imports in 2021. Given the close trade integration and exchange rate arrangement with India, assessment was carried out on the performance of INR Effective Exchange Rate (EER) in the past two fiscal years. The Trade-Weighted of 40-currencies NEER depreciated on average by 0.8 per cent in 2021-22 (y-o-y)[15]. However, 40-currencies REER appreciated by 1.2 per cent during the period. The appreciation of REER reflects

Chart 3.6.2 Indices of Effective Exchange Rates of the INR

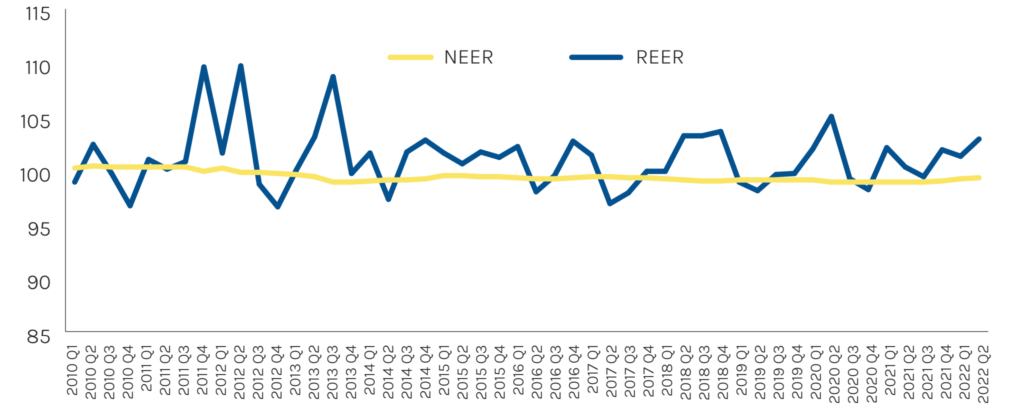


[13]NEER is a measure of the value of a currency against a weighted average of several foreign currencies.
[14]REER is a measure of the value of a currency against a weighted average of several foreign currencies divided by an index of costs or a price deflator.

[15]Source: RBI Bulletin, October 2022

a higher inflation in India as well as its trading partners, indicating that its exports are becoming more expensive and imports becoming cheaper. As a result, it loses its trade competitiveness.

Chart 3.6.3 Effective Exchanges Rates of Ngultrum

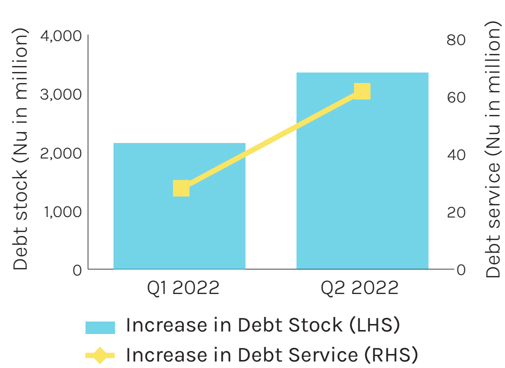


The Ngultrum EERs Index has been tabulated against the weighted average of top 30 trading partners of Bhutan. The quarterly data of CPI and nominal exchange rate against the USD of the trading partners is sourced from IMF database to determine the EER index. The NEER indices of Ngultrum have largely remained around the benchmark (i.e., base year value of 100). This stems as a result of India's dominant share of trade (above 80%), as the NEER indices is heavily influenced by exchange rate movement in India. On the other hand, the REER has appreciated on an average by 2.6 percent in 2021-22 (y-o-y), following a close pattern to that of INR. Such increase in REER would lead to a loss in trade competitiveness and risk on the exchange rate stability. However, Bhutan's trading partners besides India also experienced rising food and energy prices coupled with currency depreciation against the USD.

3.6.3 Exchange Rate Fluctuation and External Debt

The 1st Five Year Plan (1961-1966) was implemented on 1st July, 1961 with a budget outlay of Nu 107.2 million, which was entirely funded by the Government of India (GoI). In the 2nd Five Year Plan (FYP), 99 percent of the plan outlay was supported by GoI. Since then, the relative share of support from GoI in each FYP has been on a declining trend, given an increase in domestic resources mobilization and other alternative resources.

Chart 3.6.4 Impact on External Debt Service and Debt Stock



Although, the relative share of GoI support for the FYP has gradually declined, around 69.1 percent of the total external debt of Nu

246,947.9 million constitutes the INR debt as of FY 2021/22. The remaining external debt constitutes the Convertible Currency (CC) amounting USD 978.1 million during the same period[16].

While the INR debt is cushioned against currency volatility due to pegged exchange rate regime, the external borrowings in CC is subject to exchange rate risk. Since, the Ngultrum has been sharply depreciating against the USD during the review year, the impact on CC debt service and debt stock has also increased. In the first two quarters of 2022, the average CC debt stock and debt service in nominal values increased by Nu 5,501.2 million and Nu 88.5 million respectively. The Ngultrum depreciated more sharply against USD in 2nd quarter of 2022, leading to higher CC debt service and debt stock during the period.

The impact in nominal value will continue to remain volatile, as the global foreign exchange market remains uncertain and further depreciation of Ngultrum to USD is imminent as per the latest development in foreign exchange market.

3.7 Money and Credit

In tandem with economic recovery, the domestic credit witnessed a gradual picked up from 6.5 percent in FY 2020/21 to 8 percent during FY 2021/22. The liquidity condition in banking sector also remained comfortable to support credit growth.

The receding of the COVID-19 pandemic has enabled resumption of economic activities leading to mobilization of deposits in the banking sector. The growth in monetary base has reduced due to an increase in the claims on government and private sector, and reduction in the currency in circulation. The normalization of economic activities has led to higher demand for credit from banks with the construction, trade & commerce and transport sector picking up. Along with domestic credit, the deposit base in banking sector improved in FY 2021/22, largely contributed by individual and corporate sector deposits. As a result, the higher growth in credit and deposits led to an expansion of Money Supply (M2) during the FY 2021/22.

3.7.1 Monetary Base (M0)

The Monetary Base (M0) is the central bank's liabilities used to influence the expansion and contraction of money supply in an economy. The M0 comprises Currency in Circulation (CiC), Cash Reserve Ratio (CRR) and excess reserves of commercial banks. Currently, the RMA uses only CRR as the direct monetary policy instrument for managing banking liquidity and credit growth in the economy.

During FY 2021/22, the M0 declined sharply at -11.6 percent compared to 38.2 percent amounting to Nu 62,278.0 million in the previous FY. The excess reserve[17] of commercial banks maintained at the central bank, which makes up 51.6 percent of M0 has declined

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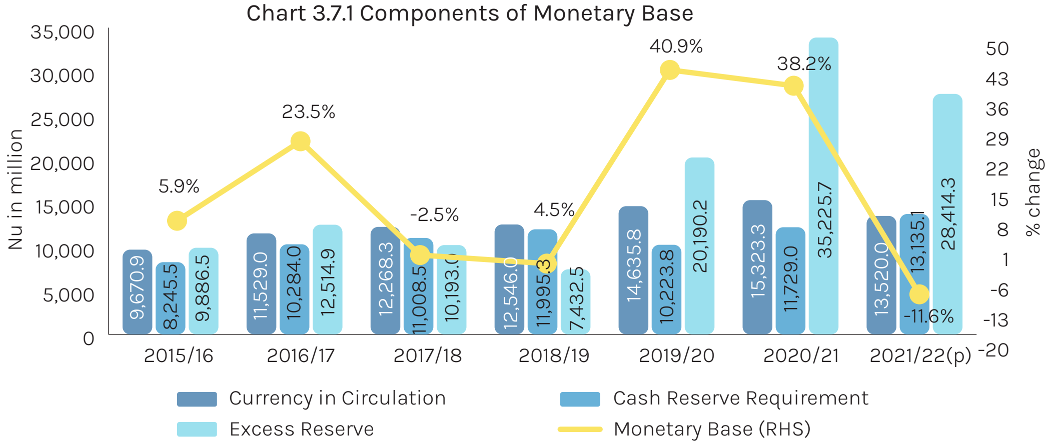
[16]The external debt figure maintained with the RMA is inclusive of Private Debt and does not include domestic borrowings/ debts by the Government. Therefore, the figure published by the Ministry of Finance differs from the Monthly Statistical Bulletin published by the RMA.

[17]The computation of monetary base does not include the excess reserves holdings of Digital Kidu bank as the bank falls under the Regulatory Sandbox III, whereby the bank is not required to maintain mandatory excess reserves.

by -19.3 percent during FY 2021/22 to Nu 28,414.3 million. The claims on government and claims on private sector increased by 152 percent and 10.8 percent respectively during the review period. In FY 2021/22, the government issued bonds worth Nu 8,500 million ranging from 7 to 12 years.

This was followed by the CiC, which constitute 24.6 percent of the M0, fell by -11.8 percent in FY 2021/22 against positive growth of 4.7 percent in the previous review period. The fall in CiC was due to lower demand for cash resulting from the habitual use of digital payments[18] platform since the pandemic. A cheaper, convenient and seamless payments through digital platform to both individual users as well as business operators have increased the usage of digital payment. An increase in digital payments was also attributed to the initiation of digital innovation payment platforms and advocacy carried out by the RMA and banks.

Chart 3.7.1 Components of Monetary Base



On the other hand, the CRR, which was maintained at 7 percent, has slightly increased the CRR holding to Nu 13,135.1 million during the FY 2021/22 from Nu 11,729 million in the previous year. The increase in the CRR holding is due to the persistent build up in the deposit base. A smooth shift in the consumers' preferences in digital payment over cash has enabled an individual to hold their money in deposit form which has resulted into high CRR position.

3.7.2 Money Supply (M2)[19]

There was a modest growth of 9.4 percent in the money supply (M2) in FY 2021/22 to Nu 197,301.4 million from Nu 180,314.2 million in the FY 2020/21. While there was an expansion of M2 by Nu 16,987.2 million, the growth rate slowed to 9.4 percent compared to 24.4 percent in FY 2020/21 due to moderate growth in aggregate deposits.

On the components of M2, the total deposits[20] liabilities constitute almost 95 percent of the M2. The demand deposits which constitute about 53.6 percent of the total deposits grew at 11.5 percent to Nu 100,333.1 million from 21.9 percent in FY 2020/21. Of the total

[18] *A digital payment platform is use of the electronic devices such as mobile, internet banking, Point of Sale (PoS) and Automatic Teller Machines (ATMs) to transfer or make payments online without involving physical cash.*
[19] *The components of Broad Money (M2) are Narrow Money (M1), Time and Foreign Currency. Narrow Money (M1) comprises of Currency Outside banks and Transferable deposits (Saving and Current Deposits).*
[20] *The interbank deposits are excluded in the total deposit*

demand deposits, the saving and current deposits, which constitutes 66.4 percent and 33.6 percent, grew by 8.9 percent and 17.1 percent respectively during the FY 2021/22. The income support measures and limited avenue for investments has contributed to rise in the aggregated demand deposits. Similarly, the time deposits, which constitutes 46.2 percent of the total deposits, also recorded a growth of 10.8 percent to Nu 86,381.6 million during the FY 2021/22 from Nu 77,953.3 million in the FY 2020/21. The favorable interest rate on the term deposits compared to saving deposits has encouraged individuals to mobilize their funds into time deposits.

On the counterparts of the M2, the Net Foreign Assets (NFA) recorded a growth of -1 percent against 17.2 percent in FY 2020/21. The substantial INR obligations in debt servicing led to the contraction of NFA to -1 percent in FY 2021/22. The travel restrictions imposed on tourism including regional tourists, higher outflows for the import payments and debt servicing, depleted INR reserves.

The claims on the private sector, which includes banks' credit to private sector accounting 70.2 percent of the total money supply, grew by 10.8 percent during FY 2021/22 compared to 6.5 percent in FY 2020/21. This was mainly due to higher demand for construction loans. Since the construction sector largely depends on foreign labour, an easing of labour import restrictions led to higher demand for credit. Additionally, to promote homeownership, housing affordability and availability, the RMA increased the loan repayment tenure for both commercial and residential housing loans up to 30 years from 20 years excluding the maximum gestation period of 3 years. These combined factors led to growth in domestic credit.

Similarly, budget requirements to stimulate economic activities for the post pandemic period increased government borrowings from the domestic market through issuance of marketable securities. Thus, the net bank credit to government increased substantially by 152 percent during the period amounting to Nu 16,134.9 million from Nu 6,402.7 million during the FY 2020/21.

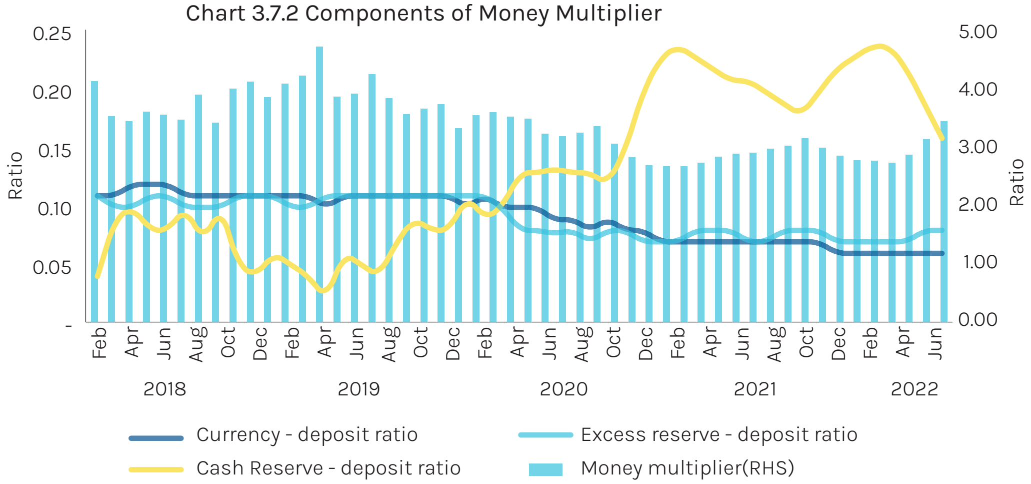
Table 3.7.1 Monetary Aggregates

	Nu in million			Growth in percent (y-o-y)		
Item	**2019/20**	**2020/21**	**2021/22**	**2019/20**	**2020/21**	**2021/22**
I. Reserve Money	45,049.7	62,278.0	55,069.4	40.9	36.4	-10.9
II. Broad Money (M2)	144,890.5	180,314.2	197,301.4	19.3	24.4	9.4
III. Narrow Money (M1)	**85,575.6**	**101,825.9**	**110,574.9**	**23.7**	**19.0**	**8.6**
1. Currency Outside Banks	11,782.9	11,874.7	10,241.7	20.9	0.8	-13.8
2.Transferable Deposits	73,792.8	89,951.2	100,333.1	24.1	21.9	11.5
3.Time Deposits	58,653.1	77,953.3	86,381.6	15.0	32.9	10.8
4. Foreign Currency Deposits	661.7	535.0	345.0	-44.9	-19.1	-35.5
IV. Sources of M2						
1. Foreign Assets (Net)	84,090.6	98,552.0	97,558.1	31.6	17.2	-1.0
2. Claims on Government	-3,840.4	6,403.7	16,134.9	-259.6	266.7	152.0
3. Claims on Other Public Sector	7,140.8	9,856.2	8,907.0	14.6	38.0	-9.6
4. Claims on Private Sector	118,812.5	126,561.4	140,254.9	13.3	6.5	10.8
V. Money Multiplier	**3.2**	**2.9**	**3.6**			

The money multiplier, a key monetary behavioral parameter, increased slightly to 3.6 percent in the FY 2021/22 from 2.9 percent in the previous FY. With higher domestic borrowings by government through issuance of marketable securities in the banking sector, and injection of government borrowings in the economy, led to expansion of money supply through multiplier effects.

The currency-deposit ratio, which reflects the amount of currency that people like to hold in terms of cash and deposits, moderated to 7.3 percent in the FY 2021/22 as digital payments continued to gain momentum through mobile banking. Similarly, due to subscription of government securities by the banks, led to a fall in excess reserve-deposit ratio from 20.7 percent in FY 2020/21 to 15 percent in FY 2021/22. On the other hand, the cash reserve to deposits ratio remained unchanged at 7.3 percent during the period.

Chart 3.7.2 Components of Money Multiplier



3.7.3 Credit Market

Domestic credit is also one of the main drivers of economic growth in Bhutan. The FSPs act as the intermediator in the credit market playing a pivotal role in mobilizing deposits and providing financial services to the general public. Due to nascent capital market, the credit from the banks is the main source of funding for investment. As of June 2022, domestic credit constituted 96.4 percent of GDP.

During FY 2021/22, the total domestic credit outstanding from the financial institutions (FIs) was recorded at Nu 185,907.5 million, a growth of 8 percent compared to 5.7 percent in FY 2020/21[21]. The growth was attributed to easing of restrictions of labour mobility and imports of raw materials for the construction sector.

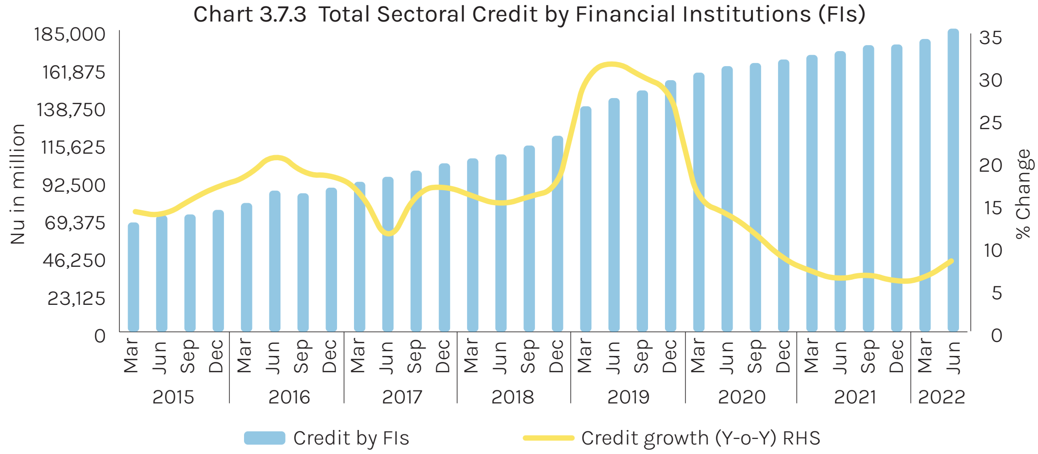
It was observed that credit demand has been picking up gradually in most of sectors supported by the relaxation of the prudential regulations issued by the RMA in terms of extension of loan tenure, enhancement of loan-to-Value (LTV) and reduction of Loan-to-Income (LTI).

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

On the sectoral allocation of credit, the housing sector which accounted for 26.2 percent of the total domestic credit, grew at 8.4 percent during the FY 2021/22 compared to 5.6 percent in the previous year. Of Nu 48,658.6 million credit to the housing sector, 79.8 percent was sanctioned to commercial housing and the remaining for homes.

The industry sector comprising production & manufacturing and trade & commerce also witnessed a positive growth after being severely affected by the pandemic. The manufacturing sector in particular grew by 13.4 percent, expanding exposure of loans to this sector to Nu 24,802.4 million (13.3 percent to total loan). Government priority to promote exports and gradual improvements in global supply chain contributed to the credit growth in the production & manufacturing sector. This sector is composed of manufacturing enterprises, mining & quarrying, wood-based products and others (renewable energy, handicrafts & textile production) which constitute 78.7 percent, 5.6 percent, 3.7 percent and 11.9 percent, respectively of the total loan of Nu 24,802.4 million sanctioned. Similarly, trade & commerce grew by 11.4 percent to Nu 21,932.1 million in the review period with the continued support of monetary measures IV including deferment of loan repayment.

Chart 3.7.3 Total Sectoral Credit by Financial Institutions (FIs)

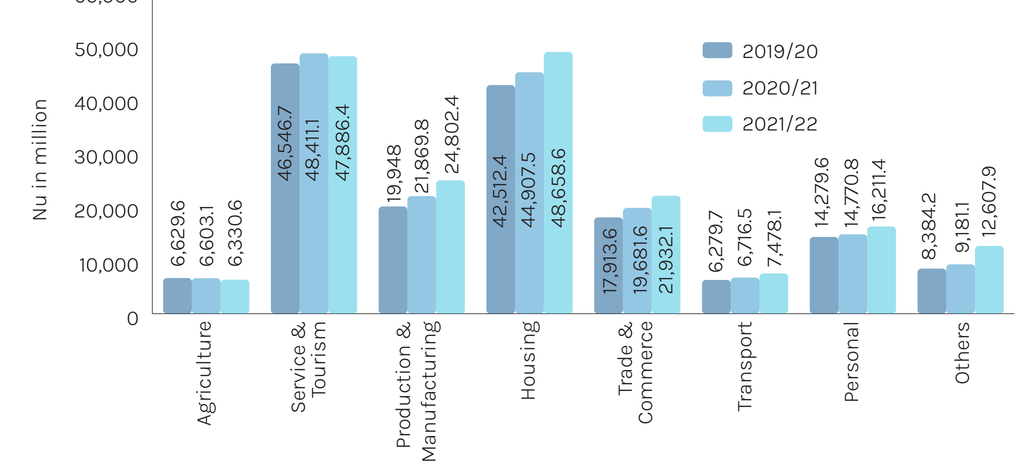


Credit to transport also experienced a positive growth of 11.3 percent in FY 2021/22 from 7 percent in the previous year. The growth was largely attributed to a surge in demand for transport businesses and passenger vehicles during the review period.

In an effort to address the supply side constrains, intervention such as promotion of CSI, organic flagship programs and branding local products were initiated by the government. However, climate change, lack of productivity & sustainability, wildlife encroachment and limited supply chain contributed to slower growth in agriculture. As a result, loan to agriculture sector recorded a negative growth of 4.1 percent, amounting to Nu 6,330.6 million in FY 2021/22.

While the agriculture sector constitutes 19.2 percent of GDP and employs 49.2 percent of total labour force, it only accounted 3.4 percent of the total domestic credit outstanding, reflecting low level of investment in agriculture compared with other sectors. Under the agriculture sector, 79.5 percent of the loan is sanctioned to crop cultivation, followed by livestock farming with 14. 9 percent and the remaining to other sub sectors such as agro-processing and forestry.

Chart 3.7.4 Sectoral Credit Allocation



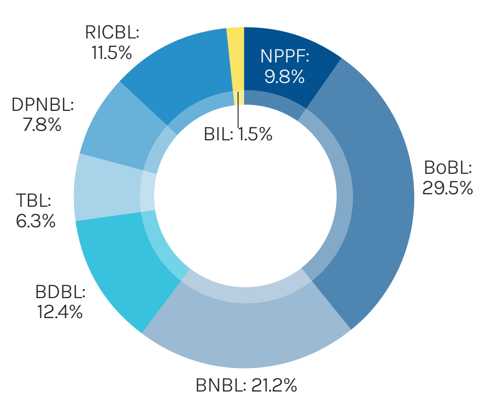
Service & tourism, which account for the second highest share of 25.8 percent of the total domestic credit, recorded a negative growth of 1.1 percent and amounted to Nu 47,886.4 million during the FY 2021/22 after a positive growth of 4 percent in the previous fiscal year.

The credit to deposit ratio, which measures demand for credit relative to funding available in the banking sector has decreased from 77.5 percent in June 2021 to 74.3 percent June 2022. The decrease in credit to deposit ratio is mainly because of higher growth in deposit liabilities corresponding to growth in domestic credit as the domestic credit in economy is yet to pick up.

