Economic Situation in *Bhutan*

27th May 2022

Outline:

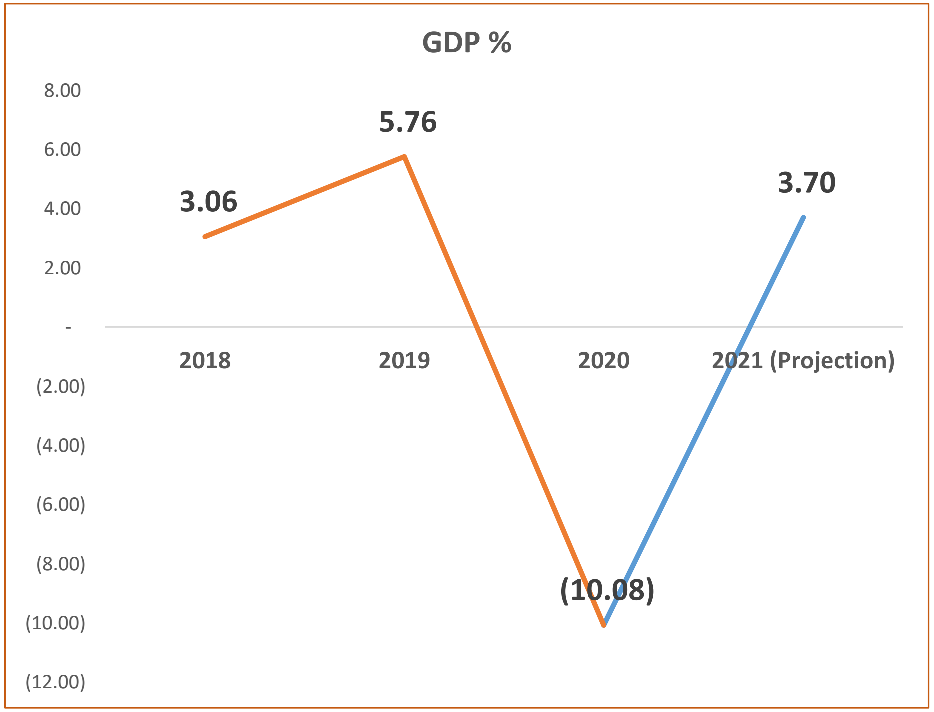
1. Economic Performance