The financial structure in Bhutan is predominantly "integrated". Thus, the non-banks also provide similar financial services and products as the banks. From the total loan portfolio of Nu 185,907.5 million, nearly 23 percent of domestic credit is sourced from non-banks.

The largest public sector bank (BoBL) continued to hold the highest share of 29.5 percent, followed by Bhutan National Bank Limited (BNBL) with 21.2 percent. With regard to non-banks, the Royal Insurance Corporation of Bhutan Limited (RICBL) holds the highest share with 11.5 percent, followed by National Pension Provident Fund (NPPF) with 9.8 percent.

Chart 3.7.5 Financial Institutions' Contribution to Credit in 2021/22

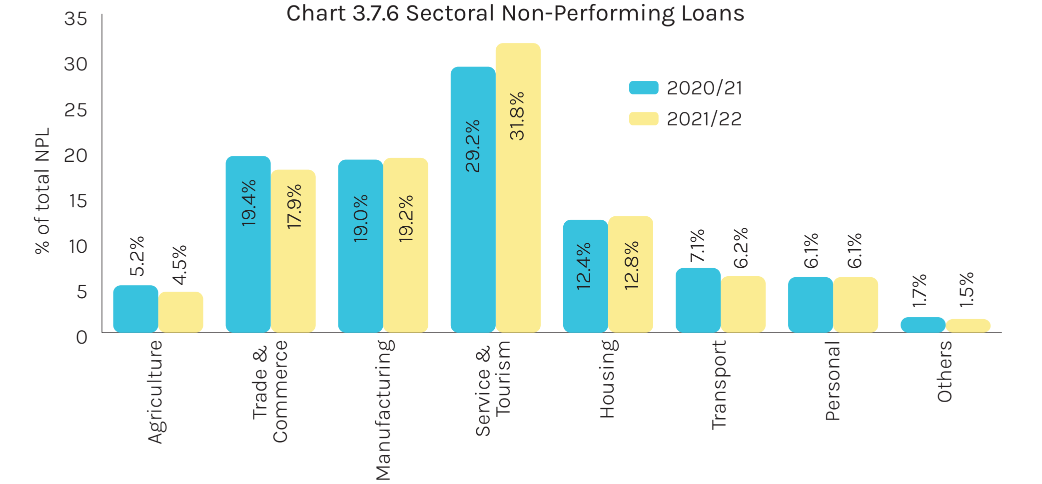


In the last two years, the RMA undertook several monetary interventions such on loan restructuring, reclassification of old NPLs and prompt corrective action framework. These interventions facilitated and supported in mitigating credit risk in terms of mounting NPL in the FIs. These measures have led to an improvement in the overall asset quality of the financial institutions. The non-performing loans (NPL) of the FIs drastically reduced to 8.6 percent in June 2022 (Nu 16,058.4 million) from 14.1 percent in June 2021 (Nu 24,243.9 million).

Going by the sectoral NPL, almost every sector saw an improvement in the asset quality of the FIs. During the FY 2021/22, the highest NPL was concentrated in the service & tourism sector with 31.8 percent, amounting to Nu 5,107.2 million, followed by production & manufacturing with 19.2 percent (Nu 3,079 million) and trade & commerce with 17.9 percent (Nu 2,869.3 million).

The share of NPL is also high with the banks (58.2 percent) corresponding to the credit share held. BDBL had the highest NPL accumulation with a ratio of 15.7 percent, with the lowest with TBL at 3.5 percent during the review period. With respect to the non-banks, RICBL's NPL ratio stood at an alarming 30.1 percent. On the other hand, the quality of assets was far better with NPPF as its NPL ratio was at 0.8 percent.

Chart 3.7.6 Sectoral Non-Performing Loans



Going forward, the trend in the domestic asset quality may further improve with various measures and regulations put forward by the RMA for vigorous recovery combined with gradual normalcy in the economic situation.

BOX 3.7.1

Empirical Relation between Financial Inclusion and Economic Growth

Financial inclusion is one of the main components to promote financial sector development and to ensure sustained economic growth. Technology advancement and digitization have provided a leverage to achieve the greater height of financial inclusion. This study provides contextual analysis on relationship between financial inclusion and economic development in Bhutan. The main objective of the study is to estimate the relationship between financial inclusion and economic growth in Bhutan.

Specification:

To see how much variation in economic growth is explained by the financial inclusion, we built theoretical model based on the Mankiw et al. (1992) model and attempt to empirically verify the impact of multidimensional financial inclusion index on economic growth. This can be written mathematically as:

$$Y_t = \beta_0 + \beta_1 FI_t + \beta_2 X^*_t + \beta \varepsilon_t, \qquad t=1,2,......T \qquad (1)$$

Where, Y_t is the measure of economic growth at time t but this is an unobserved variable and we will use real GDP per capita as a proxy. FIt is the Financial Inclusion index, (FI) X_t* denotes a vector of control variables which are selected based on literature review. The control variables used in this study are government expenditure, inflation, and trade balance.

The FI will be multidimensional so that weight for each dimension plays an important role in computation. The study has used PCA to construct multidimensional index, these five variables used for the index are: Share of saving account to district total adult population (SSA); Share of credit account to district total adult population (SCA); Share of Insurance account to district total adult population (SIA); Consumption Expenditure (CE); Time to Bank (ToB).

$$FI_{it} = w\_1it\ SSA_{1it} + w_{2it}\ SCA_{it} + w_{3it}\ SIA_{it} + w_{4it}\ CE_{it} + w_{5it}\ ToB_{it} \qquad (2)$$

Where FIit is index of financial inclusion of ith Dzongkhag in tth year. w1, w2, ..., w5 are the respective weights (factor scores) of different indicators. Further we explore the effect of NFIS and NFLS by introducing dummy variable in the model equation (1) to capture the structural break as follows:

$$Y_t = \beta_0 + \beta_1 FI_t + \beta_2 X_t^* + \varepsilon_t, \qquad t=1,2,........,T \qquad (3)$$

Estimation Strategy

Model specified under the specification section is estimated using ARDL method of estimation. The ARDL model is described as follows

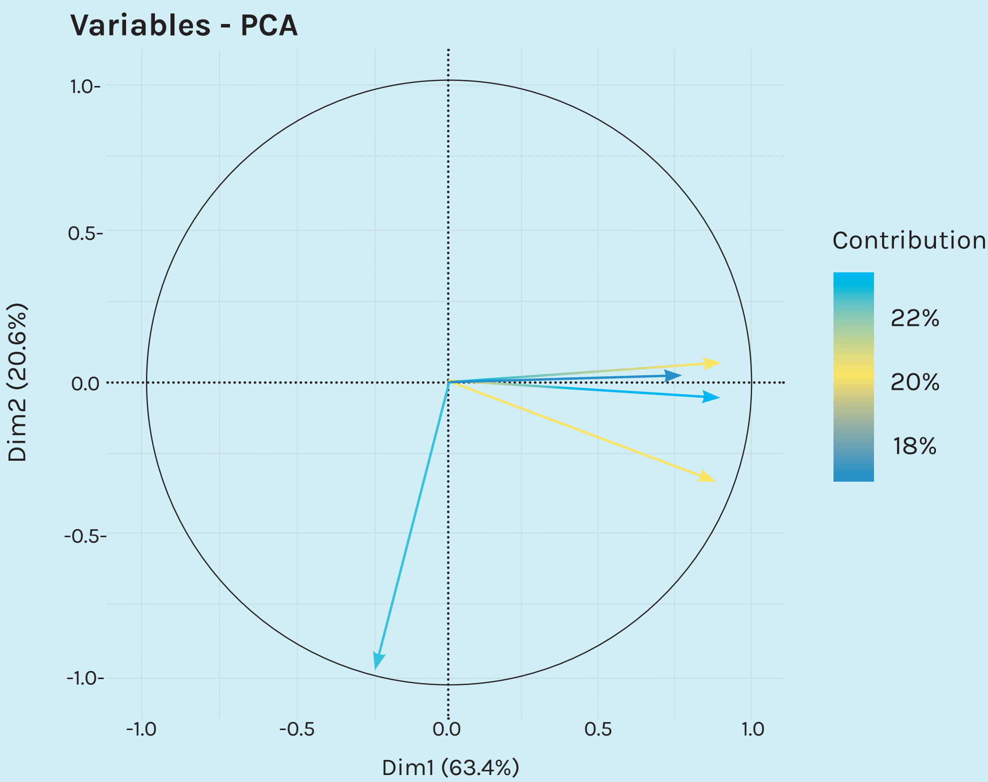
$$\Delta Y_t = \beta_0 + \sum_{t-1}^{p} \psi_i \Delta Y_{t-i} + \sum_{t-1}^{p} \phi_i \Delta Y_{t-i} + \sum_{t-1}^{p} \omega_i \Delta Y_{t-i} + \theta_1 Y_{t-1} + \theta_2 FI_{t-1} + \theta 3\ X_{t-1} + \mu_t$$

Where is the drift component, Δ is the difference operator, μt is an error term, which is a white noise assumed to be independent & identically distributed (iid). Null hypothesis shows the non-existence of relationship between variables in long run, that is, no co-integration between development in financial system and economic growth in the country. The acceptance and rejection of null hypothesis is decided based the value of F-test obtained using the method provided by Pesaran et al. (2001). The causality between co-integrated variables were evaluated using Error Correction Model (ECM) which is derived from ARDL. Therefore, ECM was written as

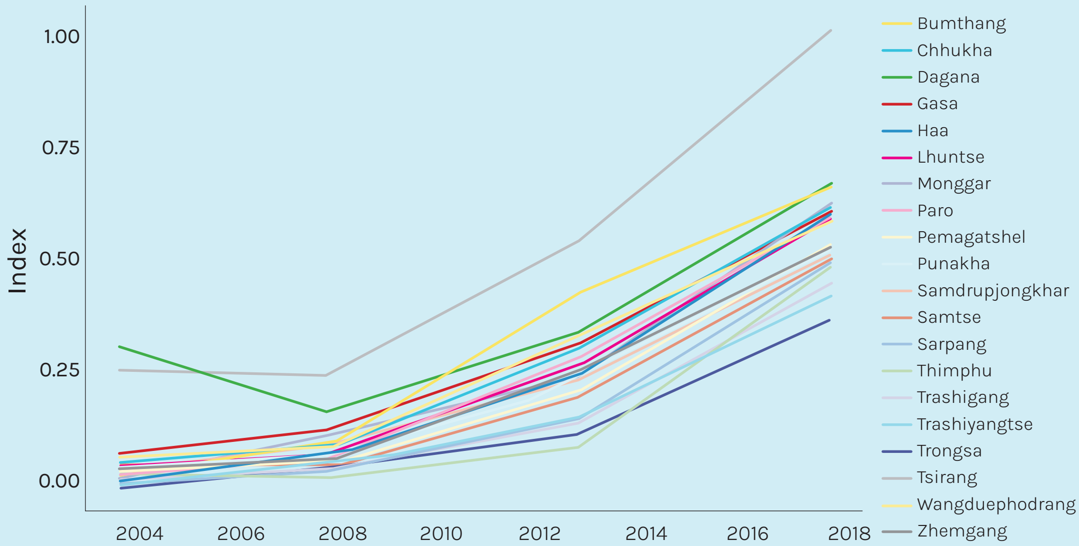
$$\Delta Y_t=\beta_0+\Sigma_{I=1}^{P}\psi_i\,\Delta Y_{t-i}+\Sigma^{i}_{p=1}\phi_i\,\Delta FI_{t-i}+\Sigma^{i}_{p=1}\omega_i\Delta X_{t-i}aECT_{t-1}+\mu_t$$

Here ECT explains how fast or slow variables adjust back to long run equilibrium after a shock.

Results



Analysis shows that supply side variables like SSA, SCA, and SIA were in same direction of variations and positively contributing to the linear variation of component one. Similarly, CE, the proxy variable of household income, is also positively correlated with principal component one and providing variation from different source. This shows that index values were largely driven by these positively correlated variables. However, demand side variable, ToB, is negatively correlated indicating that more time required for customers to reach nearest bank has discouraged them to use financial products and services. Therefore, this has negatively impacted the growth of financial inclusion. Moreover, SCA and CE were negatively correlated with 20.6% of variation which implies that income and access to credit have also negatively affected the financial inclusion in the country.



The index of 20 dzongkhags have improved over the study period. On an average, Thimphu Dzongkhag has highest financial service coverage as shown in figure and Gasa has lowest. All Dzongkhags have similar trend in the development of financial inclusion index over the time except for Chukha which has slight drop in the index between 2003 and 2007.

Overall, mean financial inclusion index of the country stood at 0.55 ± 0.13 in 2017 based on available data. Further, the index was extrapolated using the polynomial regression and the index was estimated as 0.62 for 2021.

Financial Inclusion and Economic Growth

Table 1: Unit root results

Variables	ADF Test		PP Test	
	I (0)	I (1)	I (0)	I (1)
Investment	-0.23	-2.3**	-1.6	-3.2**
Consumption	1.60	-2.6*	-0.24	-2.9*
GDP	-1.10	-3.8 ***	-2.3	-5.7 ***
Trade Balance	-1.0	-2.9***	-1.6	-3.5**
Inflation	-0.45	-2.9***	-2.2*	-4.5 ***
Log (Financial Inclusion Index)	-14***	-5.2****	-0.35	-3.4 **

Before quantifying the proportion of variation in growth explained by financial inclusion, study has investigated the existence of short and long run effects using bound test. The test above clearly rejects the null hypothesis of no co-integration between economic growth and financial inclusion at 5% level of significance. The study also found that the composite financial inclusion index is positively correlated with economic growth measured by GDP for both short and long run during 2003-2020. However, only long run coefficient was statistically significant at 5% level of significance indicating that financially well included society leads to stronger growth. Whereas, short run coefficient was not statistically significant.

4

MEDIUM-TERM MACROECONOMIC OUTLOOK

4.1 Medium-term Macroeconomic Outlook[22]

Global growth prospects have weakened significantly amid emerging uncertainties across the globe.

The global economy is forecasted downward on account of turbulence of uncertainties triggered by economic, ecological and geo-political changes. The inflation is expected to persist for longer on account of more energy and food price shocks. Due to global financial tightening to subdue the inflation, it would lead to further tightening of monetary policy and increasing emerging external debt distress as well. Russian invasion on Ukraine and tensions elsewhere followed by falling China's economy weighs heavy on the global growth. Consequently, the IMF (Global outlook October 2022) has forecasted the global economic growth at 2.7 percent in 2023, revised downward by 0.5 percentage points from 3.2 percent in 2022.

This is underpinned by slowdown in global trade growth which is anticipated to slow down from 10.1 percent in 2021 to 4.3 percent in 2022 and 2.5 percent in 2023. These are on account of supply chain constraints mainly associated to China and appreciation in US dollar.

Increasing inflation pressure has triggered the tightening of global monetary policy, resulting to appreciation of US dollar against most other currencies. The intent here is to lower the aggregate demand. However, the price pressure continues to remain as a challenge for the policy makers. The global inflation is expected to peak to 8.8 percent in 2022 and a decline to 6.5 percent in 2023 and 4.1 percent in 2024.

On the regional economic development front, although Indian economy is showing a sign of recovery, its growth is expected at 6.8 percent in 2022 which is a downward revision by 0.6 percentage points from 7.4 percent of July 2022 projection. This development is mainly due to weaker-expected recovery and subdued external demand. Spill-over-effect from the geo-political shocks are imparting considerable uncertainty to the Indian inflation trajectory. The inflation is projected at 6.7 percent in FY 2022/23 with assumption that the global risks are evenly balanced.

On the domestic front, with the ease of COVID-19 restrictions in the country, the economy is expected to grow slightly at 4.8 percent in 2022 from 4.1 percent in 2021 under assumption that the government spendings are implemented on time to boost the domestic demand and investments. The growth is expected to be driven by services sector at 5.1 percent, followed by industry sector with 4.3 percent during 2022. Although, the hotel industry is recovering from lingering waves COVID-19 pandemic, geo-political concerns and tight financial conditions, it is expected to drive the service sector with 24.1 percent growth followed by transport, storage & communication with 8.2 percent during the review period.

While almost all sectors of the economy took a severe hit during the pandemic, the hydropower continued to exhibit resilience and remained a major driver of the economic growth. Nonetheless, attributing to hydrological flows and technical breakdown of two hydropower plants during 2022, coupled with rise in domestic electricity consumption, the performance of the sector is expected to weaken by 3.1 percent from the previous year.

[22]Data on projections sourced from Macro-economic Framework Coordination Technical Committee (MFCTC), Ministry of Finance and Global Outlook October 2022, IMF

However, with the commissioning of Mangdechu hydropower plant in 2019, the overall electricity and revenue generations have increased since then.

On the demand front, the total consumption which accounted 75.1 percent of total output is expected to increase by 15.1 percent in 2022 from the previous year, surpassing the pre-covid level. Of total consumption, the private consumption accounted for 73.1 percent, providing a thrust to aggregate demand due to increase in spendings by the individual, followed by public consumption with 26.9 percent. Further, gross capital formation is expected to accelerate to 15.9 percent during the review period, primarily driven by uptick in government investment as a counter cyclical measure against the pandemic and expedite the utilization of government capital budget. However, overall gross capital formation is expected to remain below pre-covid level of investment on account of slow recovery in private investment.

The pandemic has provided good reference point in examining the flexibility and responsive of labor market. Most countries now placed special emphasis on technology and digitalization, which also reduces the challenges of information asymmetry prevalent in the labor market. As such, to ensure gainful employment opportunities in the labor market, the policies have to be more flexible and responsive to economic shocks. In line with this, various skilling programs were initiated under De-suung Skilling Projects and Build Bhutan Project program during the pandemic. These initiatives are expected to marginally improve the overall unemployment rate from 4.8 percent in 2021 to 4.3 percent in 2022 and further to 3.4 percent in 2023. On the youth employment opportunities, 25,455 youths were anticipated to be employed in 2022, from total youth labor force of 32,132. However, the youth labor force is expected to fall to 31,889 in 2023 but notably, the number of youths employed is expected to increase by 4.8 percent to 26,667 from the previous year. The youth unemployed during 2023 is anticipated at 5,221.

With the improvement in job market, the inflation is expected to remain elevated during the medium term on account of inverse relationship between unemployment and inflation. Further, the exogenous factors like the recent extreme heat waves and droughts also imposes near-term threat from climate change and its likely impact on the agriculture productivity. Inflation is affecting most of the countries across the world with severe impact on the lower-income groups of the developing economics. In these countries, higher proportion of expenditure is spent on the consumption of foods. Inflation in the country is expected around 5.5 percent in the FY 2022/23 and anticipated to remain almost same around 5.3 percent in the medium term on an average.

The government continue to confront challenges in protecting the low-income families, those in contact-intensive sector from large real income losses and revival of the economy from the pandemic scarring. As such, the government is embarking on various policy measures including Transformation Initiatives and the Economic Revival Strategy. The fiscal deficit for the FY 2022/23 is estimated to widen by 28.8 percent from the previous year, at Nu 19,363.5 million, accounting 9 percent of GDP. However, the position is expected to subside prominently in the following years.

The total resources for the FY 2022/23 are expected to increased by 6.4 percent to Nu 55,444.4 million from the previous year. However, on account of expansionary fiscal stance, the domestic tax revenue such as customs duty, sales tax, domestic excise duty and green tax are expected to improve. Therefore, the tax revenue during the FY 2022/23 is expected to grow by 4.7 percent compared to the previous year.

While the overall resources for the revised 12th five-year plan is estimated at Nu 268,547.2 million, the total expenditure is estimated at Nu 325,312.38 million. Of the total expenditure, capital expenditure comprises 45.1 percent and remaining the recurrent expenditure. The total outlay during the FY 2022/23 is estimated to increase by 8.2 percent to Nu 74,807.9 million from the previous year, attributing to increase in capital expenditure by 10.8 percent to Nu 38,466.9 million.

With expenditure surpassing the revenue, the government will have to maximize borrowings from external conventional windows to meet the financing requirements, in addition to domestic borrowings through issuance of government securities. The outstanding public debt for the FY 2022/23 is expected to increase by 4.2 percent, amounting to 237,651.5 million (155.8% of GDP). Of the total public debt, 89.9 percent is expected to be external debt and remaining domestic debt for the review year. The hydropower debt position in June 2023 is projected at Nu 264,708.1 million (80.3% of GDP), comprising 70.7 percent of the total public external debt. Further, the hydropower debt position is expected to increase in the coming years due to ongoing construction work related to Punatshangchhu I and II.

The current account deficit is expected to deteriorate further by 19.3 percent to Nu 75,630.5 million during the FY 2022/23 mainly driven by significant uptick in trade deficit. The trade deficit is anticipated to widened by 32.6 percent during the FY 2022/23 from the previous year. Moving forward, the trade deficit is expected to deteriorate with increasing trade volume, driven mainly by significant increase in import against a marginal increase in export. Of the total export in the medium term, the electricity is expected to be around 37 percent and the rest making up the non-electricity exports. With an increasing trade volume in the coming years, hugely driven by imports, the current account deficit is expected to deteriorate significantly in the coming years, which will weigh critically heavy on the country's international reserve position. This clearly reveals a threat on the country's international reserve in the coming years that would jeopardize meeting constitutional requirements of 12 months of essential import coverages.

Though inflows in the capital account is expected to remain almost constant in the medium term, net financial inflow is viewed to dwindles, mainly attributing to expected increase in hydro related debt servicing against falling hydropower debt inflows. With these developments, the capital and financial account balance will not be adequate to finance the current account deficit, thus expected to deplete the country's international reserve holding at its lowest.

The pandemic outbreak has significantly decreased banks performance. The adverse impact on the bank performance is higher in the country mainly on account of smaller, undercapitalized and less diversified banks with limited investment avenues. Consequently, the credit flow in the economy is adversely impacted. However, with implementation of monetary and fiscal measures in line with the Druk Gyalpo Kidu scheme during the pandemic, the credit to private sector is expected to grow from 10.8 percent in FY 2021/22 to 12.3 percent in FY 2022/23. As a result, money supply is expected to grow by 11.4 percent during the FY 2022/23 and further to 13 percent in the FY 2023/24.

Medium-Term Macroeconomic Outlook Indicators			
Components	**Actual**	**Projection**	
	2021	**2022**	**2023**
Production (Supply)-% Growth			
Real GDP	4.1	4.8	4.8
Agriculture	**2.1**	**2.2**	**3.2**
Industry	**2.0**	**4.3**	**5.4**
Mining & quarrying	28.3	1.2	15.3
Manufacturing	2.7	4.0	3.2
Electricity & Water	-3.7	-3.9	6.5
Construction	8.8	18.1	4.0
Services	**6.3**	**5.1**	**5.5**
Whole sale and retail trade	7.3	7.1	0.6
Hotel and restaurant	4.4	24.0	290.4
Financing, insurance, real estates & business services	-1.5	3.6	3.6
Unemployment rate (%)	4.8	4.5	4.2
	2021/22	**2022/23**	**2023/24**
Prices			
Headline inflation	5.9	5.5	5.3
Fiscal (% of GDP)			
Total Revenue and Grants	28.2	27.0	24.0
o.w Tax revenue	13.4	13.2	13.8
Total Expenditure	35.9	36.5	31.1
o.w Capital	18.0	18.7	13.6
Fiscal Balance	-7.8	-9.4	-7.1
External (% of GDP)			
Current account balance	-32.9	-36.9	-34.9
Trade balance	-23.5	-29.2	-26.7
External Debt	132.9	126.9	129.7
Monetary (% change)			
Money Supply	9.4	11.4	13.0
Net Foreign Assets	-1.0	1.9	0.9
Net Domestic Assest	23.1	20.4	22.7
o.w Credit to private sector	10.8	12.3	14.0
Private Credit to GDP ratio	74.3	84.9	88.4

**Source: MFCTC, Ministry of Finance (Projections as of 1st quarter FY 2022/23). Fiscal Indicators for FY 2023/24 onwards are provisional*

5

MONETARY POLICY OPERATION

5. Monetary Policy Operation

Monetary policy continued to remain accommodative with the objective of sustaining growth and mitigating the impact of COVID-19 pandemic on economy. Despite fall in banking liquidity, the liquidity condition in the banking sector remained adequate to support credit growth.

The monetary policy aims to achieve the price stability through maintaining fixed exchange rate, whereby the Ngultrum is pegged one-to-one with INR. To maintain the stable pegged rate, the RMA maintains 100 percent INR reserve backing and provides full convertibility for the exchange.

Since India remains the largest trading partner, the CPI inflation in Bhutan closely tracks Indian inflation trends. Currently, the Cash Reserve Ratio (CRR) supplemented by the Sweeping of Projects Accounts is the only tool deployed by the RMA to manage liquidity in the banking sector and domestic credit growth. To defend the pegged exchange rate, the RMA maintains certain exchange restrictions which include: (i) foreign exchange balancing requirement on remittances of income in convertible currency from FDI, and (ii) on the availability of Foreign Exchange for importers not providing evidence of goods imported.

5.1 Banking Sector Liquidity

The central bank's balance sheet plays a critical role in the functioning of the economy. The analysis of liquidity conditions in any banking system is typically based on the analysis of the autonomous liquidity factors. Autonomous factors are defined as the items on the central bank's balance sheet, both on its asset and on liability sides, that are not directly controlled by the central bank.

Aggregate liquidity conditions are solely determined by autonomous factors on the central bank's balance sheet because the central bank is the unique creator of liquidity in the economy. The liquidity surplus or deficit is determined by the net sum of all autonomous factors. It amounts to the net aggregate liquidity that has been either injected or absorbed by the central bank. If autonomous factors assets exceed over the liabilities, the system is in liquidity surplus, and vice-versa.

The banking sector liquidity as of June 2022 stood at Nu 24,482.4 million, a decrease of 30.5 percent compared to the previous year. Despite the reduction in excess liquidity, the banks, in particular is well-placed to play a catalytic role in supporting economic recovery through provisioning of domestic credit. The reduction in surplus liquidity was attributed primarily due to pick-up in domestic credit growth to private sectors and government borrowings from the domestic market to stimulate growth, reflecting growth in domestic demand and economic recovery.

Based on the end-of-month data from January 2015 to June 2022, the analysis of liquidity development suggests that the structural liquidity surplus in Bhutan was mainly driven by foreign reserves accumulation mainly through inflows of grants, borrowings and hydropower export proceeds. As of June 2022, the Net Foreign Assets (NFA) stood at 81,822.8 million attributed to the accumulation of INR deposits maintained with Banks in India.

The growth in Currency in Circulation (CiC) is not linear, suggesting strong seasonality and possibly conjectural factors influencing the demand for bank notes. The CiC has reduced by 12.2 percent from Nu 15,323.3 million in June 2021 to Nu 13,446.7 million in June 2022 due to shifting toward digital payment.

On the other hand, the Net Domestic Asset has increased by 24.5 percent from 18,116.5 million in June 2021 to Nu 22,547.2 million in June 2022. Likewise, the Net Government Account (NGA) computed as the difference between total fund in Government Consolidated Account (GCA) maintained at the BoB and advances to the government by the RMA stood at Nu 1,080.9 million in June 2022. The projects related flows that are subject to sterilization via sweeping to the RMA has reduced by 21.2 percent in June 2022 from Nu 5,685.2 million.

Therefore, the total liquidity surplus in the banking sector as on June 2022 stood at Nu 40,264.1 million. Of the total liquidity surplus, the CRR absorbed Nu 13,135.1 million. In the absence of effective liquidity management tools and underdeveloped capital market, the excess reserves stood at Nu 24,482.4 million as of June 2022.

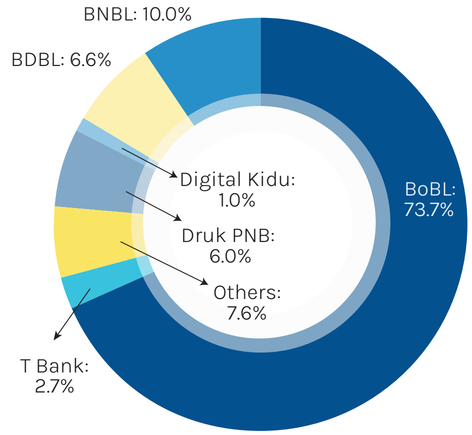
Table 5.1.1 Autonomous Factors, Liquidity Surplus, and Liquidity Management (Nu in million)

Liquidity Drivers	Jun-19	Jun-20	Jun-21	Jun-22
Net Foreign Assets	**53,802.6**	**73,993.1**	**88,274.8**	**81,822.8**
Foreign assets	74,594.6	102,023.1	112,445.3	108,665.5
Foreign liabilities	-20,792.0	-28,030.0	-24,170.5	-26,842.7
Net Domestic Assets	**-20,194.8**	**-23,495.2**	**-18,116.5**	**-22,547.2**
Domestic financial assets	755.8	787.5	2,195.4	1,774.3
Non-financial assets	752.1	853.4	916.6	927.3
Capital and reserves	-21,313.8	-24,700.9	-20,573.0	-24,574.9
Other domestic liabilities	-388.9	-435.2	-655.4	-673.9
Currency in circulation	**-12,546.0**	**-14,635.8**	**-15,323.3**	**-13,446.7**
Net Government A/c	**2,403.4**	**-1,294.5**	**-2,195.1**	**-1,080.9**
Sweeping Fund	**-4,037.3**	**-4,153.6**	**-5,685.1**	**-4,484.0**
Total net autonomous factors	**19,427.9**	**30,414.0**	**46,954.7**	**40,264.1**
Cash Reserve Ratio	11,995.3	10,223.8	11,728.9	13,135.1
Excess Reserves	7,432.6	20,190.2	35,225.8	24,482.4

The distribution of excess reserves amongst the banks in Bhutan differs across the banks. Since BoBL is responsible for performing the banking operations of the government, the cash balances of the government are held in the consolidated account of the government, which is swept at the end of day to the RMA. Similarly, inflows related to grants and loans on account of the hydropower projects are received mainly in DPNB Bank which are temporarily parked with the banks before disbursing to respective agencies. Therefore, given the above arrangement, it is evident that the distribution of excess reserves is not uniform across the banks. A level playing field in the banking sector is desirable for monetary policy effectiveness in the context of the market-based monetary policy. Measures aimed at reducing the uneven distribution of fund amongst banks is therefore highly desirable for implementing monetary policy operation.

As of June 2022, from a total excess reserve of Nu 24,482.4 million, Bank of Bhutan has the highest share with 73.7 percent followed by BNB with 10 percent and BDBL with 6.6 percent. The remaining are distributed amongst Druk PNB (5.9%), T-Bank (2.8%) and Digital Kidu (1%).

Chart 5.1.1 Distrubtion of Excess Reserves

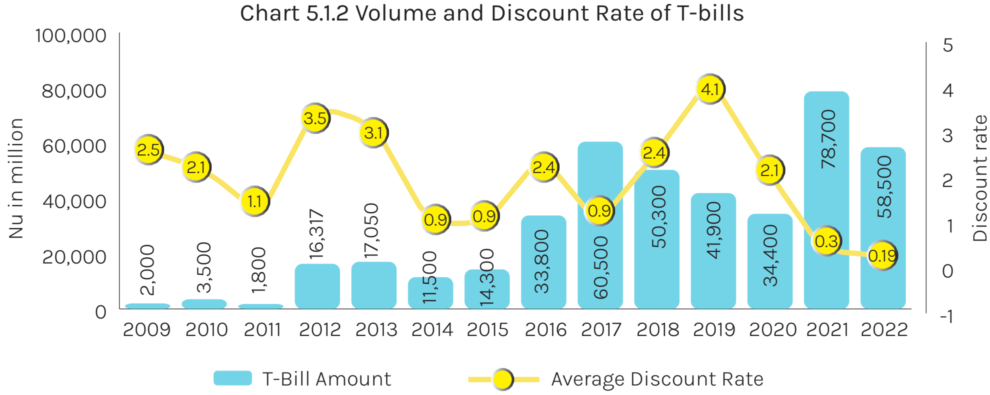


5.2 Government Securities Market

The RGoB re-emphasizes the need of promoting capital market development through the issuance of Long-term Government Securities and provide new investment opportunities for the financial institutions and eligible investors.

Similar to other countries, the government securities market is at the core of financial markets in most countries. The government securities market has also increased in size in tandem with the growing financing requirements of Governments over the years. In Bhutan, given the absence of secondary market and effective operation of monetary policy through application of indirect instruments such as open market operations, government securities are hardly traded in the secondary market. Currently, the RGoB issues T-bills with short-term maturity on a monthly basis to enhance the government's cash management through open market operations. As of September 2022, the government raised Nu 58,500 million through issuance of T-bills, at an average discount rate of 0.2 percent. The interest

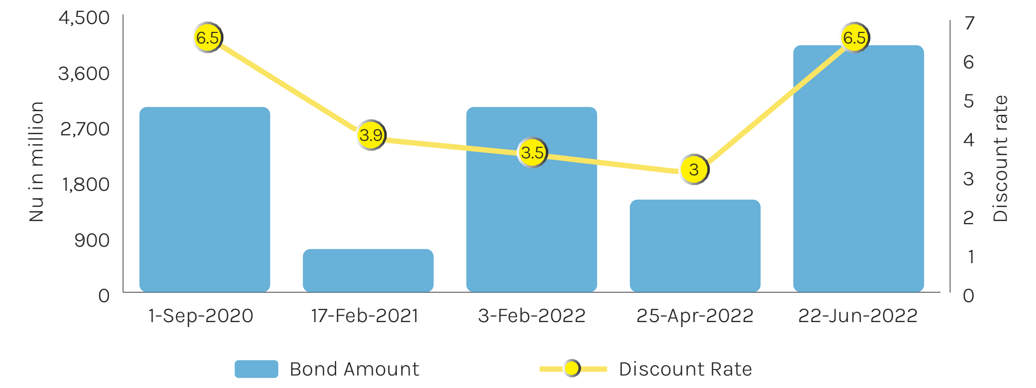
Chart 5.1.2 Volume and Discount Rate of T-bills



rates of the government securities remain inelastic and does not depict the real interest rate due to underdeveloped interbank market and abundant supply of liquidity in the market.

Starting September 2020, the government has taken an important step to finance its fiscal needs through issuance of long-term sovereign securities. As of June 2022, the government has issued five series of government bonds with outstanding amount of Nu 12,200 million on different maturity periods.

Chart 5.1.3 RGoB Bond Amount and Discount Rate

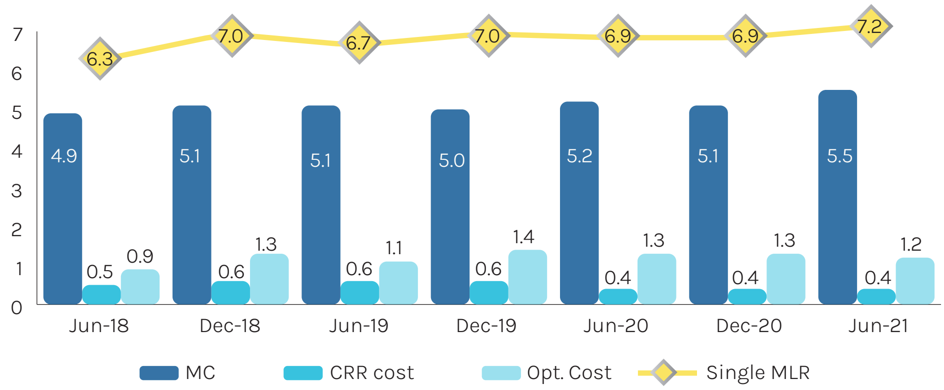


5.3 Minimum Lending Rate (MLR)

Since 1960s, banking sector has been playing major role in financing the economic activities of the country. Additionally, the shallow development in the capital market also led to reliance on the banking system for investment. Thus, regulating of interest rates was necessary to provide investment in the critical sectors. As the banking sector matured and the global and regional financial sector was deregulated the RMA, as a central bank, deregulated interest rates with effect from April 1999. Thereafter, the interest rates on deposits as well as lending were determined in the market by forces of demand and supply of loanable fund. In order to strengthen monetary policy management, the RMA introduced and implemented the Base Rate System (BRS) in September 2012.

The base rate was the minimum rate below which it was not viable for the financial institutions to lend. The base rate also served as the reference benchmark rate for floating rate loan products, apart from other external market-based benchmark rates. During the review of the BRS in early 2016, it revealed some rigidities such as: (i) backward-looking and pre-emptive since the previous year's costs were extrapolated into the coming year's lending; (ii) computation also included a double counting of margins which resulted in high lending rates, while deposit rates remained rigid; (iii) Use of multiple Base Rates and computation of the previous year's average return on net worth (ARNW) discouraged competition and financial innovation; and, (iv) the Base Rate was used as a tool to address multiple objectives, such as promoting transparency in loan pricing and curtailing excessive credit growth.

Chart 5.1.4 Constituents of Single MLR (%)



To address the rigidities in the base rate system, a new policy rate known as Minimum Lending Rate (MLR) was introduced and implemented from August 1, 2016. The main objective of the MLR is to encourage competition and develop professionalism among the financial institutions. MLR refers to the minimum interest rate below which financial institutions can't lend, except in certain cases. The MLR as on June 2022 stood at 7.2 percent. Of the three components, the Marginal Cost is the highest contributor followed by Operating cost and Cost of CRR.

5.4 Monetary Measures

Amidist the pandemic, the RMA implemented phased wise Monetary Measures-Phase I (April-June 2020), Phase II (July 2020 - June 2020) and Phase III (July 2021 – June 2022). The main highlights of Monetary Measures are summarized below: -

Phase I

Phase I (April 2020-June 2020)

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

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

3. Extension of gestation period for project under construction: Additional gestation period of three months were provided and the waiver of interest accrued on loans under gestation were also provided for three months.

4. Term based soft working capital facility for tourism related businesses: Short-term financing for tourism related companies and businesses were provided at a concessional interest rate of 5% to meet operational expenses.

5. Loans to cottage and small industries: 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.

Phase II

(July 2020-June 2021)

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

2. Incentive for regular repayments during the referment period: Borrowers willing and able to repay were offered 1% interest rebate.

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

4. Soft short-term loans to micro businesses and CSIs: In order to continue supporting the micro and CSI borrowers including informal/mobile businesses, the microloan and working capital loan to CSIs under the MM phase I were extended by another 12 months.

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

Phase III

(July 2021-June 2022)

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

2. Incentive for regular repayments during the deferment period: Continuation of one percent interest rate reduction (rebate) on term loans for another one year (July 2021 to June 2022) was provided. These are to borrowers who service their loan installments regularly and fully as per the agreed repayment schedule (after adjustment of 50 percent interest payment support).

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

4. Treatment of interest accrued during the deferment period: Interest accrued during the deferment period are not capitalized. At the end of the deferment period, the total accumulated interest from April 2020 to June 2022 (after the adjustment of 50 percent interest payment support) shall be converted into Fixed Equated Installment Facility (FEIF) payable in equal installments within a period of up to five years.

5. Loan-to-Value (LTV) limits and land valuation: In case of project financing/business loans, the Financial Service Providers (FSPs) may provide loans up to the LTV limit of 100 percent of the collateral value.

Monetary Measures Phase IV

The Phase IV Monetary measures include resolution of non-performing loans, targeted support measures for performing loans, extension of loan term for selected sectors, treatment of interest accrued during the deferment period.

Based on the eligibility for targeted support measures, the support measures are provided as per the severity of impact of the pandemic and the affordability of the borrowers. As per the risk and impact assessment, the sectors and subsectors are classified into three different risk categories viz., High, Moderate and Low. Based on these risk classifications and the affordability of the borrowers, the FSPs may provide one or more loan restructuring measures. There are 8 forms of loan restructuring measures under this targeted support framework which is available for a period of six months (July 2022-December 2022).

The Monetary Measures Matrix was developed for sectors based on three different types of risk categorization as follows:

- The Hotels and Restaurants sector which was severely impacted by the pandemic was categorized under the high-risk sector. The high-risk sectors were given a loan repayment deferment for up to two years and an additional option of partial loan repayment (of 50%) instalment for up to two years.
- In the moderate risk sectors, a loan deferment facility for up to one year was provided and an option for partial repayment of 50 percent of instalment for up to a one-year period was also given. The sectors categorized under the moderate risk are construction (contract-based), hospitality, entertainment, and recreational services, mining and quarrying, manufacturing enterprises, handicrafts and textile production, trade (retail), housing (commercial), home loans, personal loans (consumer and mortgage), transport (commercial and non-commercial), and education.
- Additionally, flexibility was also provided for the above two risk sectors to extend the loan term (maturity) by up to three years in addition to the deferment facility. Furthermore, the loan term was extended from 20 years to 30 years for hotels and restaurants under construction. It was granted to both the existing and new loans and, excludes the gestation period as well.

Rest of the sectors which was categorised as low-risk, were not eligible for monetary measure support and facility.

6

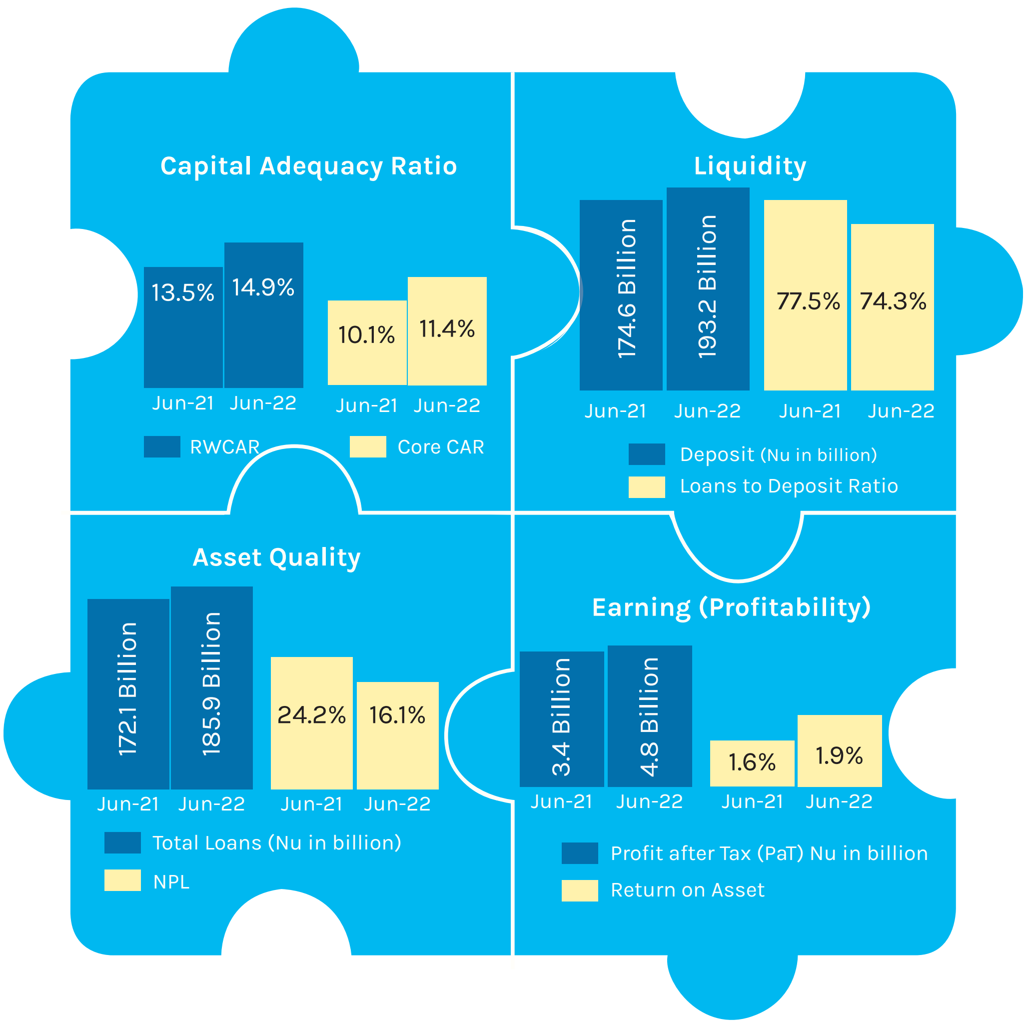
FINANCIAL SECTOR DEVELOPMENT

6 Financial Sector Performance Review

In the FY 2021/22, the NPL management and resolution emerged as a top priority. Despite economic outlook uncertainty, the NPL stood at manageable level, while the capital and the liquidity position remained well above the prudential requirement. Further, to support and stimulate the economic growth, the RMA ensured uninterrupted flow of credit to the economy.

Following the containment measures such as social distancing, national wide lockdown and shutting down of business activities due to COVID-19 pandemic, the economic activities remain subdued impacting all spheres of economy. The ongoing geo-political conflicts triggered further economic turbulences with persistent rise in global inflation and sporadic financial market conditions. Against these backdrops, the government and central banks across the globe swiftly deployed a series of monetary and fiscal stimulus packages to maintain financial stability.

Financial Sector Performance at a Glance



For instance, across all regions in the world, the financial service providers facilitated government's relief programs in addition to providing monetary measures through credit support and regulatory reforms to ensure uninterrupted supply of financial intermediation. In the USA alone, the government provided a support over 25 percent of GDP (USD 5.5 trillion) as a fiscal stimulus package to COVID-19 recovery as of May 2021[23]. Likewise, the financial sectors in Bhutan also provided necessary response measures in accordance with the phases of the pandemic and economic uncertainties.

Amidst the deep induced global economic challenges owing to the effects of the pandemic and the continuing Russian war on Ukraine, the financial sectors' resilience and stability will be further tested, while equally necessary to spearhead economic growth. However, with lingering COVID-19 and escalating geopolitical tension, the financial vulnerabilities remain elevated and could pose risks to financial sustainability and stability.

One of the mandates of the RMA is to promote the stability and efficiency of the financial system. To ensure the financial sector remains resilient and provide uninterrupted financial services, the RMA has revised the existing prudential regulations and other macroprudential regulations and guidelines in response to the COVID-19 pandemic. In addition, the RMA undertook the onsite inspection on the compliance of regulations and risk assessments guided by prudent regulations and macro guidelines. Based on the risk assessment, the financial sectors soundness indicators are within the tolerance level. Moving forward, the RMA continues to keep a close vigilance on the overall financial sector stability.

The financial sector in Bhutan has exhibited resilience and remained stable with strong capital and liquidity positions, providing adequate resources to support domestic lending to the economy. The core and Capital Adequacy Ratio (CAR) stood at 11.4 percent and 14.9 percent, well above the minimum regulatory of 5 and 10 percent respectively. Driven by the increased cash balances and marketable securities, the statutory liquidity ratio (SLR) of the bank and non-banks remained comfortable at 31.1 percent for banks and 16.1 percent for non-banks. Further, the higher growth in deposits during the FY 2021/22 resulted in improved credit to deposit (CD) ratio with the ratio reported at 74.3 percent.