2. Fiscal Performance and Debt Situation

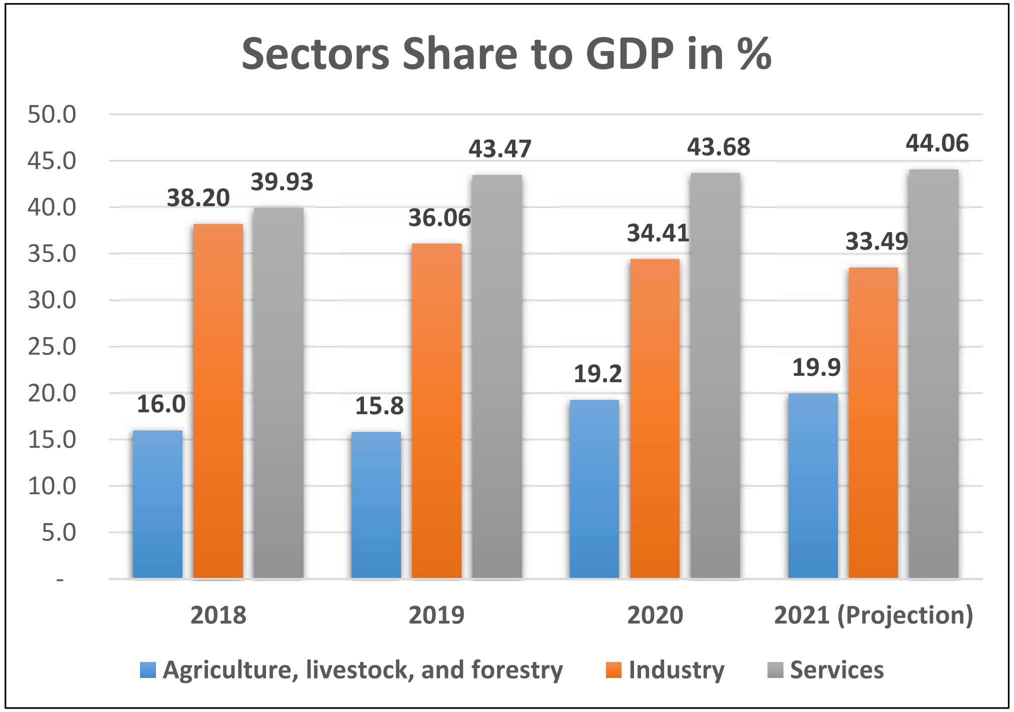
3. Risk and Challenges

1. Economic Performance – *Growth*