The NPLs as of June, 2022 improved substantially at 8.6 percent, which is a reduction by Nu 8,185.5 million. This was achieved due to numerous regulatory actions along with the formation of high level Non- Performing Loan (NPL) committee and Prompt Corrective Action Framework 2022. As of June, 2022, the total NPL stood at Nu 16,058.4 million as compared to Nu 24, 243.9 million in June, 2021. The profitability of the financial sector increased to Nu 4,860.8 million as of June, 2022 from Nu 3,354.3 million during the previous year, supported by Interest Payment Support (IPS) and loan deferment provisions.

6.1 Balance Sheet of Financial Sector

The financial sectors in Bhutan displayed a strong financial position amidst the pandemic and geopolitical challenges. The financial sectors exhibit an expansion in the business

[23]*Source: Statista, Value of COVID-19 fiscal stimulus packages in G20 countries as of May 2021, as a share of GDP. Online: https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp/*

size during the FY 2021/22. Total assets increased by 11 percent to reach Nu 305,677.2 million in FY 2021/22 from Nu 275,327.3 million during the FY 2020/21. The growth in the assets amounting to Nu 30,349.9 million was primarily contributed by increase in loans and advances amounting to Nu 18,075.3 million and investments in debt instruments of RGOB bonds & bills and corporate bonds amounting to Nu 23,999.8 million. The FIs also made an increased investment in equities amounting to Nu 1,247.2 million in public companies during the review period. Of the total assets, loans and advances accounted for 56.3 percent of the total assets of the financial sectors.

Table 6.1 FSPs Balance Sheet (Nu in million)

Assets				Liabilities		
Particulars	**Jun-21**	**Jun-22**		**Particulars**	**Jun-21**	**Jun-22**
Cash & Bank Balances	34,548.3	37,598.1		Paid-up Capital	10,690.9	10,690.9
Balances with Banks (India & Abroad)	4,715.5	4,272.4		Reserves	17,136.4	22,192.5
Balances with RMA	46,106.2	41,187.3		Deposit Liabilities	174,545.0	193,198.9
Marketable Securities	19,966.3	29,165.4		Borrowings	843.1	767.9
Loans & Advances (Net of Provision)	153,877.8	171,953.1		Bonds/Debentures	1,499.0	0
Equity Investments	5,517.1	6,764.3		Provisions	5,014.6	5,974.5
Fixed Assets	4,921.5	5,973.4		Insurance Funds	57,085.1	62,917.0
Other Assets	5,674.5	8,763.1		Current & Other Liabilities	8,513.2	9,935.5
Total	**275,327.2**	**305,677.2**		**Total**	**275,327.2**	**305,677.2**

On the liabilities front, the COVID-19 related relief measures, regulatory relaxation and promotion of Fin-Tech in the financial sector favored the growth in deposit base. At the same time, precautionary savings amidst the economic uncertainties fueled the deposit liabilities of the commercial banks, resulting in increased deposit liabilities by Nu 18,653.9 million in the FY 2021/22. The insurance fund also increased by Nu 5,831.9 million during the same period due to increase in life insurance and non-life premium[24]. The insurance fund mainly comprises of life, group, general and other insurance fund like private provident, annuity and reinsurance fund. Further the regulatory requirements to transfer profits to reserves resulted in an increase of Nu 5,056.1 million during the same period.

6.2 Total Loans & Advances and Sectoral Exposures

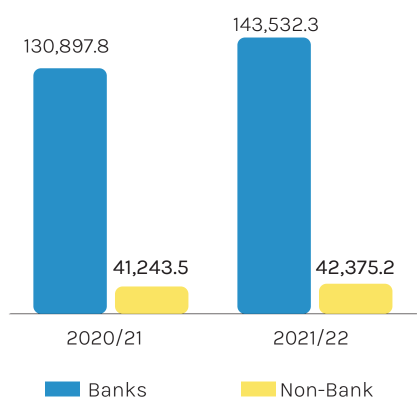
The domestic credit maintained an upward trajectory despite the challenging economic environments. This reflects the vibrancy of financial sector in providing continued support for financial services without disruptions in the flow of credit in the economy. During the FY 2021/22, the total loans and advances from FIs stood at Nu 185,907.5 million, recording a growth of 8 percent. Of the total loan exposure, the banking sectors accounted for 77.2

[24]Life insurance comprises of Money Back policy, Millennium Education, Youth Endowment Assurance, Gaki Pelzom Life policy etc and non-life insurance mainly comprises of fire, motor, engineering and miscellaneous.

percent (Nu 143,532.3 million) and the non-banks with 22.8 percent (Nu 42,375.2 million).

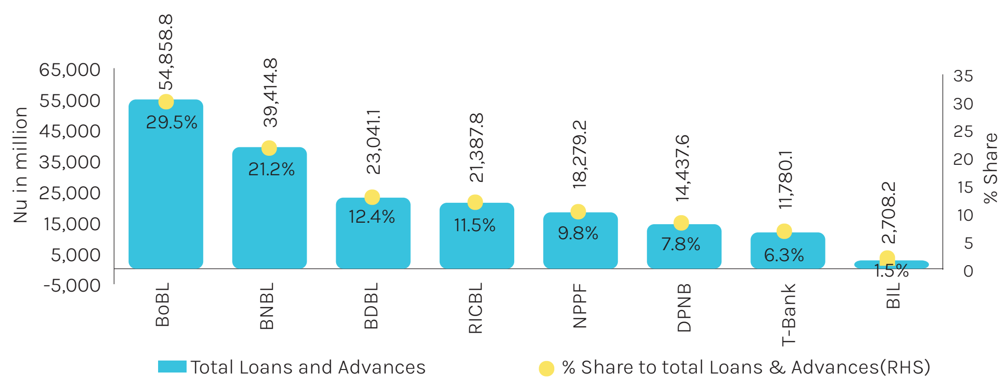
The growth in the loans and advances was mainly driven by increase in loans and advances to housing, personal and production & manufacturing loans amounting to Nu 3,751.2 million, Nu 3,452.6 million and Nu 2,932.6 million respectively. These sectors grew at 8.4 percent, 27.1 percent and 13.4 percent respectively. The government's drive to revive the economy led to the increase in loans to these sectors particularly the production & manufacturing.

Chart 6.2.1 Total Loans and Advances (Nu in million)



After the unparalleled support to the service and tourism sector on account of COVID-19 impact in FY 2020/21, lending to this specific sector in FY 2021/22 contracted by 1.1 percent from Nu 48,411.1 million in the previous FY. However, this sector still remains dominant with 25.8 percent (Nu 47,886.4 million) of total loan outstanding in FY 2021/22.

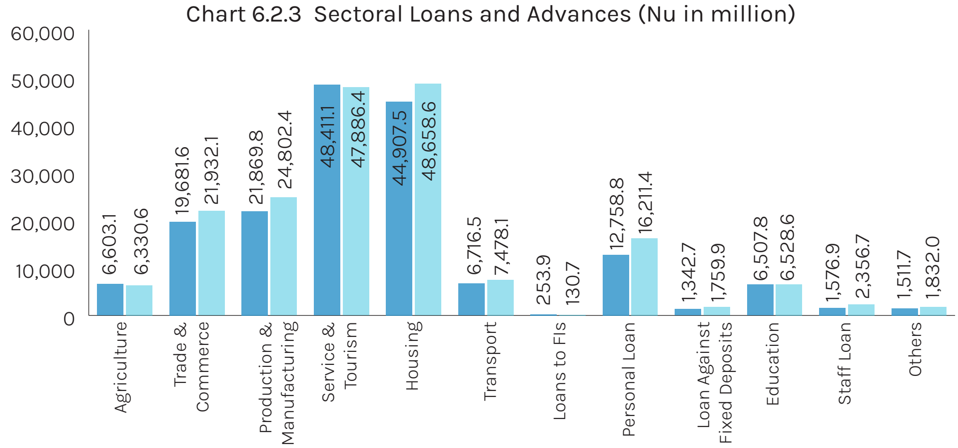
Chart 6.2.2 FSPs Loans and Advances as on June 2022



Banking sectors continued financing greater shares of loans with the two major banks namely the BoBL and BNBL leading with total loans holding of 29.5 percent and 21.2 percent correspondingly. The higher share in these two banks is largely on account of the greater deposit base accounting for 29.9 percent and 14.4 percent respectively and operational network outreach. The other FSPs except for BIL, holds within the range of 6 percent to 12 percent of the total loans and advances.

On the sectoral loan exposures, increased in loans was diversified across all sectors of the economy. In terms of sector specific, the housing and service & tourism sectors recorded the highest share with 26.2 percent and 25.8 percent respectively. This was followed by production & manufacturing and trade & commerce sectors with 13.3 percent and 11.8 percent respectively. The agriculture and animal husbandry sector loan accounted only 3.4 percent of the total loans, while personal loans accounted for 8.7 percent.

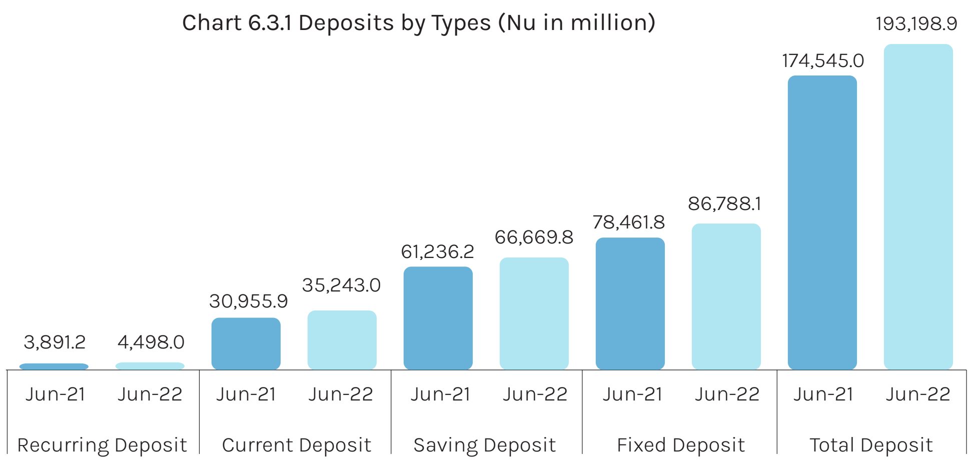
Chart 6.2.3 Sectoral Loans and Advances (Nu in million)



6.3 Deposits

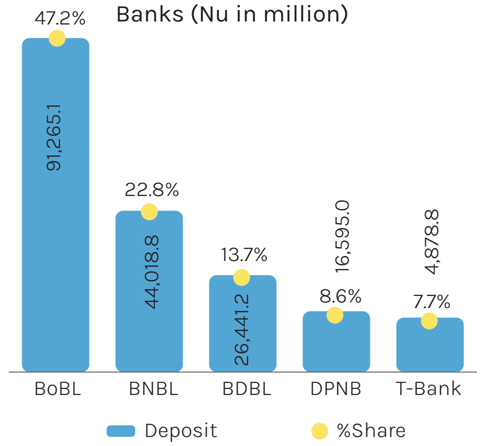
The banking sectors' deposit improved during the FY 2021/22 by 10.7 percent, with the total deposits at Nu 193,198.9 million. Of the total deposits, term deposits which accounted for 47.2 percent (Nu 91,286.2 million), driven by the fixed deposits with 44.9 percent (Nu 86,788.2 million). On the other, the demand deposits constituted 52.8 percent amounting to Nu 101,912.8 million. From the demand deposits, the savings deposits accounted for 65.4 percent (Nu 66,669.8 million) of the total demand deposits. Notably, the loan deferment scheme and IPS attributed to higher growth in total deposit portfolios combined with higher financial literacy associated with savings.

Chart 6.3.1 Deposits by Types (Nu in million)



The banks with the largest business size continued to retain major share of the deposits in June 2022. Deposit holding was highest with the BoBL amounting to Nu 91,265.1 million, which accounted for 47.2 percent of the total deposits, followed by BNBL with 22.8 percent (Nu 44,018.8 million).

Chart 6.3.2 Deposits by Banks (Nu in million)



6.4 Financial Soundness Indicators

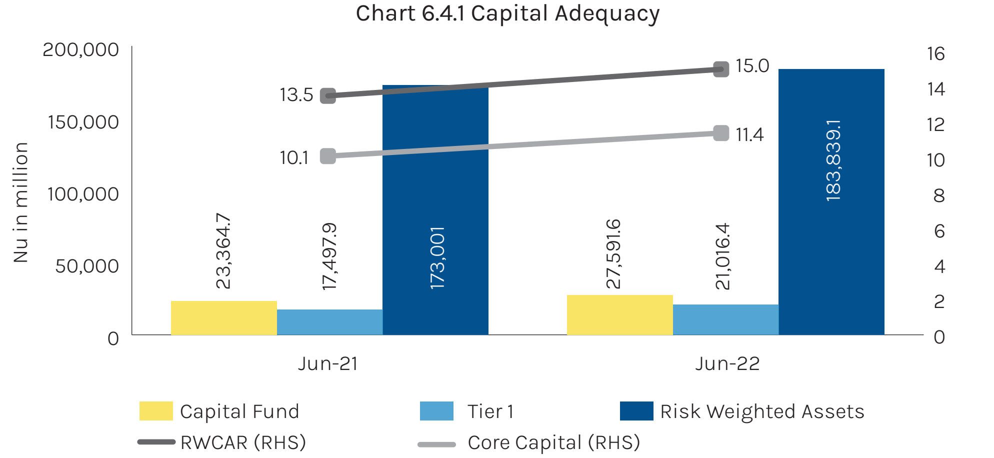
Financial sectors navigated through economic disruptions caused by pandemic with a strong resilience supported by various policies and prudential measures undertaken by the RMA. For the financial soundness, the capital, assets, earnings and liquidity are used to assess the financial sectors stability and risks.

6.4.1 Capital

The strong capital ensures the financial sector stability and resilience. The domestic financial institutions remained well positioned to withstand unexpected loses in times of shocks. During the review period, the Tier 1 capital[25] increased by 20.1 percent owing to implementation of monetary measures (IPS and loan deferments) and regulatory directives to plough back dividends into the general reserves, which has offset the increase in total Risk Weighted Assets (risky assets) by 6.3 percent.

Consequently, the core capital ratio, which measures the strength of institutions improved by 1.3 percent, driving the core capital ratio to 11.4 percent, which is significantly above the

Chart 6.4.1 Capital Adequacy



[25]*Tier 1 capital constitutes of Paid-up Capital, General (statutory) Reserves, share premium and Retained Earnings (Free Reserve)*

minimum regulatory requirement of 5 percent. The improvement was witnessed across all financial institutions except for Druk PNB bank. The sharp increase in the Tier-1 capital of BNB and RICBL contributed to overall rise in Tier-1 capital. Similarly, the Risk Weighted Capital Adequacy Ratio (RWCAR) of the financial institutions increased to 15 percent from 13.5 percent, mainly driven by capital fund (18.1%). The higher RWCAR strengthens the loss absorbing capacity during distress periods.

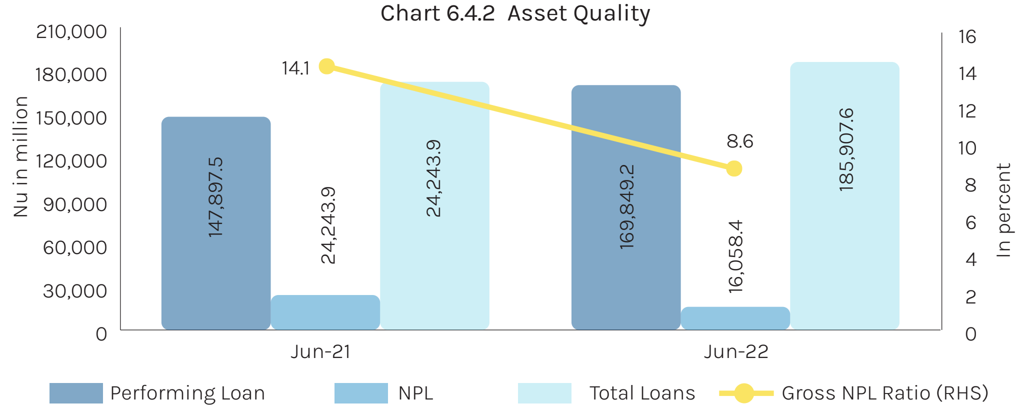
6.4.2 Asset Quality

In a continued efforts to revive the adversely affected economy, the RMA issued and implemented several unprecedent measures to address the NPL issues. A large stock of unresolved NPL in the financial sectors compromises the lending and earning capacity. In this regard, the RMA initiated several regulatory reforms and resolutions framework along with the formation of High-Level NPL committee. This was aimed considering the need for supporting the financial system and facilitating economic activities while still ensuring that the FSPs remain vibrant and sound. Reclassifications of old NPL and loans restructuring along with timely identification of NPL through limits (Prompt Corrective Action Framework 2022) were introduced as a policy response considering the adverse impact of the NPL. Under the corrective action framework, the lending activities of those institutions with NPL above the maximum limit of 7.5 percent were temporarily suspended.

Eventually, these prudent and enabling regulatory measures along with the improving economic activities helped financial sector to minimize the NPL outstanding. The overall NPL in the financial sector decreased to Nu 16,058.4 million during the period as compared to Nu 24,243.9 million in previous period with the gross NPL ratio of 8.6 percent. The NPL ratio is expected to improve further as financial institutions usually carry out rigorous follow-up and loan recovery towards the end of calendar year guided by the prudential regulations.

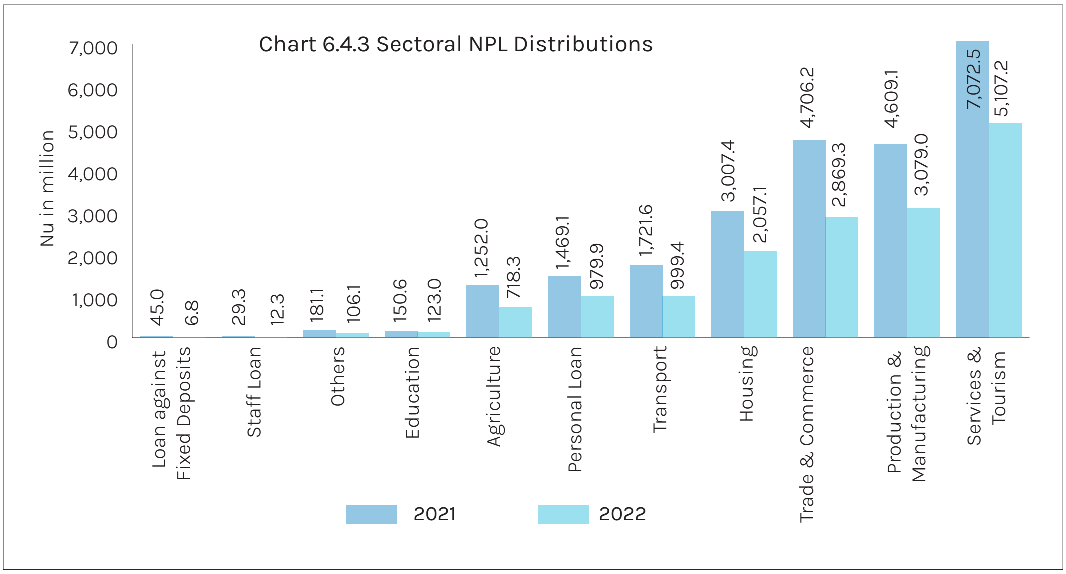
All the sectoral classification of the loans recorded a decline in the NPLs during the review period with the marked improvement in the asset quality. A notable improvement in the quality of loans were observed in the sectors that was severely impacted by the COVID-19 pandemic. These sectors comprise of service and tourism, production & manufacturing and trade & commerce. Though the service & tourism sector managed to curb the NPL

Chart 6.4.2 Asset Quality



during the review period, it still continues to topped amongst the sectors accounting to 31.8 percent of the total NPL. Notwithstanding a higher credit growth in trade & commerce, production & manufacturing and housing sector, these three sectors combined have accounted for almost 50 percent of the total NPL during the FY 2021/22.

Since the onset of the COVID-19 pandemic, the financial sector displayed a strong stability, supported by the fiscal and monetary measures undertaken by the RMA and government under the guidance of His Majesty The Druk Gyalpo. Moving forward, the financial sector's

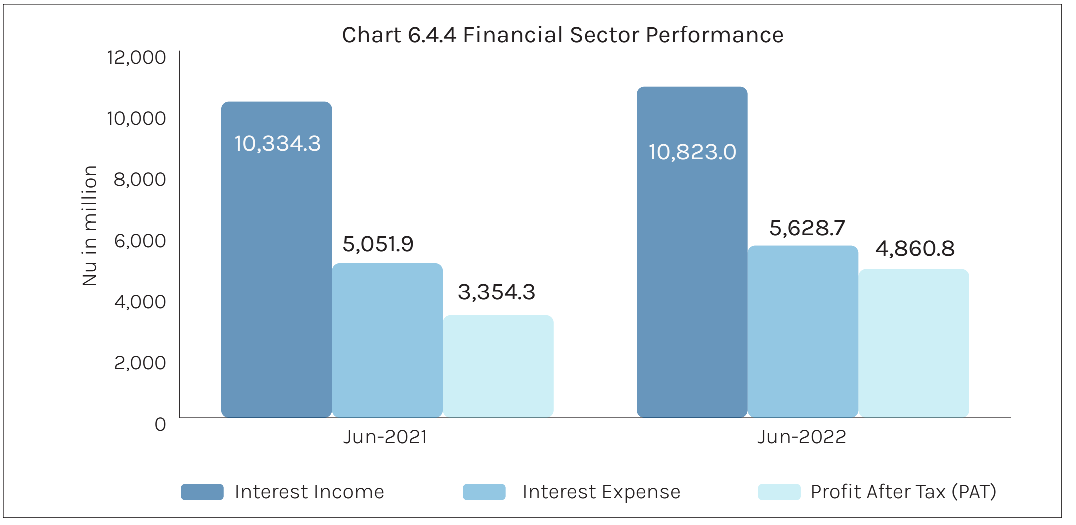


exposures to credit risk is likely to remain elevated due to escalating global uncertainties emerging from geopolitical issues, disruptions in global supply chain, rising inflation and rapid depreciation of the global currencies against the USD.

6.4.3 Earnings

The earning capacity and profitability of the financial sector during the review period largely depended on the Interest Payment Support (IPS) Kidu and deferment of loans. For instance, a total of Nu 3,319.3 million IPS were paid from July, 2021 to December, 2022 to all the eligible borrowers. The interest income growth from new loans, which did not qualify for the IPS (the loans granted after 10th April 2020) also contributed for higher returns.

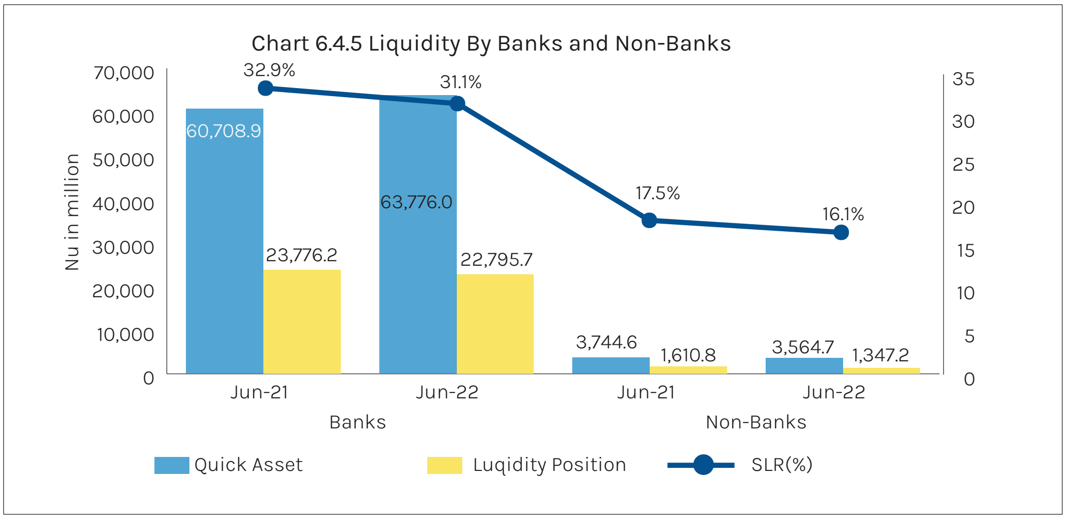
As a result of the monetary measures, the FIs recorded an interest income of Nu 10,823 million as of June 2022. On the other hand, interest expenses on deposit liabilities have also increased significantly by Nu 576.8 million. The surge in fixed deposits from the corporates resulted in the increase of interest expenses. However, the FIs profit after tax (PAT) increased by 44.9 percent amounting to Nu 4,860.8 million as of June, 2022. The decrease in the NPL during the period also resulted in the write-back of loan provisions amounting to Nu 3,008.3 million, helping the FIs to plough back the provisions to Profit and Loss account.



6.4.4 Liquidity

The liquidity positions of the FIs remained favorable during FY 2021/22. The quick assets[26] of the commercial banks during the review period increased by Nu 3,067.2 million. The increase in quick assets was mainly driven by investments in government T-bills, as the government resorted to domestic borrowing to meet its resource requirement and lending from the financial institutions.

Subsequently, the Statutory Liquidity Ratio (SLR) positions of the banks and non-banks are in comfortable position, much higher the prudential requirement of 20 and 10 percent respectively. As of June, 2022, the banking sectors' SLR stood at 31.1 percent, which is over and above the statutory requirement of 20 percent of total liabilities minus capital fund. For the non-banks, the total quick assets declined by Nu. 263.6 million on account of



[26]*Quick Assets are composed of cash, gold & precious metals, balances with RMA, RMA securities, government & government-guaranteed securities, demand deposits with banks in Bhutan and international banks, and money market instrument with remaining maturity of 90 days.*

decrease in demand and time deposits maintained with the commercial banks, however the SLR of non-banks is reported at 16.1 percent which is comfortably above the minimum prudent requirement of 10 percent. On the whole, the SLR of the FIs stood at 29.7 percent reflecting a strong liquidity position as of FY 2021/22. Regarding the credit to deposit (CD) ratio, there was a marginal improvement in the ratio during the review period. It improved from 77.5 percent in FY 2020/21 to 74.3 percent in FY 2021/22. The increase in deposit liabilities by 10.7 percent has outweighed the increase of 8 percent in the total loans.

6.5 The Microfinance Institutions and National CSI Bank

In an undeterred effort to enhance financial inclusions, MFIs and NCSI bank continues to play progressive role by mobilizing savings and deposits.

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

Sl.#	Particulars	Jun-21	Jun-22
1	Total Loan Sanctioned	3,044.7	3,360.8
2	Total Loan Outstanding	2,552.6	2,666.0
3	Total NPL	426.6	254.7
4	Total no. of loan a/cs	11,345.0	12,857.0
5	NPL to loan ratio	16.7%	9.6%

As of FY 2021/22, the total loan accounts increased by 1,512 contributing a total loan sanction of Nu 3,360.8 million as compared to the preceding year of Nu 3,044.7 million. Of their total portfolio, the National Cottage and Small Industries Development Bank (NCSIDB) holds 86.2 percent with total loan of Nu 2,895.4 million. The RENEW microfinance accounts for almost 10 percent with portfolio amounting to Nu 325.7 million. Despite increase in loans and adverse economic situations, the NCSIDB and MFIs reported an improved asset quality with a total NPL of Nu 254.7 million (NPL ratio of 9.6 %) as compared to Nu 426.6 million (16.7 %) of the prior period. Nonetheless, in the rising phase of potential economic uncertainty and the fact that micro borrowers are disproportionately vulnerable, the MFIs thrives to make conscious efforts to address NPL.

BOX 6.1

Credit Concentration in Financial Sector: A Re-assessment

The first analysis of sectoral credit concentration in the context of Bhutan's financial sector was put forward in the Annual Report of 2018/19 published by the RMA. The analysis consisted of two FY comparison between banks, non-banks and FIs collectively. This study further scans the concentration index of the Bhutan's financial sector by incorporating the past four-year trend analysis based on a calendar year and also attempts to compute the sectoral concentration index based on degree of geographical concentration for year ending 2021.

The consolidated **Basel Framework 2019,** scope 32.6 under the *Credit Concentration Risk*, explains credit concentration risk as any single exposure or group of exposures with the potential to produce losses large enough to threaten a bank's health or ability to maintain its core operations. It further affirms that risk concentrations are arguably the single most important cause of major problems in banks (Basel Committee on Banking Supervision, 2019).

While analyzing the credit risk by the banks, they should ensure to identify any weakness at the credit portfolio level, including any concentration risks. If such risks exist, it should be managed pro-actively and assessed by the banks. The supervisors or risk management focal should assess the extent of credit concentration and how they are being managed. Importantly, they should assess and review how the bank considers the concentration risk in its internal assessment of capital adequacy under Pillar II. Additionally, the assessments should encompass reviews of the outcome of bank's stress tests. Thus, appropriate action should be taken to address credit concentration by the bank's / supervisors.

The literature on concentration risk proposes few specific concentration indexes such as Herfindahl-Hirschman Index (HHI) and the Gini Coefficient to measure the degree of concentrations. While the HHI is used to calculate portfolio concentration risk, Gini is used as measure of inequality in loan distribution. The HHI is a popularly treated summary measure of concentration in the theoretical literature and often serves as a benchmark for the evaluation of other concentration indices (Bikker & Haaf, 2002). The HHI is calculated by the following formula:

$$HHI = \sum_{n=1}^{N} S_n^2 \qquad (1)$$

Where S is the loan share to total. As a general rule, an HHI below 0.1 signals low concentration, while HHI above 0.18 signals high concentration and any index between 0.1 to 0.18, signals moderately concentrated (Bandyopadhay, 2010). Similarly, the Gini Coefficient for a portfolio of N Loans with exposure shares s1, s2.... sN is estimated as follows:

$$G = \frac{\sum_{n=1}^{N} (2n-1)S_n}{N} - 1 \qquad (2)$$

A Gini Coefficient in the range of 0.3 or less indicates substantial equality and if above 0.4 means the inequality is high, and coefficient between 0.3 to 0.4 indicate an acceptable normality. The problem with Gini Coefficient is that it does not pay attention to the value of loan portfolio. The Gini Coefficient can increase when a relatively small loan is added to a given portfolio although concentration would actually decrease. Hence, HHI is a better measure of concentration (Bandyopadhay, 2010).

Unlike in our past review, the current assessment is based on the calendar year (cycle followed by the financial institutions in Bhutan to close their books of accounts). The sectoral concentration index is developed based on the total loan outstanding of the banks and non-banks.

Chart 1 Gini Coefficient Index

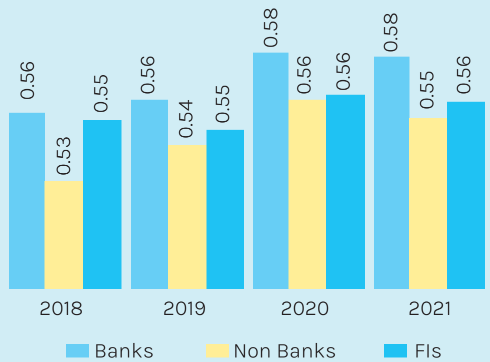
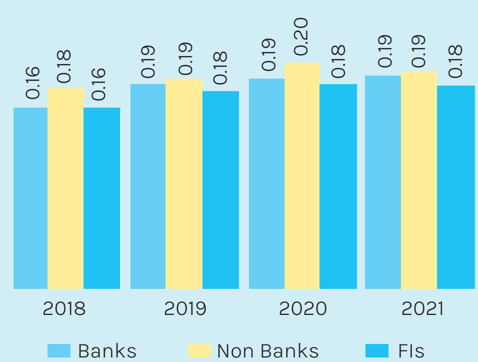
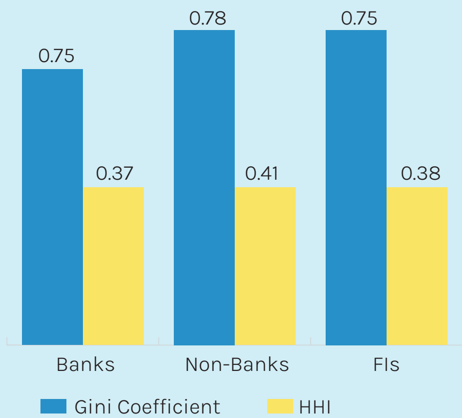


Chart 2 Herfindahl-Hirschman Index



As the macroeconomic fundamentals of Bhutan has changed overtime, the demand for financial intermediary has also evolved. The demand for loans in sectors such as housing, service and tourism has grown exponentially in the recent years.

Chart 3 Concentration Index based on Geography as of December 2021



Furthermore, the demand for these loans has largely come from the Urban areas of the country. Notably, demand from Dzongkhags such as Thimphu, Paro and Chhukha have rapidly increased. The undiversified credit market is also attributed to the limited avenues for alternative investments in the country. The financial institutions as a result, compete in these small-sized markets.

Since it mandates a supervisory oversight, the RMA keeps regular tab on the growing concerns of credit concentration in Bhutan's financial sector. Besides supervisory oversight, the Prudential norms mandates the FIs to instill robust risk management system ensuring adequate capital in commensuration with all material risks posed by its operating activities.

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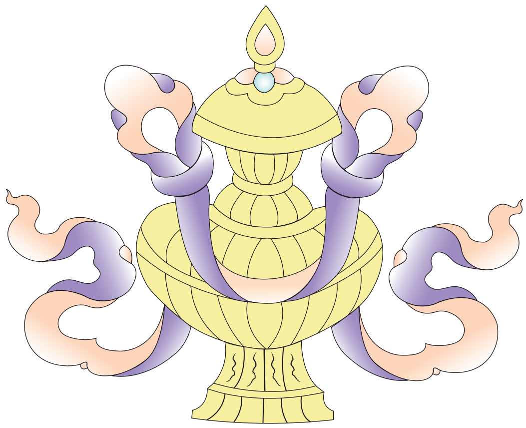

7

ANNUAL FINANCIAL STATEMENT

8.1 Audited Financial Statements for Financial Year 2021-2022

In accordance with the Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the statutory audit of the Authority's accounts for financial year 2021-2022 was carried out by Dechok & Associates Private Limited based in Thimphu. The Royal Monetary Authority of Bhutan has prepared its accounts in compliance to Bhutanese Accounting Standards. The Auditors' Report and financial Statements comprising of Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Notes to the Financial Statements, and Prior Year Audit Follow-Up and Management Report are submitted to Board for approval. The same was submitted to Board Audit Committee and deliberated during the 40th Audit Committee meeting on 26th September, 2022.

Brief analysis on Financial Statements of Royal Monetary Authority for the Financial Year 2021-2022.

The overall Financial Position grew by Nu 77.42 million from Nu 117. 64 billion on June 30, 2021 to Nu 117.72 billion on June 30, 2022 mainly due to the following:

Assets

Growth in the foreign currency financial assets by Nu 1.64 billion due to increase in the IMF SDR holding by Nu 1.99 billion followed by growth in the local currency financial and non-financial assets mainly attributed by increase in the RMA's balances with domestic banks by Nu 139.58 million and other assets by Nu 261.81 million respectively.

Liabilities

Increase in the revaluation reserve resulting from revaluation gain by Nu 2.79 billion for the current period followed by increase in SDR allocation by Nu 1.93 billion and increase in the profit by Nu 1.18 billion.

The detail analysis of the growth in the Financial Position items are explained as follows:

Statement of Financial Position

Assets

i. **Foreign currency financial assets**

The growth in the total foreign currency financial assets by Nu 1.64 billion during the FY 2021-2022 was mainly due to an increase in IMF SDR allocation of Nu 1.99 billion. The IMF allocated SDR 19.55 million to Bhutan in August 2021, in proportion to the existing Quota in the fund to address long-term global need for reserve, build confidence and foster the resilience in stability of global economy, and to help the most vulnerable countries struggling to cope with the impact of the COVID-19 crisis. During the period, the investment in foreign currency denominated bonds increased by Nu 33.06 billion.

ii. Local currency financial assets

The total local currency financial assets have increased by Nu 145 million mainly due to increase in RMA's deposit maintained with the commercial bank.

iii. Foreign currency non-financial assets

The foreign currency non-financial assets decreased by Nu 1.96 billion mainly due to the sale of monetary gold.

iv. Local currency non-financial assets

The local currency non-financial assets have increased by Nu 252.16 million mainly due to increase in holding of non-monetary gold and increase in exchange rate.

Liabilities

i. Foreign currency financial liabilities

The Foreign currency financial liabilities increased by Nu 2.95 billion from Nu 28.62 billion on June 30, 2021 to Nu 31.57 billion on June 30, 2022 mainly due to additional SDR allocation of Nu 1.99 billion and increase of RBI swap balances by Nu 636.76 million due to increase in exchange rate (USD to Nu).

ii. Local Currency financial liabilities

The local currency financial liabilities decreased by Nu 6.84 billion from Nu 69.37 billion in June 30, 2021 to Nu 62.53 billion in June 30, 2022 mainly due to decrease in balances of commercial banks maintained with RMA by Nu 5.77 billion and decrease in currency in circulation by Nu 1.8 billion.

iii. Equity

The Equity has increased by Nu 3.98 billion on account of increase in revaluation reserve by Nu 2.79 billion and retained earnings by Nu1.18 billion.

Statement of Comprehensive income

During the FY 2021-2022, the net profit of the year grew by Nu 5.72 billion from a loss of Nu 1.29 billion on June 30, 2021 to a profit of Nu 4.43 billion on June 30, 2022 mainly contributed by the following:

- increased in foreign exchange revaluation gain by Nu 5.97 billion brought about by increase in the USD-Nu exchange rate from Nu 74.22 to Nu 78.96 during the period.
- increased in realized gain on sale of foreign currency assets by Nu 799.56 million.
- increase in interest income on foreign currency financial assets by Nu 339.04 million.

The detail analysis of the growth in the statement of Comprehensive Income items are explained as follows:

i. Foreign Currency Interest Income and Expenses

The net foreign currency interest income has increased by Nu 307.8 million which was mainly contributed by rise in the interest rates globally thereby increasing the interest income on foreign investment by Nu 55.53 million. Further, the interest income on foreign currency financial assets has also been contributed by an increase in interest income from investment in foreign currency bonds by Nu 477.84 million followed by an increase in gain on currency trading by Nu 62.41 million.

ii. Local Currency Interest Income

Local currency interest income, which comprises of interest income from staff loans and Ways and Means Advances (WMA), increased by Nu 9.05 million due to continuous availing of WMA facility by RGOB during the period.

ii. Other income

Although, RMA incurred an unrealized fair value loss on foreign assets amounting to Nu 1.81 billion, the gain on foreign exchange revaluation gain amounting to Nu 4.69 billion and realized gain on sale of foreign assets amounting Nu 846.48 million has brought about the increase in net other income, thereby, resulting in the overall increase in the net profit by Nu 5.7 billion during this period.

iii. Expenses

The overall operating expenses decreased by Nu 9.45 million mainly due to a decrease in the banknote printing expenses by Nu 32.67 million.

Profit for Distribution

Covid-19 impacted both the global economy and the domestic economy which led to decrease in RMA's foreign reserves. However, with the prudent management of the foreign reserves and guidance from the board and management coupled with increase in the foreign currency exchange rate, the interest income has increased significantly compared to the past years. Further, with the realization of gain on sale of assets and previously unrealized gains on sale of foreign assets, the distributable profit works out to Nu 1.62 billion after transferring revaluation gain of Nu 2.88 billion to revaluation reserve as per Section 23-24 of the RMA Act 2010.

Rebuilding of General Reserves

During the 171st Board meeting the RMA Board decided to support the funding of the National Resilience Fund (NRF) by transferring the General Reserve of RMA amounting to Nu 2 billion to the NRF. The NRF being instrumental in maintaining the hopes and confidence of people amidst the unprecedented economic hardships and challenges posed by the COVID-19 pandemic, to successfully implement the measures formulated in response to pandemic and fulfill His Majesty's command in the same line, funding of NRF was very critical at that juncture to continue granting Druk Gyalpo's Relief Kidu (DGRK).

Therefore, the General Reserves being part of shareholders' equity transferred from the profit which is normally reserved for any future losses and uncertainties, the Board took the decision, with the Government representative in the Board, to fund the NRF from the General Reserve for immediate support to DGRK. Further, the board directed that the General Reserve should be rebuilt from profit once the situation is back to normal.

Given the current situation of declining foreign reserves, there is an anticipation of decrease of income from foreign reserves and increase in borrowing costs resulting in losses in the future for which RMA would require the General Reserve to off-set the losses. In view of the above, the Department of Banking during the 40th Audit committee meeting had proposed rebuilding the General Reserves by transferring 100 percent of the current year's profit of Nu 1.62 billion. The main reason to propose 100 percent of profit transfer was to curb liquidity during the current situation of high liquidity in the banking sector which would further increase the pressure on foreign reserves. During the Statutory Audit of RMA for FY 2021-2022, rebuilding of General Reserves was also highlighted as a matter of importance at this juncture.

The Audit Committee acknowledged the importance of rebuilding the General Reserve, however, considering the financial burden the Government is currently facing, the requirement of fund to meet the fiscal deficit seemed very crucial. Therefore, the Board Audit Committee during the 40th Audit Committee recommended ploughing back 50 percent of the profit for the FY 2021-2022 to the General Reserve and remaining 50 percent to be distributed to the Government.

Royal Monetary Authority of Bhutan
Statement of Financial Position

Assets *(Amount in Nu. '000)*

	Note	June 30, 2022	June 30, 2021
Foreign currency financial assets			
Cash and cash equivalents	9	47,973,007	38,292,422
Deposits with banks	10	-	42,343,613
Trading assets	11	969	1,085,207
Securities	12	57,388,135	24,324,635
IMF related assets	13	4,738,350	2,820,725
Interest and other receivables		555,456	148,818
Total foreign currency financial assets		110,655,917	109,015,421
Local currency financial assets			
Cash and cash equivalents	9	173,693	34,111
Gratuity fund	10	71,183	62,872
Loans to staff	14	14,395	17,285
Total local currency financial assets		259,271	114,267
Foreign currency non- financial assets			
Monetary gold	15	688,898	2,823,406
Other foreign currency non-financial asset	16	780,745	606,479
Total foreign currency non-financial assets		1,469,644	3,429,885
Local currency non-financial assets			
Non-monetary gold	17	55,566	26,901
Inventory for banknotes	18	213,524	237,857
Property, Plant and Equipment	19	139,988	127,327
Intangible assets	19	2,511	29,431
Other assets	20	4,923,467	4,661,381
Total non-financial assets		5,335,055	5,082,898
Total Assets		**117,719,888**	**117,642,470**

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

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 264117[illegible]

Date: 23/0[illegible]/202[illegible]
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairperson

The notes on page 14 to 57 are an integral part of these financial statements

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Royal Monetary Authority of Bhutan
Statement of Financial Position

Liabilities and Equity *(Amount in Nu. '000)*

	Note	June 30, 2022	June 30, 2021
Foreign currency financial liabilities			
Balances of Royal Government	21	7,347,627	7,267,110
IMF related liabilities	13	4,256,001	2,322,396
Due to IFIs	22	3,675	2,849
Due to foreign central banks	22	19,916,600	18,995,140
Accrued interest payables		50,337	36,182
Total foreign currency financial liabilities		31,574,239	28,623,677
Local currency financial liabilities			
Currency in circulation	23	13,519,102	15,321,544
Balances of commercial banks	24	46,080,487	51,852,994
Balances of Royal Government	21	2,927,678	2,195,145
Due to other financial institutions	22	542	542
Total local currency financial liabilities		62,527,810	69,370,225
Other liabilities			
Deferred grants	25	107,906	120,185
Gratuity and other employee benefits	31	131,218	124,537
Others	26	109,226	123,297
Total Other Liabilities		348,350	368,020
Total Liabilities		94,450,399	98,361,922
Equity			
Capital		800,000	800,000
General reserve	27	-	-
BAS transition reserve	27	138,814	138,814
Revaluation reserve	27	20,600,536	17,809,783
Retained earnings	27	1,724,408	544,529
Other reserves	27	5,731	(12,578)
Total Equity		23,269,489	19,280,548
Total Equity and Liabilities		117,719,888	117,642,470

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

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 2641177

Date: 23/09/2022
Place: Thimphu, Bhutan

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairperson

The notes on page 14 to 57 are an integral part of these financial statements.