Economy Performance

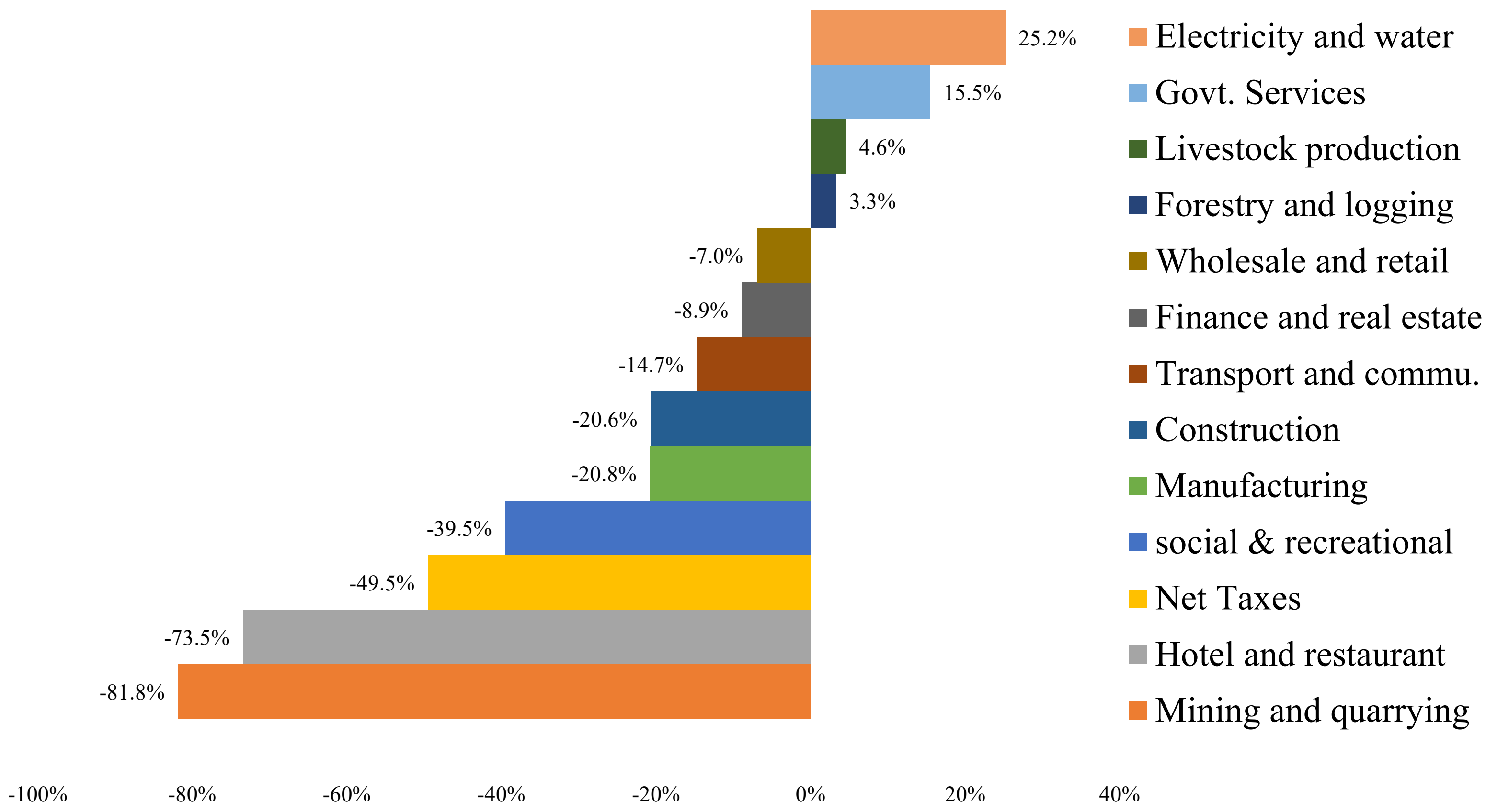


Sectors Share

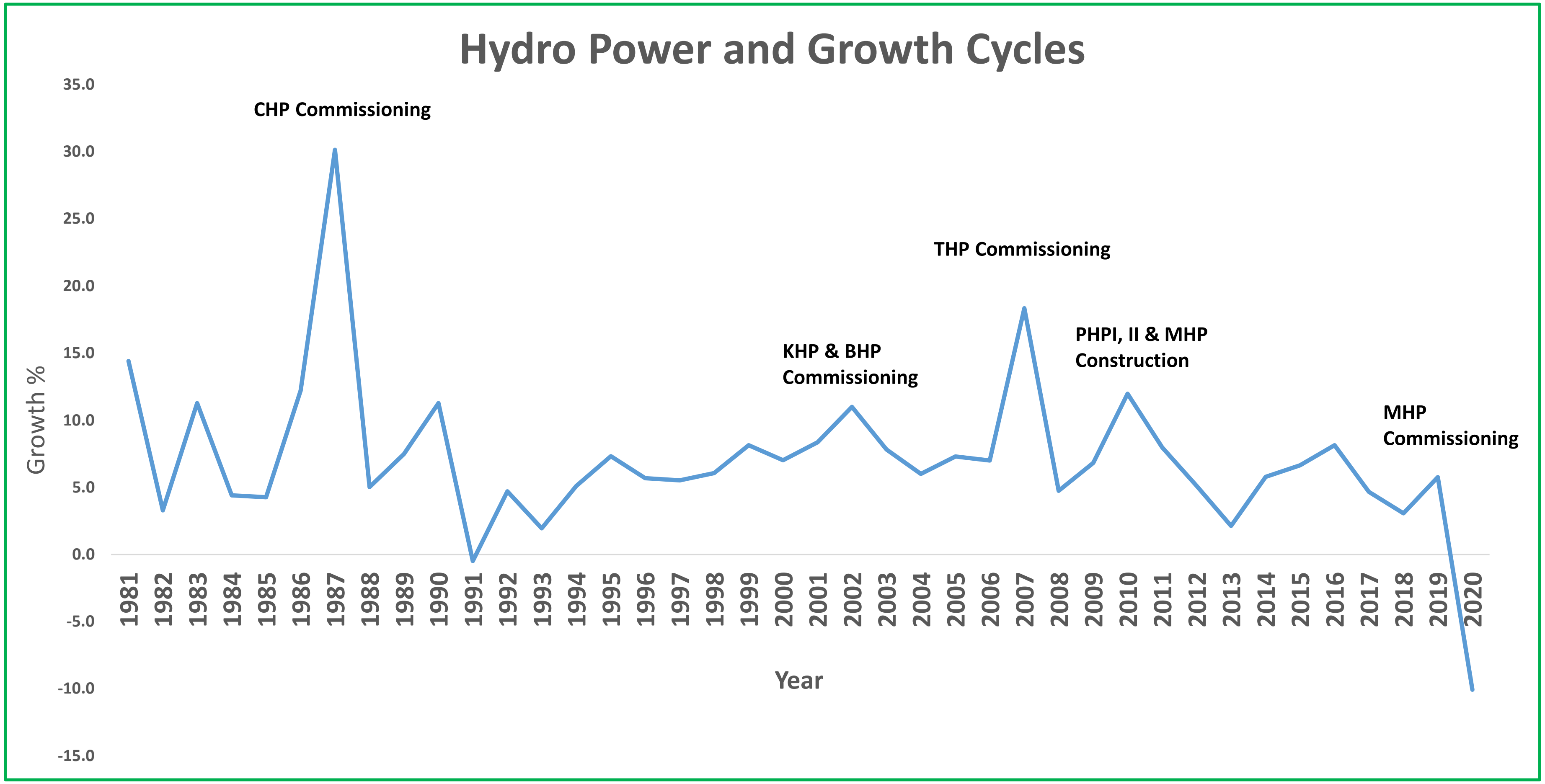


Data Source: NSB & MFCTC