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Royal Monetary Authority of Bhutan
Statement of Comprehensive Income

(Amount in Nu. '000)

	Notes	June 30, 2022	June 30, 2021
Foreign currency income and expenses			
Interest income on foreign currency financial assets	28	1,725,441	1,395,400
Interest expense on foreign currency financial liabilities		(675,332)	(590,682)
Gain/(loss) on trading of assets		96,131	33,721
Net foreign currency income		1,146,241	838,438
Local currency income			
Interest income on local currency financial assets	28	12,469	3,415
Net local currency income		12,469	3,415
Net foreign currency income		1,158,709	841,853
Other income			
Realised gain/(loss) on sale of assets	29	846,477	46,918
Unrealised fair value gain/(loss) of assets	30	(1,810,734)	(436,841)
Foreign exchange revaluation gain/(loss)	31	4,687,553	(1,282,833)
Others	32	(16,045)	4,146
Net other income		3,707,251	(1,668,610)
Total net operating income		4,865,961	(826,757)
Expenses			
Cost of banknote printing		(50,367)	(83,038)
Employee benefits	33	(232,398)	(220,627)
Administrative expenses	34	(160,203)	(148,749)
Total operating expenses		(442,967)	(452,415)
Net profit for year		**4,422,993**	**(1,279,171)**
Other Comprehensive Income not to be reclasified to profit or loss in subsequent periods			
Actuarial gain on Staff gratuity Fund		5,731	(12,578)
Total Comprehensive Income		4,428,724	(1,291,749)

Please refer to Note 35 on profit for distribution

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

Yeshi Jamtsho, FCCA
Managing Partner
Membership No. 264177

For Royal Monetary Authority of Bhutan

Dasho Penjore
Chairperson

The notes on page 14 to 57 are an integral part of these financial statement

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8
STATISTICAL TABLES

Table 1. Gross Domestic Product at Current Prices

Nu in million

Sector	2017	2018	2019	2020	2021	Share of GDP in 2021 (%)
1. Agriculture, livestock and forestry	23,989.4	26,759.7	28,184.5	32,997.5	36,036.7	19.2
1.1 Crops	12,922.6	14,427.9	15,918.4	18,661.3	19,749.9	10.5
1.2 Livestock	7,050.3	7,463.7	8,113.6	9,881.3	10,716.6	5.7
1.3 Forestry and logging	4,016.5	4,868.2	4,152.4	4,454.9	5,570.3	3.0
2. Mining and quarrying *	6,954.6	8,137.8	8,576.8	2,775.1	5,086.9	2.7
3. Manufacturing	11,979.6	12,435.9	12,687.9	10,202.0	11,000.3	5.9
4. Electricity and water	21,766.9	19,602.8	22,657.3	30,532.4	29,362.4	15.6
4.1 Electricity	21,728.2	19,560.2	22,611.2	30,483.3	29,307.6	15.6
4.2 Water supply	38.7	42.6	46.1	49.2	54.8	0.0
5. Construction	26,068.5	23,753.1	20,465.4	16,301.9	18,765.9	10.0
6. Wholesale and retail trade	13,460.0	15,042.1	17,378.5	17,955.0	20,319.3	10.8
7. Hotels and restaurants	3,476.8	4,039.8	4,658.2	1,429.1	1,623.9	0.9
8. Transport, storage and communication	15,119.5	16,720.1	19,070.7	14,991.4	16,775.0	8.9
9. Financing, insurance and real estate	11,667.3	12,988.1	13,848.4	132,727.1	13,863.5	7.4
9.1 Finance	7,945.7	9,018.5	9,563.6	8,661.5	8,724.5	4.6
9.2 Real estate	3,408.3	3,593.1	3,833.0	4,115.0	4,504.2	2.4
9.3 Business services	313.4	376.5	451.9	450.5	634.9	0.3
10. Public Administration	11,630.6	11,761.3	13,114.9	16,564.9	18,568.2	9.9
11 Education and health	4,717.2	5,580.3	8,844.3	10,276.6	10,970.3	5.8
12. Private social, personal and recreational services	654.7	679.2	704.6	445.4	482.7	0.3
13. Plus indirect taxes less subsidies	8,086.7	9,839.7	8,370.1	4,597.0	4,917.6	2.6
Gross Domestic Product	**159,571.7**	**167,340.0**	**178,561.7**	**172,295.3**	**187,772.8**	**100.0**
Nominal GDP Growth Rate (%)	**10.0**	**4.9**	**6.7**	**-3.5**	**9.0**	

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

Table 2: Gross Domestic Product at Constant Prices

Nu in million

Sector	2017	2018	2019	2020	2021	Growth: 2020 to 2021 (%)
1. Agriculture, livestock and forestry	6,993.7	7,290.8	7,385.6	7,723.1	7,881.6	2.1
1.1 Crops	3,182.9	3,340.3	3,411.0	3,584.1	3,671.3	2.4
1.2 Livestock	2,345.5	2,507.9	2,576.3	2,694.7	2,742.0	1.8
1.3 Forestry and logging	1,465.3	1,442.6	1,398.3	1,444.3	1,468.3	1.7
2. Mining and quarrying*	2,062.3	2,836.9	3,776.0	739.1	948.0	28.3
3. Manufacturing	5,805.0	5,956.4	5,956.1	4,719.6	4,846.7	2.7
4. Electricity and water	10,079.8	8,578.9	9,618.5	12,059.4	11,613.9	-3.7
4.1 Electricity	10,059.7	8,556.7	9,594.5	12,033.8	11,585.3	-3.7
4.2 Water supply	20.2	22.2	24.0	25.6	28.5	11.4
5. Construction	10,630.9	9,781.7	8,348.2	6,625.0	7,206.7	8.8
6. Wholesale and retail trade	6,032.5	6,646.9	7,522.5	6,999.0	7,507.4	7.3
7. Hotels and restaurants	1,164.8	1,287.2	1,437.2	381.5	398.3	4.4
8. Transport, storage and communication	7,265.1	8,057.2	9,120.5	7,784.1	9,045.6	16.2
9. Financing, insurance and real estate	5,755.5	6,399.0	6,618.8	6,008.0	5,916.9	-1.5
9.1 Finance	4,525.8	5,106.0	5,255.4	4,595.9	4,404.9	-4.2
9.2 Real estate	1,106.6	1,149.1	1,195.2	1,253.4	1,303.8	4.0
9.3 Business services	123.1	143.9	168.2	158.6	208.2	31.3
10. Public administration	4,635.3	4,564.2	4,953.2	5,918.2	6,184.7	4.5
11. Education and health	2,045.5	2,360.4	3,566.3	3,919.9	3,919.7	-0.0
12. Private social, personal and recreational services	277.1	281.4	285.7	172.9	180.6	4.4
13. Plus indirect taxes less subsidies	3,269.6	3,992.8	3,360.9	1,697.8	1,744.1	2.7
Gross Domestic Product	**66,017.0**	**68,033.9**	**71,949.4**	**64,747.5**	**67,394.1**	**4.1**
Real GDP Growth Rate (%)	**4.7**	**3.1**	**5.8**	**-10.1**	**4.1**	

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

Table 3. Gross Domestic Product by Expenditure at Current Prices

Nu in million

Sectors	2016	2017	2018	2019	2020	2021	Share of GDP in 2021 (%)
Investment	**83,081.8**	**83,124.2**	**79,682.1**	**67,609.8**	**56,995.6**	**67,276.8**	**35.8**
Private	63,295.6	61,821.3	59,660.4	53,695.6	39,431.8	40,362.9	21.5
Public	18,847.1	21,303.9	19,305.7	13,366.9	16,746.2	26,231.5	14.0
Change in stocks	557.7	-228.7	667.9	547.2	817.6	682.4	0.4
Consumption	**97,443.6**	**110,249.5**	**125,443.7**	**125,223.6**	**123,079.3**	**136,379.4**	**72.6**
Private	72,382.2	83,434.7	96,800.3	92,621.0	87,200.6	95,690.7	51.0
Public	25,061.4	26,814.8	28,643.4	32,602.6	35,878.7	40,688.7	21.7
Net exports	**-35,071.2**	**-33,574.5**	**-37,737.8**	**-25,445.9**	**-28,589.2**	**-39,264.8**	**-20.9**
Exports	42,966.2	48,004.3	51,570.3	60,602.2	51,109.6	59,759.4	31.8
Imports	78,037.4	81,578.7	89,308.2	86,048.1	79,698.8	99,024.2	52.7
Gross Domestic Product	**145,072.9**	**159,571.7**	**167,340.0**	**178,561.7**	**172,295.3**	**187,772.8**	**87.5**
GDP Growth rate	**12.9**	**10.0**	**4.9**	**6.7**	**-3.5**	**9.0**	

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

Nu in million

Sectors	Year						Share of GDP in 2021 (%)
	2016	2017	2018	2019	2020	2021	
Investment	**34,115.2**	**33,375.5**	**31,609.7**	**26,391.3**	**22,170.9**	**24,964.6**	**37.0**
Private	26,344.0	25,085.4	23,934.8	20,966.6	15,562.6	15,273.0	22.7
Public	7,536.2	8,380.6	7,417.9	5,216.3	6,315.7	9,464.1	14.0
Change in stocks	235.0	-90.5	257.0	208.4	292.7	227.5	0.3
Consumption	**43,426.1**	**45,829.7**	**50,854.7**	**55,030.0**	**52,643.7**	**55,309.5**	**82.1**
Private	33,094.1	35,045.3	39,741.8	42,716.8	39,825.2	41,757.1	62.0
Public	10,332.0	10,784.5	11,112.9	12,313.2	12,818.5	13,552.5	20.1
Net exports	**-14,458.7**	**-13,188.2**	**-14,430.5**	**-9,471.9**	**-10,067.1**	**-12,880.0**	**-19.1**
Exports	17,713.5	18,856.2	19,719.8	22,558.5	17,997.2	19,602.8	29.1
Imports	32,172.3	32,044.4	34,150.3	32,030.4	28,064.3	32,482.8	48.2
Gross Domestic Product	**63,082.6**	**66,017.0**	**68,033.9**	**71,949.4**	**64,747.5**	**67,394.1**	**100.0**
GDP Growth rate	**8.13**	**4.65**	**3.06**	**5.76**	**-10.01**	**4.09**	

Table 5: Consumer Price Index: Period Average

Items	Weight (%)	2018				2019				2020				2021				2022		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Food	45.9	96.451	96.507	96.319	98.426	99.511	99.524	99.837	102.161	104.424	108.461	115.147	117.495	121.511	121.482	119.687	124.65	126.927	126.48	125.77
Non-food	54.1	96.804	97.389	98.286	99.337	99.655	100.064	100.442	100.440	100.542	100.762	102.014	102.232	104.034	106.051	108.307	109.94	110.963	114.32	116.097
Total	**100.0**	**96.663**	**97.036**	**97.496**	**98.971**	**99.598**	**99.815**	**100.164**	**101.226**	**102.306**	**104.228**	**107.850**	**108.982**	**111.728**	**112.877**	**113.393**	**116.467**	**118.03**	**119.753**	**120.443**
Food	45.9	6.8	5.4	3.8	3.8	3.2	3.1	3.7	3.8	4.9	9.0	15.3	15.0	16.4	12.0	3.9	6.1	4.5	4.1	5.1
Non-food	54.1	0.4	0.8	1.3	2.6	2.9	2.7	2.2	1.1	0.9	0.7	1.6	1.8	3.5	5.2	6.2	7.5	6.7	7.8	7.2
Total	**100.0**	**2.9**	**2.6**	**2.3**	**3.1**	**3.0**	**2.9**	**2.7**	**2.3**	**2.7**	**4.4**	**7.7**	**7.7**	**9.2**	**8.3**	**5.1**	**6.9**	**5.6**	**6.1**	**6.1**

Table 6: Summary of Budgetary Operations

Nu in million

Item	Year				
	2017/18	2018/19	2019/20	2020/21	2021/22
Revenue & Grants	**52,113.2**	**42,033.3**	**54,603.9**	**59,696.1**	**54,354.6**
Domestic Revenue	**36,871.4**	**34,707.7**	**36,218.9**	**35,855.4**	**39,043.1**
Tax	27,107.9	27,171.1	22,793.0	20,661.8	25,843.1
Non-tax	9,763.5	7,536.5	13,425.9	15,193.7	13,200.0
Other Receipts (Net)	**394.7**	**-3,190.9**	**1,959.2**	**8,958.4**	**1,728.0**
External Grants	**14,847.1**	**10,516.5**	**16,425.8**	**14,882.3**	**13,583.5**
Government of India	11,200.8	6,484.8	11,444.0	10,323.6	9,644.4
Others	3,646.2	4,031.7	4,981.8	4,558.7	3,939.1
Program	**1,700.0**	**989.5**	**2,550.0**	**1,700.0**	**850.0**
Government of India	1,700.0	850.0	2,550.0	1,700.0	850.0
Others	0.0	139.5	0.0	0.0	0.0
Project tied	**13,147.1**	**9,527.0**	**13,875.8**	**13,182.3**	**12,733.5**
Government of India	9,500.8	5,634.8	8,894.0	8,623.6	8,794.4
Others	3,646.2	3,892.2	4,981.8	4,558.7	3,939.1
Outlay	**52,658.7**	**44,776.7**	**57,989.2**	**70,835.9**	**69,156.6**
Total expenditure	**56,331.4**	**44,054.1**	**57,572.3**	**71,091.8**	**69,156.6**
Current	27,494.7	27,768.7	35,525.4	43,515.8	34,444.7
Capital	28,836.6	16,285.5	22,046.9	27,576.0	34,711.9
Net Lending	**-2,077.9**	**0.0**	**0.0**	**0.0**	**0.0**
Advances/Suspense (Net)	**-1,594.8**	**722.6**	**417.0**	**-255.9**	**-230.0**
Overall Balance	**-545.5**	**-2,743.4**	**-3,385.4**	**-11,395.7**	**-15,032.0**
Financing	**545.5**	**2,743.4**	**3,385.4**	**11,139.2**	**15,032.0**
Net Lending		**1,318.5**	**729.3**	**745.6**	**3,677.6**
Recovery		1,516.1	875.8	2,404.8	259.0
Lending		197.6	146.5	1,659.2	3,937.0
Net Borrowing	**-102.0**	**1,425.0**	**2,656.1**	**10,578.3**	**12,577.8**
Borrowing	**2,718.3**	**3,767.0**	**4,443.7**	**14,315.7**	**18,025.0**
External	2,718.3	3,432.6	5,303.3	5,212.0	9,520.8
Internal	0.0	334.5	-859.6	9,103.7	8,504.2
Repayment	**2,820.4**	**2,342.1**	**1,787.6**	**3,737.3**	**5,447.2**
External	2,810.5	2,331.5	1,776.2	3,725.1	5,434.1
Internal	9.9	10.6	133.8	12.3	13.2
Resource Gap	**-647.5**	**-1,318.5**	**-729.2**	**-560.9**	**-2,454.2**

Source - Annual Financial Statement: 2020/21 & 2021/22 and MFCTC File June Updates , Ministry of Finance. Figures may not add due to rounding. (1) Includes:Net Lending and Advance/Suspense (Net) (2) Financing transactions by definition must equal the budget deficit or surplus on revenue/grant/expenditure which they finance. Negative financing transactions depicts net repayment of borrowings or increase in cash or bank balances. (3) Resource Gap.

Table 7: Monetary Survey

Items	2017/18	2018/19	2019/20	2020/21	2021/22 (p)
Broad Money (M2)[1]	**114,973.7**	**121,416.7**	**144,890.5**	**180,314.2**	**197,301.4**
Narrow Money (M1)	66,295.0	69,203.4	85,575.6	101,825.9	110,574.9
Currency Outside Banks	9,234.0	9,744.1	11,782.9	11,874.7	10,241.7
Transferable Deposits	57,061.0	59,459.3	73,792.8	89,951.2	100,333.1
Current Deposits	25,465.2	22,530.4	27,326.5	28,756.1	33,686.5
Saving Deposits	31,595.8	36,928.9	46,466.3	61,195.2	66,646.6
Other Deposits	48,678.6	52,213.4	59,314.8	78,488.3	86,726.6
Time Deposits	46,163.9	51,011.3	58,653.1	77,953.3	86,381.6
Foreign Currency Deposits	2,514.8	1,202.0	661.7	535.0	345.0
Factors Affecting M2					
Foreign Assets (Net)	66,006.3	63,920.6	84,090.6	98,552.0	97,558.1
Indian Rupee	6,423.3	5,592.1	6,583.2	-245.1	-12451.8
Convertible Foreign Currency	59,583.0	58,328.5	77,507.4	98,797.2	110,010.0
Net Domestic Assets	48,967.4	57,496.1	60,799.9	81,762.2	99,743.3
Domestic Credit	100,320.5	113,488.2	122,112.9	142,821.3	165,296.9
Claims on Government	5,029.4	2,406.9	-3,840.4	6,403.7	16,134.9
Claims on Other Public Sector[2]	8,306.0	6,230.8	7,140.8	9,856.2	8,907.0
Claims on Private Sector[3]	86,985.1	104,850.5	118,812.5	126,561.4	140,254.9
Other Items Net [4]	51,353.1	55,992.1	61,313.0	61,059.1	65,553.5
Percent Change (y-o-y)					
Broad Money (M2)	**10.43**	**5.60**	**19.33**	**24.45**	**9.42**
Narrow Money (M1)	9.18	4.39	23.66	18.99	8.59
Currency Outside Banks	5.08	5.52	20.92	0.78	-13.75
Transferable Deposits	9.87	4.20	24.11	21.90	11.54
Current Deposits	2.06	-11.52	21.29	5.23	17.15
Saving Deposits	17.09	16.88	25.83	31.70	8.91
Other Deposits	12.19	7.26	13.60	32.32	10.50
Time deposits	11.82	10.50	14.98	32.91	10.81
Foreign Currency Deposits	19.48	-52.20	-44.95	-19.15	-35.52
Foreign Assets (Net)	-3.20	-3.16	31.55	17.20	-1.01
Indian Rupee	-64.78	-12.94	17.72	-100.00	-4979.30
Convertible Foreign Currency	19.28	-2.11	32.88	-100.00	11.35
Net Domestic Assets	36.30	17.42	5.75	34.48	21.99
Domestic Credit	17.91	13.13	7.60	16.96	15.74
Claims on Government	76.29	-52.14	-259.56	266.75	-151.96
Claims on Other Public Sector [1]	17.87	-24.98	14.60	38.03	-9.63
Claims on Private Sector [2]	15.69	20.54	13.32	6.52	10.82
Other Items Net [3]	3.85	9.03	9.50	-0.41	7.36

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

Table 8: Royal Monetary Authority Survey

Nu in million

Items	2017/18	2018/19	2019/20	2020/21	2021/22
Assets					
Foreign Assets	75,194.0	73,116.5	100,449.4	115,271.8	115,486.1
Indian Rupee	18,614.4	17,266.4	26,183.9	19,540.0	8,137.3
Convertible Foreign Currency	56,579.5	55,850.0	74,265.5	95,731.8	107,348.7
Claims on DMBs	709.3	724.8	759.7	883.9	1,277.6
Claims on Government	-	2,500.0	-	-	-
Claims on Private Sector	32.0	26.1	21.1	17.3	14.4
Claims on NBFIs	-	-	-	-	-
Govt. securities	-	-	-	-	-
Liabilities					
Reserve Money	33,469.8	31,973.9	45,049.7	62,278.0	56,149.4
o/w Currency Outside Banks	9,234.0	9,744.1	11,782.9	11,874.7	10,241.7
Foreign liabilities	13,776.3	14,007.1	21,322.4	21,541.9	22,190.3
Indian Rupee	13,776.3	14,007.1	21,322.4	21,541.9	22,190.3
Covertable foreign currency	-	-	-	-	-
Government Deposits	3,020.41	4,310.11	5,705.23	8,147.40	7,758.17
RMA Bills outstanding	0.0	0.0	0.0	0.0	0.0
Capital Accounts	4,357.7	6,354.7	5,113.0	(248.9)	501.0
Other Items (Net) [1]	21,311.1	19,721.4	24,039.9	24,454.5	30,179.1
Percent Change (y-o-y)					
Foreign Assets	4.7	-2.8	37.4	14.8	0.2
Indian Rupee	-20.8	-7.2	51.6	-25.4	-58.4
Convertible Foreign Currency	17.1	-1.3	33.0	28.9	12.1
Reserve Money	-2.5	-4.5	40.9	16.3	44.6
Foreign liabilities	96.8	1.7	52.2	-18.1	-16.6
Other Items Net	6.5	-7.5	21.9		

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

Table 9: Deposit Money Banks Survey

Nu in million

Items	2017/18	2018/19	2019/20	2020/21	2021/22
Assets					
Reserves	23,752.5	21,724.9	30,833.1	49,552.9	44,464.4
Foreign Assets	5,356.8	4,811.2	4,963.6	4,822.2	4,446.0
Indian Rupee	1,585.1	2,332.8	1,721.6	1,756.8	1,601.2
Convertible Foreign Currency	3,771.7	2,478.5	3,242.0	3,065.4	2,844.9
Claims on Government	8,049.8	4,217.0	1,864.8	14,551.1	23,893.1
Claims on Other Public Sector [1]	8,306.0	6,230.8	7,140.8	9,856.2	8,907.0
Claims on Private Sector [2]	86,953.1	104,824.4	118,791.4	126,544.1	140,240.5
Capital Accounts	18,019.3	19,542.3	17,584.0	20,974.0	23,435.2
Other Items Net [3]	7,727.3	9,762.4	12,198.5	15,342.1	11,026.3
Liabilities					
Demand Deposits	57,061.0	59,459.3	73,792.8	89,951.2	100,333.1
Current Deposits	25,465.2	22,530.4	27,326.5	28,756.1	33,686.5
Saving Deposits	31,595.8	36,928.9	46,466.3	61,195.2	66,646.6
Time Deposits	46,163.9	51,011.3	58,653.1	77,953.3	86,381.6
Foreign Currency Deposits	2,514.8	1,202.0	661.7	535.0	345.0
Percent Change (y-o-y)					
Reserves	-5.7	-8.5	41.9	60.7	-10.3
Foreign Assets	46.5	-10.2	3.2	-2.8	-7.8
Claims on Other Public Sector	17.9	-25.0	14.6	38.0	-9.6
Claims on Private Sector	15.7	20.6	13.3	6.5	10.8
Capital Accounts	6.5	8.5	-10.0	19.3	11.7
Other Items Net	-6.4	26.3	25.0	25.8	-28.1
Demand Depsoits	9.9	4.2	24.1	21.9	11.5
Current Deposits	2.1	-11.5	21.3	5.2	17.1
Saving Deposits	17.1	16.9	25.8	31.7	8.9
Time Deposits	11.8	10.5	15.0	32.9	10.8
Foreign Currency Deposits	19.5	-52.2	-44.9	-19.1	-35.5

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

Table 10: Financial Sector Investment by Economic Activity

Nu in million

Economic Sector/Source	2017/18	2018/19	2019/20	2020/21	2021/22
Agriculture	**5,632.9**	**6,247.3**	**6,629.6**	**6,603.1**	**6323.8**
Bank of Bhutan	100.7	197.2	212.8	222.5	278.9
Bhutan National Bank	13.0	65.3	83.7	80.7	74.0
Bhutan Development Bank Limited	5,508.0	5,969.6	6,251.5	6,219.6	5891.2
TBank Limited	0.0	2.4	2.0	1.8	1.6
Druk PNB Bank Limited	2.5	7.7	24.3	21.3	17.9
Royal Insurance Corporation of Bhutan	4.1	1.9	53.3	55.5	59.4
Bhutan Insurance Limited	4.6	3.2	2.0	1.8	0.8
Service and Tourism	**24,844.2**	**31,523.7**	**39,619.9**	**41,481.6**	**42771.4**
Bank of Bhutan	8,463.9	11,784.8	13,872.1	16,266.2	17039.0
Bhutan National Bank	4,706.5	5,833.9	10,064.8	8,160.5	8429.8
Bhutan Development Bank Limited	2,886.8	3,055.8	3,387.1	3,706.6	3696.9
TBank Limited	559.8	1,084.4	1,447.0	1,756.9	1856.8
Druk PNB Bank Limited	2,139.9	2,463.5	3,215.2	3,660.1	3924.0
Royal Insurance Corporation of Bhutan	5,980.0	7,243.0	7,565.7	7,858.2	7738.3
Bhutan Insurance Limited	107.3	58.3	67.9	73.2	86.6
Manufacturing	**13,416.7**	**15,231.8**	**16,957.0**	**19,288.4**	**20,046.4**
Bank of Bhutan	3,944.3	4,596.3	5,951.4	6,530.5	6,939.3
Bhutan National Bank	4,438.7	4,579.5	3,409.3	4,747.3	4,450.2
Bhutan Development Bank Limited	1,038.2	972.7	988.5	1,103.2	1,244.0
TBank Limited	257.9	300.1	317.2	287.3	361.5
Druk PNB Bank Limited	1,525.7	2,192.4	2,915.6	3,047.7	3,347.2
Royal Insurance Corporation of Bhutan	2,046.2	2,401.8	3,220.0	3,380.8	3,435.9
Bhutan Insurance Limited	165.9	189.0	155.1	191.6	268.3
Building & Construction	**25,405.8**	**32,581.8**	**39,728.3**	**42,330.6**	**46,227.4**
Bank of Bhutan	7,873.2	12,407.6	15,210.3	15,988.6	17,340.1
Bhutan National Bank	7,727.0	8,811.8	10,632.1	11,481.8	12,622.8
Bhutan Development Bank Limited	3,230.4	3,693.9	4,416.2	4,888.1	5,384.4
TBank Limited	1,909.9	2,625.9	2,966.2	3,079.0	3,416.5
Druk PNB Bank Limited	1,703.8	1,933.9	3,018.3	3,257.3	3,757.0
Royal Insurance Corporation of Bhutan	2,638.8	2,701.5	2,797.5	2,884.1	2,905.3
Bhutan Insurance Limited	322.6	407.3	687.6	751.7	801.2
Trade & Commerce	**15,044.1**	**17,719.0**	**17,913.6**	**19,681.6**	**22,301.0**
Bank of Bhutan	1,985.1	2,425.7	2,911.8	2,785.9	2,928.6
Bhutan National Bank	5,934.1	6,964.7	6,149.3	7,816.0	9,385.8
Bhutan Development Bank Limited	1,587.7	1,515.4	2,046.4	2,119.4	2,469.4
TBank Limited	761.4	942.6	879.8	864.9	1,121.5
Druk PNB Bank Limited	839.9	1,411.8	1,569.0	1,765.5	1,882.8
Royal Insurance Corporation of Bhutan	3,695.6	4,159.4	4,074.2	4,061.1	3,997.4
Bhutan Insurance Limited	240.2	299.3	283.0	268.8	515.3

Transport (Heavy + Light)	**6,297.5**	**6,747.6**	**6,279.7**	**6,716.5**	**7,479.0**
Bank of Bhutan	1,841.8	2,076.9	1,817.9	1,802.0	1,995.8
Bhutan National Bank	1,753.4	1,884.2	1,881.2	1,934.9	2,072.3
Bhutan Development Bank Limited	1,144.9	1,036.9	1,010.8	1,378.3	1,564.1
TBank Limited	222.3	206.1	209.1	230.4	287.6
Druk PNB Bank Limited	160.9	157.9	142.1	134.0	170.7
Royal Insurance Corporation of Bhutan	587.2	696.3	623.9	641.1	714.7
Bhutan Insurance Limited	586.9	689.3	594.8	595.8	673.7
Personal Loans	**12,811.0**	**13,816.9**	**14,279.6**	**14,770.8**	**15,535.3**
Bank of Bhutan	5,480.1	5,597.0	6,306.6	6,255.8	6,592.3
Bhutan National Bank	1,207.3	1,270.8	1,175.7	1,395.1	1,810.5
Bhutan Development Bank Limited	2,407.4	2,458.2	2,349.7	2,451.8	2,249.5
TBank Limited	1,057.6	1,508.2	1,698.6	1,766.3	1,787.4
Druk PNB Bank Limited	324.3	725.4	687.4	909.2	1,066.4
Royal Insurance Corporation of Bhutan	2,250.6	2,176.1	1,925.3	1,869.4	1,789.0
Bhutan Insurance Limited	83.6	81.3	136.3	123.1	240.2
Loan Against Shares	**214.2**	**553.1**	**417.9**	**390.2**	**589.8**
Bank of Bhutan	0.1	17.7	16.9	16.6	15.2
Bhutan National Bank	0.0	0.0	0.0	0.0	0.0
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	37.1	314.6	353.4	329.2	363.5
Druk PNB Bank Limited	89.3	117.5	1.1	0.7	103.9
Royal Insurance Corporation of Bhutan	45.4	57.1	17.4	15.8	14.8
Bhutan Insurance Limited	42.4	46.2	29.1	27.8	92.4
Government (Short term loans)	**445.3**	**855.4**	**0.0**	**0.0**	**0.0**
Bank of Bhutan	0.0	461.5	0.0	0.0	0.0
Bhutan National Bank	445.3	394.0	0.0	0.0	0.0
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	0.0	0.0	0.0	0.0	0.0
Druk PNB Bank Limited	0.0	0.0	0.0	0.0	0.0
Royal Insurance Corporation of Bhutan	0.0	0.0	0.0	0.0	0.0
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Credit Card	**15.9**	**23.0**	**15.4**	**45.5**	**50.2**
Bank of Bhutan	12.8	20.2	12.3	42.8	48.3
Bhutan National Bank	3.0	2.4	3.0	2.7	1.9
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	0.4	0.1	0.0	0.0
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Others	**3,592.7**	**4,295.7**	**3,207.7**	**3,112.0**	**6,302.2**
Bank of Bhutan	857.7	1,040.1	1,067.1	1,014.2	1,681.2
Bhutan National Bank	384.8	406.2	476.7	426.1	567.4
Bhutan Development Bank Limited	823.2	1,037.6	662.6	548.5	541.5
TBank Limited	791.5	1,064.3	157.0	316.1	2,583.7
Druk PNB Bank Limited	219.1	192.5	86.9	84.5	165.7
Royal Insurance Corporation of Bhutan	487.7	527.8	735.2	697.8	733.0
Bhutan Insurance Limited	28.8	27.1	22.3	24.8	29.6
Total	**107,720.4**	**129,595.4**	**145,048.7**	**154,420.2**	**167,626.4**

Table 11: Deposit Base of Commercial Banks by Sector

Nu in million

Items	2018/19	2019/20	2020/21	2021/22
Total Deposits	**111,672.6**	**133,107.6**	**168,439.5**	**187,059.7**
Individuals	74,013.5	84,503.7	107,739.1	123,875.5
Govt. Corps.	14,987.3	18,870.6	23,991.1	26,135.1
Govt.				
Others	22,671.9	29,733.3	36,709.4	37,049.1
Demand deposits	**59,459.3**	**73,792.8**	**89,951.2**	**100,333.1**
Individuals	47,587.9	57,140.1	68,244.0	77,445.2
Govt. Corps.	2,417.3	4,302.8	5,155.1	5,590.3
Govt.				
Others	9,454.1	12,350.0	16,552.0	17,297.6
Time Deposits	**52,213.4**	**59,314.8**	**78,488.3**	**86,726.6**
Individuals	26,425.6	27,363.7	39,495.0	46,430.2
Govt. Corps.	12,570.0	14,567.8	18,835.9	20,544.8
Govt.				
Others	13,217.8	17,383.4	20,157.3	19,751.5
% of total deposits				
Individuals	66.3	63.5	64.0	66.2
Govt. Corps.	13.4	14.2	14.2	14.0
Govt.				
Others	20.3	22.3	21.8	19.8
Demand deposits	**53.2**	**55.4**	**53.4**	**53.6**
Individuals	42.6	42.9	40.5	41.4
Govt. Corps.	2.2	3.2	3.1	3.0
Govt.				
Others	8.5	9.3	9.8	9.2
Time Deposits	**46.8**	**44.6**	**46.6**	**46.4**
Individuals	23.7	20.6	23.4	24.8
Govt. Corps.	11.3	10.9	11.2	11.0
Govt.				
Others	11.8	13.1	12.0	10.6

Source: Commercial Banks
The inter-banks deposits are excluded in the total deposits

TABLE 12: Annual Overall Balance of Payment Estimates

Nu in million

Item	2017/18	2018/19	2019/20	2020/21	2021/22
A. CURRENT ACCOUNT	**-30,087.5**	**-35,431.7**	**-27,712.5**	**-21,403.7**	**-63,403.8**
Goods and Services	-29,479.1	-31,904.2	-29,321.4	-21,020.7	-59,583.9
Goods: Net (Trade Balance)	**-27,200.7**	**-28,338.6**	**-22,726.4**	**-12,429.5**	**-45,242.1**
Exports (fob)	39,231.7	42,951.6	46,862.8	53,099.9	58,892.6
Imports (fob)	66,432.4	71,290.2	69,589.2	65,529.4	104,134.7
Services	**-2,278.5**	**-3,565.6**	**-6,595.0**	**-8,591.2**	**-14,341.8**
Credit	12,428.1	11,902.5	9,611.2	1,469.3	1,642.2
Debit	14,706.6	15,468.2	16,206.2	10,060.4	15,984.0
Primary Income	**-13,799.2**	**-15,589.7**	**-10,749.04**	**-11,221.39**	**-11,483.96**
Credit	2,413.6	2,640.4	2,117.9	1,600.0	1,836.3
Debit	16,212.8	18,230.1	12,867.0	12,821.4	13,320.3
Secondary Income	**13,190.9**	**12,062.3**	**12,358.0**	**10,838.4**	**7,664.1**
Credit	15,019.1	14,232.5	13,871.4	13,725.3	10,792.4
o.w. Budgetary grants	6,204.9	6,999.3	6,807.6	5,717.1	2,796.5
Debit	1,828.2	2,170.2	1,513.3	2,886.9	3,128.3
B. CAPITAL ACCOUNT	**11,884.0**	**8,769.1**	**10,373.2**	**7,415.2**	**10,681.2**
o.w. Budgetary grants for investment *	7,348.0	4,088.0	6,436.1	6,147.8	9,142.3
o.w. Grants for hydropower development	4,536.0	4,681.1	3,937.2	1,267.4	2,458.9
C. FINANCIAL ACCOUNT **	**-39,888.5**	**-9,140.4**	**-27,252.15**	**-20,393.81**	**-20,709.57**
Direct Investment in Bhutan: net incurrence of liabilities	510.6	918.5	-621.3	362.4	648.9
o.w. Equity capital	602.8	754.4	67.4	315.8	32.5
Portfolio Investment	0.0	0.0	0.0	0.0	0.0
Other Investment	-35,425.9	-6,817.2	-28,992.3	-18,424.8	-19,860.5
Other Investment: net acquisition of financial assets	56.6	2,110.2	3,472.3	-2,137.5	1,768.3
Other Investment: net incurrence of financial liabilities	35,482.4	8,927.4	32,464.5	16,287.2	21,628.8
o.w. RGOB loans ***	20,199.1	15,784.4	26,708.4	16,244.0	20,905.6
o.w. Other loans	13,457.1	-6,268.4	7,071.8	264.6	636.8
D. Net Errors & Omissions	**-16,751.8**	**19,832.4**	**10,179.2**	**-10,464.9**	**-387.5**
E. Overall Balance	**4,933.4**	**2,310.2**	**20,092.2**	**-4,059.5**	**-32,400.5**
F. Reserve Assets	**4,933.4**	**2,310.2**	**20,092.2**	**-4,059.5**	**-32,400.5**

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

Table 13: Annual Balance of Payment Estimates with India

Nu in million

Item	2017/18	2018/19	2019/20 Revised	2020/21 Provisional	2021/22 Provisional
A. CURRENT ACCOUNT	**-34,034.3**	**-38,659.9**	**-25,996.5**	**-22,184.2**	**-45,668.0**
Goods and Services	-27,204.5	-29,022.5	-18,936.1	-13,348.6	-33,625.0
Goods: Net (Trade Balance)	**-25,478.9**	**-26,322.6**	**-15,895.5**	**-9,117.1**	**-28,756.7**
Exports (fob)	31,713.5	33,804.0	40,975.6	46,878.9	51,170.7
Imports (fob)	57,192.4	60,126.6	56,871.1	55,996.0	79,927.4
Services	-1,725.5	-2,699.9	-3,040.6	-4,231.5	-4,868.2
Credit	4,627.8	3,741.0	3,362.1	945.6	1,067.9
Debit	6,353.3	6,440.9	6,402.7	5,177.1	5,936.1
Primary Income	-13,584.8	-15,544.5	-11,335.0	-11,221.3	-12,108.1
Credit	1,327.0	1,021.8	880.3	886.8	593.6
Debit	14,911.7	16,566.2	12,215.3	12,108.0	12,701.8
o.w. Interest on hydropower loans *	1,325.2	764.4	8,582.2	10,637.6	12,244.3
Secondary Income	6,755.0	5,907.0	4,274.6	2,385.6	65.1
Credit	7,840.4	7,153.9	4,897.9	3,790.0	1,797.0
o.w. Budgetary grants	3,600.9	4,410.5	4,666.1	3,593.2	1,695.8
Debit	1,085.4	1,246.9	623.3	1,404.4	1,731.9
B. CAPITAL ACCOUNT	**11,862.2**	**8,709.7**	**10,346.6**	**7,073.4**	**9,916.1**
o.w. Budgetary grants for investment **	7,326.2	4,028.6	6,409.4	5,806.0	8,377.1
o.w. Grants for hydropower development	4,536.0	4,681.1	3,937.2	1,267.4	1,538.9
C. FINANCIAL ACCOUNT * **	**-37,906.7**	**-8,227.3**	**-20,457.1**	**-16,227.9**	**-12,611.9**
Direct Investment in Bhutan: net incurrence of liabilities	14.2	188.8	51.0	221.2	140.2
o.w. Equity capital	1.9	39.0	37.7	227.0	18.9
Portfolio Investment	-33,940.5	-6,633.7	-21,524.9	-14,400.1	-12,271.6
Other Investment					
Other Investment: net acquisition of financial assets	-1,366.1	1,851.2	3,400.7	-2,262.0	1,588.2
Other Investment: net incurrence of financial liabilities	**32,574.4**	**8,485.0**	**24,925.6**	**12,138.1**	**13,859.8**
o.w. Hydropower loans (incl. accrued	18,255.2	14,088.2	17,689.8	11,651.8	13,068.4
interest) *	13,993.8	-6,029.4	7,236.1	264.6	636.8
o.w. Other loans					
D. Net Errors & Omissions	**-17,212.3**	**21,591.6**	**2,385.7**	**-6,101.9**	**11,728.3**
E. Overall Balance	**-1,477.6**	**-131.4**	**7,192.7**	**-4,984.8**	**-11,411.7**
F. Reserve Assets	**-1,477.6**	**-131.4**	**7,192.7**	**-4,984.8**	**-11,411.7**

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

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

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

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

Nu in million

Item	2017/18	2018/19	2019/20 Revised	2020/21 Provisional	2021/22 Provisional
A. CURRENT ACCOUNT	**3,946.8**	**3,228.3**	**-1,715.9**	**780.6**	**-17,735.8**
Goods and Services	-2,274.6	-2,881.7	-10,385.3	-7,672.1	-25,959.0
Goods: Net (Trade Balance)	**-1,721.7**	**-2,016.0**	**-6,830.9**	**-3,312.4**	**-16,485.4**
Exports (fob)	7,518.3	9,147.6	5,887.2	6,221.0	7,721.9
Imports (fob)	9,240.0	11,163.6	12,718.1	9,533.4	24,207.3
Services	**-552.9**	**-865.8**	**-3,554.4**	**-4,359.7**	**-9,473.6**
Credit	7,800.4	8,161.5	6,249.1	523.7	574.2
Debit	8,353.3	9,027.3	9,803.5	4,883.4	10,047.8
Primary Income	**-214.4**	**-45.3**	**586.0**	**-0.1**	**624.2**
Credit	1,086.6	1,618.6	1,237.6	713.2	1,242.7
Debit	1,301.0	1,663.9	651.6	713.3	618.5
	0.0	0.0	0.0	0.0	0.0
Secondary Income	**6,435.9**	**6,155.3**	**8,083.4**	**8,452.8**	**7,599.0**
Credit	7,178.8	7,078.7	8,973.4	9,935.3	8,995.4
o.w. Budgetary grants	2,604.0	2,588.7	2,141.4	2,124.0	1,100.6
Debit	742.9	923.4	890.0	1,482.5	1,396.4
B. CAPITAL ACCOUNT	**21.8**	**59.5**	**26.7**	**341.8**	**765.2**
o.w. Budgetary grants for investment *	21.8	59.5	26.7	341.8	765.2
	0.0	0.0	0.0	0.0	920.0
C. FINANCIAL ACCOUNT **	**-1,981.8**	**-913.1**	**-6,795.1**	**-4,165.9**	**-8,097.6**
Direct Investment in Bhutan: net incurrence of liabilities	496.4	729.7	-672.3	141.2	508.8
o.w. Equity capital	600.9	715.4	29.7	88.8	13.6
Portfolio Investment					
Other Investment	-1,485.4	-183.4	-7,467.4	-4,024.7	-7,588.9
Other Investment: net acquisition of financial assets ***	1,422.7	259.0	71.6	124.5	180.2
Other Investment: net incurrence of financial liabilities	2,908.1	442.4	7,539.0	4,149.1	7,769.0
o.w. RGOB loans	1,943.8	1,696.3	9,018.5	4,592.2	7,837.1
o.w. Other loans	-536.6	-239.0	-164.3	0.0	0.0
D. Net Errors & Omissions	460.5	-1,759.2	7,793.6	-4,363.0	-12,106.2
E. Overall Balance	6,411.0	2,441.7	12,899.4	925.3	-20,979.1
F. Reserve Assets	6,411.0	2,441.7	12,899.4	925.3	-20,979.1

* 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.

The Net errors & omissions figures in FY 2011/12 and FY 2012/13 can be largely attributed to the sale of US dollar reserves for Indian Rupees for around USD 200 million in each year. The counter-entry for the subsequent decrease in dollar reserves are in the BOP with India statement and therefore contribute to the large and negative NEO for the BOP with COTI.

Table 15: Composition of Imports from Countries other than India

Nu in million

Sl.#	IMPORT CATEGORY	2017	2018	2019	2020	2021	% Share in Total	Annual % change
1	Live Animals & Animal Products	109.7	121.3	93.3	31.6	93.3	0.5	195.2
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	85.8	56.2	63.4	65.0	77.0	0.4	18.5
3	Animal or Vegetable Fats & Oils	2.8	149.2	193.6	1.8	5.4	0.0	196.8
3.1	*Palm Oil (Crude & Other)*	*0.0*	*146.5*	*189.8*	-	-	-	-
4	Processed Foods & Beverages	618.5	666.3	693.5	568.8	899.5	4.7	58.1
5	Mineral Products inc. oils & fuels	99.2	515.4	527.9	365.4	943.1	5.0	158.1
6	Products of Chemical & Allied Industries	456.8	709.1	1,028.3	852.6	2,217.3	11.7	160.1
6.1	*Medicines / Pharmaceutical Products*	*96.2*	*128.5*	*842.9*	*105.2*	*1,112.9*	*5.9*	*957.5*
6.2	*Photographic / Cinematographic goods*	*11.0*	*1.0*	*0.3*	*8.8*	*2.6*	*0.0*	*(70.0)*
7	Plastic & Rubber Products	758.4	679.0	575.9	261.9	327.8	1.7	25.2
8	Wood and Wood Products	27.6	31.4	73.5	63.6	14.1	0.1	(77.8)
9	Wood Pulp Products	123.3	118.6	203.8	78.9	218.3	1.1	176.7
10	Textiles, Footwear & Hats/Headgear	305.4	335.5	277.7	408.5	738.7	3.9	80.8
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	76.8	105.0	72.1	59.3	83.0	0.4	39.9
11.1	*Ceramic Products*	*33.6*	*42.3*	*22.0*	*28.7*	*34.4*	*0.2*	*19.9*
12	Pearls and Products of Precious/Semi-precious Metal & Stones	41.6	19.8	42.6	64.9	123.8	0.7	90.8
13	Base Metals and Articles of Base Metal	838.9	457.7	728.4	594.5	433.5	2.3	(27.1)
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	7,887.1	5,298.1	4,661.6	4,031.7	10,706.4	56.4	165.6
14.1	*Magnetic Discs & Media (recorded/unrecorded)*	*339.2*	*172.1*	*33.9*	*169.8*	*34.7*	*0.2*	*(79.5)*
15	Transport Vehicles & Aircraft and Engines & Parts	996.4	963.5	2,446.7	6,865.9	670.1	3.5	(90.2)
16	Optical, Photographic, Cinematographic & Measuring Equipment	357.5	1,005.4	473.6	676.0	1,034.9	5.4	53.1
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.9	0.1	0.8	0.0	0.0	0.0	(37.2)
18	Miscellaneous Manufactured Products	236.9	301.8	296.5	267.6	406.8	2.1	52.0
	TOTAL	**13,023.5**	**11,533.5**	**12,453.1**	**15,258.3**	**18,993.1**	**100.0**	**22.5**

Table 16: Composition of Exports to Countries other than India

Nu in million

Sl.#	EXPORT CATEGORY	2017	2018	2019	2020	2021	% Share in Total	Annual % change
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,259.40	1,287.43	1,383.08	1,063.58	1,238.91	17.34	16.48
1.1	Oranges	470.75	349.72	521.46	279.85	383.30	5.36	36.97
1.2	Apples	21.93	8.28	17.64	0.00	6.09	0.09	-
1.3	Cardamoms	552.61	613.00	605.98	657.56	680.53	9.52	3.49
2	Processed Foods & Beverages	5.25	16.03	24.62	21.26	42.81	0.60	101.34
3	Mineral Products inc. oils & fuels	2,218.96	3,944.10	5,229.40	3,321.31	4,651.93	65.09	40.06
3.1	Limestone & other calcereous stone	319.02	326.21	422.71	253.89	447.17	6.26	76.13
3.2	Dolomite	241.60	202.15	242.18	67.62	90.01	1.26	33.11
3.3	Bituminous Coal	5.00	219.06	83.56	3.94	6.25	0.09	58.68
4	Products of Chemical & Allied Industries	134.10	258.49	63.74	31.51	17.20	0.24	(45.41)
5	Plastic & Rubber Products	0.01	0.62	35.62	0.02	0.11	0.00	444.43
6	Wood and Wood Products	0.36	11.40	22.44	1.78	5.03	0.07	181.92
7	Wood Pulp Products	0.41	2.16	0.23	0.01	0.25	0.00	3,885.05
8	Textiles, Footwear & Hats/Headgear	2.01	0.10	0.58	0.98	1.40	0.02	42.41
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	0.64	10.68	0.85	0.12	0.03	0.00	(70.16)
10	Articles of Precious/Semi-precious Metals	-	-	-	0.03	-	-	(100.00)
11	Base Metals and Articles of Base Metal	2,054.12	3,703.11	899.23	294.83	1,174.75	16.44	298.45
12	Machinery, Mechanical & Electrical Appliances, Equipment &	-	-	-	-	8.81	0.12	-
12.1	Parts & Aircraft Parts	-	-	-	-	-	-	-
13	Recorded or Unrecorded media (discs, tapes, smart cards)	3.41	6.41	8.48	6.92	5.01	0.07	(27.66)
14	Handicrafts, Works of Art, Philatelic Products & Personal Effects	0.47	2.87	8.75	0.11	0.40	0.01	255.64
	Miscellaneous Manufactured Products							
	TOTAL	**5,679.14**	**9,243.40**	**7,677.02**	**4,742.46**	**7,146.63**	**100.00**	**50.69**

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

Table 17: Composition of Imports from India

Nu in million

Sl.#	IMPORT CATEGORY	2017	2018	2019	2020	2021	% Share in Total	Annual % change
1	Live Animals & Animal Products	2,690.2	2,679.9	2,893.7	2,817.7	3,471.7	4.9	23.2
	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals,							
2	Grains & Seeds	3,738.1	3,572.2	3,957.8	4,876.7	6,535.5	9.2	34.0
3	Animal or Vegetable Fats & Oils							
4	Processed Foods & Beverages	1,129.4	1,199.4	1,241.8	1,505.9	2,440.8	3.4	62.1
5	Mineral Products inc. oils & fuels	2,375.86	2,354.69	2,455.84	2,826.74	4,019.32	5.6	42.2
6	Electricity	13,963.50	16,105.98	14,675.38	10,804.81	14,677.67	20.6	35.8
7	Products of Chemical & Allied Industries	74.94	295.00	206.00	181.00	-	-	(100.0)
7.1	Medicine / Pharmaceutical Products	2,098.01	2,269.84	2,517.46	2,259.51	2,954.48	4.1	30.8
8	Plastic & Rubber Products	262.46	303.84	503.69	339.25	566.68	0.8	67.0
9	Wood and Wood pulp products	2,105.70	2,642.89	2,873.44	2,439.17	3,393.34	4.8	39.1
9.1	Wood and Wood Products	2,330.12	3,306.59	2,922.63	2,883.74	4,002.10	5.6	38.8
9.2	Wood Pulp Products	1,585.37	2,504.62	2,106.91	2,321.38	3,245.87	4.6	39.8
10	Textiles, Footwear & Hats/Headgear	744.75	801.96	815.72	562.35	764.98	1.1	36.0
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics	874.26	878.95	827.83	1,192.84	2,467.24	3.5	106.8
11.1	& Glass							
	Ceramic Products	1,111.27	1,314.06	1,390.18	883.79	902.80	1.3	2.2
12	Pearls and Products of Precious/Semi-precious Metal	329.26	429.14	513.24	317.50	327.34	0.5	3.1
	& Stones	0.79	0.86	1.73	1.30	3.31	0.0	154.8
13	Base Metals and Articles of Base Metal	6,876.47	7,389.23	8,163.24	5,872.16	6,067.22	8.5	3.3
	Machinery, Mechanical/Electrical Appliances &	9,302.14	9,233.74	7,308.64	8,488.40	12,516.63	17.6	47.5
14	Equipment and Parts	19.36	44.10	16.08	41.55	38.79	0.1	(6.7)
14.1	Magnetic Discs & Media (recorded/unrecorded)							
	Transport Vehicles & Aircraft and Engines & Parts	4,268.65	5,807.84	4,104.88	3,109.10	5,588.22	7.8	79.7
15	Optical, Photographic, Cinematographic & Measuring	449.81	403.58	356.48	399.95	550.73	0.8	37.7
16	Equipment							
17	Handicrafts, Works of Art, Collectors' Pieces &	0.02	1.42	4.79	0.13	0.37	0.0	179.1
	Personal Effects							
18	Miscellaneous Manufactured Products	583.45	652.00	757.17	835.92	1,644.51	2.3	96.7
	TOTAL	**53,972.67**	**60,108.06**	**56,658.98**	**51,378.86**	**71,235.90**	**100.00**	**38.65**

Table 18: Composition of Exports to India

Nu in million

Sl.#	EXPORT CATEGORY	2017	2018	2019	2020	2021	% Share in Total	Annual % change
1	Live Animals & Animal Products	20.88	50.47	1.94	8.10	27.24	0.05	236.22
	Raw Hides & Skins	-	-	-	-	-	-	-
1.1	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1,562.71	1,101.47	1,577.18	1,241.07	1,933.26	3.80	55.77
2	Potatoes	458.69	492.85	2.78	-	500.70	0.98	-
2.1	Animal or Vegetable Fats & Oils	9.52	264.98	150.37	0.45	-	-	(100.00)
3	Palm Oil	-	-	-	-	-	-	-
3.1	Processed Foods & Beverages	1,010.70	1,043.70	1,165.48	909.86	1,302.87	2.56	43.19
4	Mineral Products inc. oils & fuels	4,683.21	4,959.87	7,904.75	3,382.92	5,210.00	10.25	54.01
5	Electricity	11,983.49	10,578.00	16,237.00	27,523.00	24,436.00	48.06	(11.22)
6	Products of Chemical & Allied Industries	1,722.12	1,128.94	803.96	482.73	452.45	0.89	(6.27)
7	Plastic & Rubber Products	783.67	559.04	528.86	214.10	163.25	0.32	(23.75)
8	Wood and Wood Pulp Products	255.91	487.96	255.76	125.87	189.33	0.37	50.42
9	Wood Pulp Products	19.23	20.60	17.92	6.56	19.28	0.04	194.08
9.1	Textiles, Footwear & Hats/Headgear	2.38	0.43	2.74	0.94	1.71	0.00	83.00
10	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	113.03	68.53	19.65	6.47	4.90	0.01	(24.27)
11	Base Metals and Articles of Base Metal	9,459.03	11,905.01	11,132.56	9,613.57	17,116.77	33.66	78.05
12	Machinery, Mechanical Appliances & Electrical Equipment and Parts	4.68	16.12	24.06	0.19	3.58	0.01	1,786.31
13	Transport Vehicles & Aircraft and Engines & Parts	0.06	-	-	-	0.00	0.00	-
14	Optical, Photographic, Cinematographic							
15	& Measuring Equipment	-	0.22	0.09	2.93	0.11	0.00	(96.11)
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	-	0.31	0.66	-	0.36	0.00	-
17	Miscellaneous Manufactured Products	6.71	4.76	4.49	1.22	3.02	0.01	146.97
	TOTAL	**31,618.09**	**32,169.81**	**39,809.54**	**43,513.41**	**50,844.86**	**100.00**	**16.85**

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

Table 19: Direction of Trade

Nu. in million

Item	2017	2018	2019	2020	2021
Exports					
India	31,618.09	32,169.81	39,809.54	43,513.41	50,844.86
Bangladesh	3,486.28	5,948.36	6,095.41	3,955.02	5,212.91
Nepal	321.21	525.06	427.83	358.94	850.29
Italy	428.20	917.90	506.91	169.36	586.59
Vietnam	50.19	43.85	73.84	46.55	155.17
Turkey	96.13	102.46	100.32	42.90	80.40
Japan	103.88	48.99	47.05	39.59	68.66
UAE	35.41	90.15	2.21	39.14	42.96
United Kingdom	9.46	8.42	34.87	20.02	23.52
Hongkong	138.47	104.92	36.42	12.59	22.23
Netherlands	350.96	550.27	67.76	7.99	21.73
Belgium	16.81	68.38	38.21	7.32	19.63
Spain			28.71	6.23	12.02
Thailand	33.64	52.31	28.94	5.86	9.47
United States	29.34	11.23	34.43	5.41	9.06
Germany	186.77	423.18		3.63	7.99
Luxembourg			15.47	3.36	5.36
Taiwan	3.50	14.59	7.54	3.11	5.35
Switzerland	56.05	0.37	0.33	2.68	4.10
Singapore	62.99	99.95	41.96	2.58	3.15
Others	187.26	110.32	86.38	10.40	6.03
Total Exports	**37,214.64**	**41,290.50**	**47,484.13**	**48,256.11**	**57,991.48**
Imports					
India	53,972.67	60,108.06	56,658.98	51,378.86	71,235.90
France	66.24	54.30	1,605.63	6,270.32	7,594.80
China	1,609.89	1,613.66	1,809.40	2,133.83	2,349.84
Thailand	1,262.09	1,050.20	974.22	1,270.73	1,914.40
Singapore	1,066.04	1,486.23	1,213.06	1,044.28	814.17
Germany	577.33	340.54	287.89	682.79	629.87
Bangladesh	329.18	453.99	625.17	440.46	530.24
Japan	1,655.01	783.92	636.81	377.23	469.53
UAE	372.09	401.65	126.19	357.11	436.86
United States	224.08	254.74	230.47	196.76	427.17
Malaysia	48.53	143.61	214.08	195.45	413.02
United Kingdom	220.77	205.57		189.72	387.72
Italy	181.75	103.84	71.79	174.68	350.21
Australia	37.91	31.85	29.86	126.51	276.12
South Korea	2,592.21	1,665.04	854.78	125.10	219.21
Hong Kong	154.55	172.77	133.52	114.04	205.46
Indonesia	56.34	163.75	348.96	103.48	122.63
Vietnam	107.26	90.95	81.37	100.14	103.57
Netherlands	60.17	70.50	47.18	83.71	101.51
Austria	178.96	160.15	68.16	74.81	99.24
Others[1]	2,222.95	2,286.24	2,682.23	479.87	690.71
Total Imports	**66,996.00**	**71,641.57**	**68,699.77**	**65,919.90**	**89,372.17**

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

Table 20: Bhutan's Outstanding External Debt

Items	2017/18	2018/19	2019/20	2020/21	2021/22	2017/18	2018/19	2019/20	2020/21	2021/22
1. Convertible Currency Debt	**47,990.2**	**49,629.3**	**62,744.9**	**68,596.4**	**76,371.6**	**699.8**	**720.1**	**830.8**	**922.7**	**978.1**
Public	**45,932.9**	**47,643.5**	**60,705.4**	**66,569.3**	**74,311.8**	**669.8**	**691.3**	**803.8**	**895.4**	**951.8**
World Bank	17,058.7	18,936.3	24,354.8	27,225.0	30,969.5	248.8	274.8	322.5	366.2	396.6
IFAD	2,491.4	2,464.5	2,731.2	2,835.2	2,889.5	36.3	35.8	36.2	38.1	37.0
ADB	18,997.0	19,869.2	26,340.0	29,831.6	33,060.4	277.0	288.3	348.8	401.3	423.4
Govt of Austria	4,139.7	3,497.2	3,108.5	2,707.7	1,914.2	60.4	50.7	41.2	36.4	24.5
Govt. of Denmark	-	-	-	-	-	0.0	-	-	-	-
JICA	2,742.6	2,876.3	3,189.0	3,057.0	4,632.3	40.0	41.7	42.2	41.1	59.3
Deutsche Investition (Hydropower)	503.7	-	-	-	-	7.3	-	-	-	-
SDF			981.9	912.8	845.8			13.0	12.3	10.8
Private	**2,057.3**	**1,985.8**	**2,039.6**	**2,027.2**	**2,059.8**	**30.0**	**28.8**	**27.0**	**27.3**	**26.4**
2. Rupee Debt	**133,190.7**	**138,409.4**	**154,218.0**	**169,546.9**	**170,576.4**	**1942.3**	**2,008.3**	**2,041.9**	**2,280.5**	**2,184.7**
Hydropower debt	119,452.8	124,432.8	132,940.7	148,004.9	148,397.7	1,741.9	1,805.5	1,760.2	1,990.8	1,900.6
Chukha	-	-	-	-	-	0.0	-	-	-	-
Kurichhu	-	-	-	-	-	0.0	-	-	-	-
Tala	671.3	-	-	-	-	9.8	-	-	-	-
Punatsangchhu-I	46,043.7	46,673.7	48,274.5	48,274.5	49,452.3	671.4	677.2	639.2	649.3	633.4
Punatsangchhu-II	39,182.2	41,804.5	46,732.2	50,632.2	52,532.1	571.4	606.6	618.7	681.0	672.8
Mangdechhu	32,706.6	34,397.0	35,088.4	45,952.6	43,167.6	476.9	499.1	464.6	618.1	552.9
Nikachhu Project	849.1	1,557.6	2,845.7	3,145.7	3,245.7	12.4	22.6	37.7	42.3	41.6
Other										
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0			92.7	94.2	89.7
RBI Swap	6,737.9	6,976.6	14,277.3	14,541.9	15,178.7	102.1	101.6	189.0	195.6	194.4
Total (CC + Rupee)	**181,180.9**	**188,038.7**	**216,963.0**	**238,143.30**	**15,178.70**	98.3	101.2	**2,872.7**	**3,203.2**	**3,162.8**
Convertible Currency Debt	47,990.2	49,629.3	62,744.9	68,596.4	76,371.6	**2642.1**	**2,728.4**	830.8	922.7	978.1
As a % of Total Debt	**26.5**	**26.4**	**28.9**	**28.8**	**503.1**	699.8	720.1	**0.4**	**0.4**	**6.4**
Rupee Debt	133,190.7	138,409.4	154,218.0	169,546.9	170,576.4	**0.4**	**0.4**	2041.9	2280.5	2184.7
As a % of Total Debt	**73.5**	**73.6**	**71.1**	**71.2**	**69.1**	1942.3	2008.3	**0.9**	**1.0**	**0.9**
Total Loans in % of GDP	**113.5**	**112.4**	**121.8**	**138.8**	**131.5**	**1.1**	**1.1**	**1.6**	**1.9**	**1.7**
Nominal GDP (Calendar Year)	159,571.7	167,340.0	178,201.9	171,572.9	187,772.8	**1.7**	**1.6**	2359.4	2307.8	2404.9
Exchange Rate						2327.0	2428.1			
Ngultrum/USD exchange rate	68.6	68.9	75.5	74.3	78.1					

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.

Table 21: External Debt Indicators

External Debt Indicators	2017/18	2018/19	2019/20	2020/21	2021/22
Total Outstanding (USD millions)	**2,642.1**	**2,728.4**	**2,872.7**	**3,203.2**	**3,162.8**
Convertible Currency (USD millions)	699.8	720.1	830.8	922.7	978.1
Indian Rupee (in millions)	133,190.7	138,409.4	154,218.0	169,546.9	170,576.4
Debt/GDP ratio *					
Total	**110.1**	**112.4**	**121.8**	**138.8**	**131.5**
Convertible Currency loan	29.2	29.7	35.2	40.0	40.7
Indian Rupee loan	80.9	82.7	86.5	98.8	90.8
Total	**23.0**	**34.8**	**31.1**	**38.1**	**39.2**
Convertible Currency loan	15.2	18.8	21.7	47.9	42.0
Indian Rupee loan	26.3	42.2	33.7	36.7	38.8
GDP (Nu in millions)	164,627.9	167,326.8	178,201.9	171,572.9	187,772.8

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

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

Table 22: Rupee Debt Indicator

Millions of Indian Rupees

	2017/18	2018/19	2019/20	2020/21	2021/22
Total INR Debt Outstanding	**133,190.7**	**138,409.4**	**154,218.0**	**169,546.9**	**170,576.4**
Hydropower Debt	**119,452.8**	**124,432.8**	**132,940.7**	**148,004.9**	**148,397.7**
Tala	671.3	-	-		
Punatsangchhu - I	46,043.7	46,673.7	48,274.5	48,274.5	49,452.3
Punatsangchhu - II	39,182.2	41,804.5	46,732.2	50,632.2	52,532.1
Mangdechhu	32,706.6	34,397.0	35,088.4	45,952.6	43,167.6
Nikachhu Project	849.1	1,557.6	2,845.7	3,145.7	3,245.7
Non-hydropower Debt	**13,737.9**	**13,976.6**	**21,277.3**	**21,541.9**	**22,178.7**
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0
RBI Swap	6,737.9	6,976.6	14,277.3	14,541.9	15,178.7
Dungsam Cement Corp Ltd	-	-	-	-	-
Debt Service Payments	**9,556.0**	**15,858.1**	**14,937.2**	**17,613.9**	**20,275.5**
Principal	7,749.4	14,522.6	14,049.4	15,669.8	17,326.9
Interest	1,806.5	1,335.5	887.8	1,944.1	2,948.5
Debt Service Ratio (%)	**26.4**	**42.2**	**33.7**	**36.7**	**38.8**
Interest Payments / Export of Goods & Services (INR)	5.0	3.6	2.0	4.1	5.6
Principal Repayments / Exports of Goods & Services (INR)	21.4	38.7	31.7	32.7	33.2
Debt Outstanding/GDP (%)	**83.5**	**84.1**	**86.5**	**98.8**	**99.4**

Source: Department of Public Accounts & RMA

Table 23: Gross International Reserves (*)

Items	2017/18	2018/19	2019/20	2020/21	2021/22
1. Rupee Reserves (INR in million)	**16,111.2**	**15,237.5**	**23,713.7**	**21,295.8**	**9,684.2**
Royal Monetary Authority of Bhutan	14,534.3	12,924.0	22,011.7	19,540.0	8,137.3
Bank of Bhutan Limited	363.2	460.9	523.4	590.1	402.5
Bhutan National Bank Limited	514.6	867.8	379.3	335.3	267.0
T Bank Limited	480.0	630.9	550.4	726.8	737.1
Druk PNB Limited	193.7	342.8	238.9	87.0	121.2
Bhutan Development Bank Limited	25.3	11.1	10.0	16.7	19.1
2. Convertible Currency Reserves (USD in million)	**876.3**	**843.7**	**1,029.6**	**1,269.7**	**710.3**
3.Total Reserves (USD in million) (1+2)	**1,111.3**	**1,064.8**	**1,343.5**	**1,556.2**	**832.9**
4. Exchange rates used	**68.6**	**68.9**	**75.5**	**74.3**	**78.9**
5. Months of Merchandise Imports[2]					
Total Reserves	**13.6**	**12.9**	**17.5**	**18.1**	**7.6**
Rupee Reserves	3.4	3.1	5.0	4.6	1.5
Convertible Currency Reserves	71.9	72.5	73.4	97.9	27.8
6. Months of Imports (Merchandise + Services)[2]					
Total Reserves	11.0	10.3	14.2	15.7	6.6
Rupee Reserves	3.0	2.7	4.5	4.2	1.4
Convertible Currency Reserves	38.2	36.0	41.4	64.7	19.6
7. Months of Essential Imports	**23.1**	**20.1**	**24.1**	**23.9**	**15.0**

(*) 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.

From March 2017, reserve figures have been revised due to conversion of Kuwait fund into Indian Rupee.

Starting from August 2020 until Decmber 2021, the reserve figure i.e Convertible Currency figure has been changes with the exclusion of the foreign currency bond.

The components of Essential Imports includes Goods, Mandatory Services and Debt Servicings and the essential figure is based on 2019's figure.

The goods import data are taken from Trade file (Macroeconomic Coordination Framework Committee (MFCTC) projection) while the services import data are taken from BOP (MFCTC Projections) for one fiscal year and the figure are subjected to change in each quarter.

9

CHRONOLOGY, ACRONYMS AND ABBREVIATIONS

Chronology and Major Developments in the Financial Sector

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.

2021

• The Monetary Measures phase III was announced to further cushion the impact of the COVID-19 pandemic.

• On 12th May 2021, in a bid to encourage remittance inflows, the RMA announced the launch of a cash incentive scheme for Bhutanese working overseas.

• On 13th July 2021, the RMA and the National Payments Corporation of India rolled out the third phase of the project on the cross-border interoperable QR code payment linkage between Bhutan and India.

• The KUEN-Phen Financing was launched on 16th August 2021, to promote innovative and inclusive finance for greater socio-economic benefits. The KUEN-phen is a crowd funding platform spearheaded by RMA in collaboration with the RSEBL and BCCL.

• The soft launch of the National E-Commerce Portal took place on 17th August 2021. The portal is an initiative of the RMAB in collaboration with the MoEA and the BoBL to enhance access to international market for local “Made in Bhutan” products.

• The Druk Nguldrel Lamtoen-2030, the RMA’s 10-Year (2021-2030) roadmap was launched by His Excellency Lyonpo Namgay Tshering on 25th August 2021 at the RMA.

- The following guidelines, regulations and policies were issued during the FY 2020/21:
  - Anti-Money Laundering and Countering of Financing of Terrorism Guideline for Money Services Business 2021
  - Guidelines on Segregation of Non-Performing Loans into Viable and Non-Viable Loans 2021
  - Guidelines on Foreclosure and Write-off of Non-performing Loans 2021
  - Data Residency Policy for Payment Systems Data 2021
  - Rules & Regulations for the Registered Private Money Lenders 2021

2022

- The Monetary Measures Phase IV was announced to further cushion the impact of COVID-19 pandemic
- Introduced the Bank Export Registration (BER) wherein all the exporters are required to register with Authorised banks prior to process export declaration at Custom point of exit. This is to ensure that the export proceeds have to receive 180 days from the date of export (export) and goods has to receive within 180 days from the date of making advance payments from authorized banks (import).
- In recognition of the significant contributions made towards boosting the remittance inflow since May 2021 and the foreign currency reserves; and promoting savings and investments, the RMA board extended the scheme for 6 months from July 1st, 2022 to December 31st, 2022 and enhanced the incentive eligible under this scheme to 2 percent from 1 percent.
- Accorded conditional approval to eTeeru (Tashi Infocomm limited) for introducing Merchant Payment through National Quick Response (NQR) code using sponsor bank model in the eTeeru mobile wallet service, with an observatory period of six months to assess the viability and functionality of QR code payments through eTeeru.
- Similarly, RMA also provided conditional approval to increase transaction limit for Tourist in the goBoB (BoBL) mobile wallet service with an observatory period of six months to assess the viability and consequences of increasing the transaction limits for the Tourists.
- The following guidelines, regulations, and policies were issued during 2022:
  - o Prompt Corrective Action framework 2022
  - o Framework for Charge-off and Transfer of NPLs to Off-Balance sheet
  - o Rules & Regulations on loan origination and monitoring 2022
  - o Directive on treatment of Non-Performing Loans
  - o Directive on the reinstatement of Capital Conservation Buffer (CCB) of 2.5% by December 2022
  - o Guidelines on Auction of seized properties 2022
  - o Directives on requirements related to CIB

ACRONYMS

ADB	Asian Development Bank
AEs	Advanced Economies
AFS	Annual Financial Statement
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AREAER	Annual Report on Exchange Agreements and Exchange Regulations
ARNW	Average Return on Net Worth
ATM	Automated Teller Machine
BBP	Build Bhutan Project
BDBL	Bhutan Development Bank Limited
BIL	Bhutan Insurance Limited
BIT	Business Income Tax
BNBL	Bhutan National Bank Limited
BoBL	Bank of Bhutan Limited
BOP	Balance of Payments
BPM6	Balance of Payments Manual (Sixth edition)
BIRT	Bhutan Inter-Bank Real Time
BRS	Base Rate System
CAR	Capital Adequacy Ratio
CC	Convertible Currency
C/D	Credit-to-Deposit Ratio
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
DGRK	Druk Gyalpo's Relief Kidu
DHI	Druk Holding and Investments
DMB	Deposit Money Bank
DPNBL	Druk PNB Bank Limited
DRC	Department of Revenue and Custom
DSP	De-suung Skilling Program
EMDEs	Emerging Market and Developing Economies
FDI	Foreign Direct Investment
FI F	inancial Institution
FPI	Foreign Portfolio Investment
FSP	Financial Service Provider

FY	Fiscal Year (July-June)
FYP	Five Year Plan
GCA	Government Consolidated Account
GDP	Gross Domestic Product
GIFT	Global Interchange for Financial Transaction
GIR	Gross International Reserve
GoI	Government of India
GST	Goods & Services Tax
GVA	Gross Value Added
ICOR	Investment Capital Output Ratio
ICT	Information and Communications Technology
IIP	International Investment Position
IPS	Interest Payment Support
IMF	International Monetary Fund
INR	Indian Rupee
JICA	Japan International Cooperation Agency
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
LTI	Loan-to-Income
LTU	Long-term Unemployment
LTV	Loan-to-Value
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
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
NGA	Net Government Account
NPL	Non-Performing Loan
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese

OIN	Other Items Net
OPEC	Organizations of Petroleum Exporting Countries
PAT	Profit After Tax
PHCB	Population and Housing Census of Bhutan
PIT	Personal Income Tax
PPI	Producer Price Index
PPN	Purchasing Power of Ngultrum
RBI	Reserve Bank of India
REER	Real Effective Exchange Rate
RICBL	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority
RWCAR	Risk Weighted Capital Adequacy Ratio
SDP	Skill Development Plan
SDR	Special Drawing Right
SLR	Statutory Liquidity Ratio
SOE	State Owned Enterprise
T-bill	Treasury Bill
TBL	TBank Limited
TOT	Terms of Trade
YELP	Youth Engagement in Livelihood Program
WB	World Bank

Statistical Abbreviations and Symbols

e	estimated
p	provisional
p.a	per annum
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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