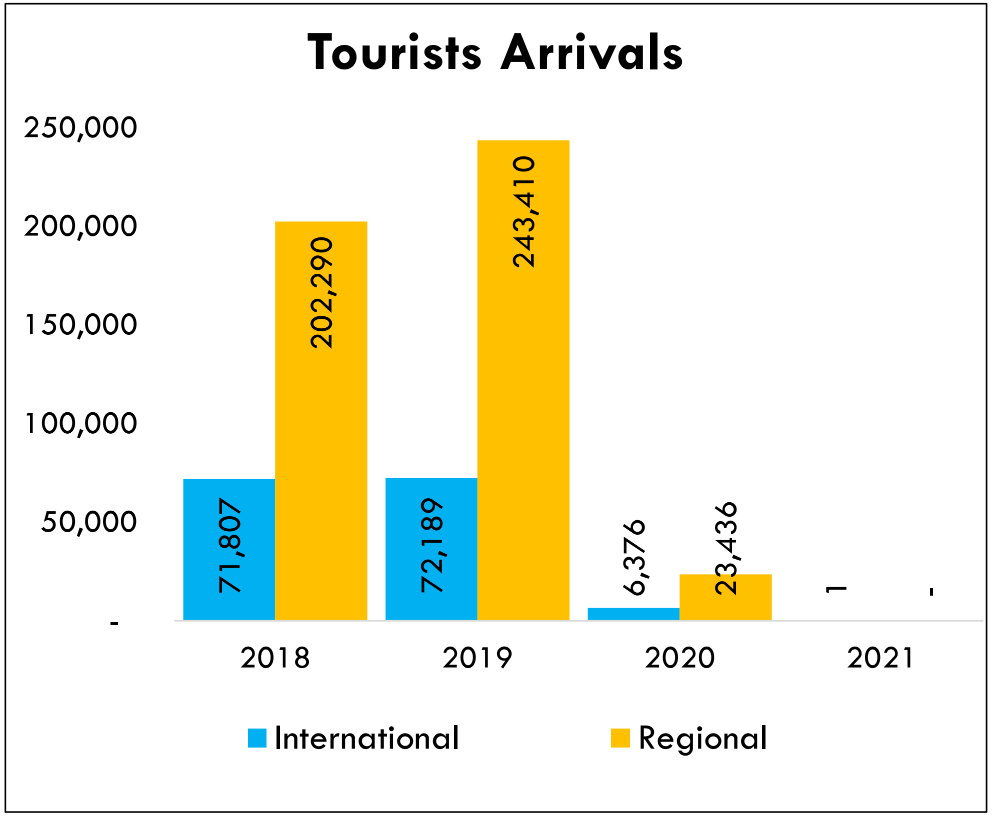
1. Economic Performance – *Impact of COVID-19*



1. Economic Performance – *Hydropower*



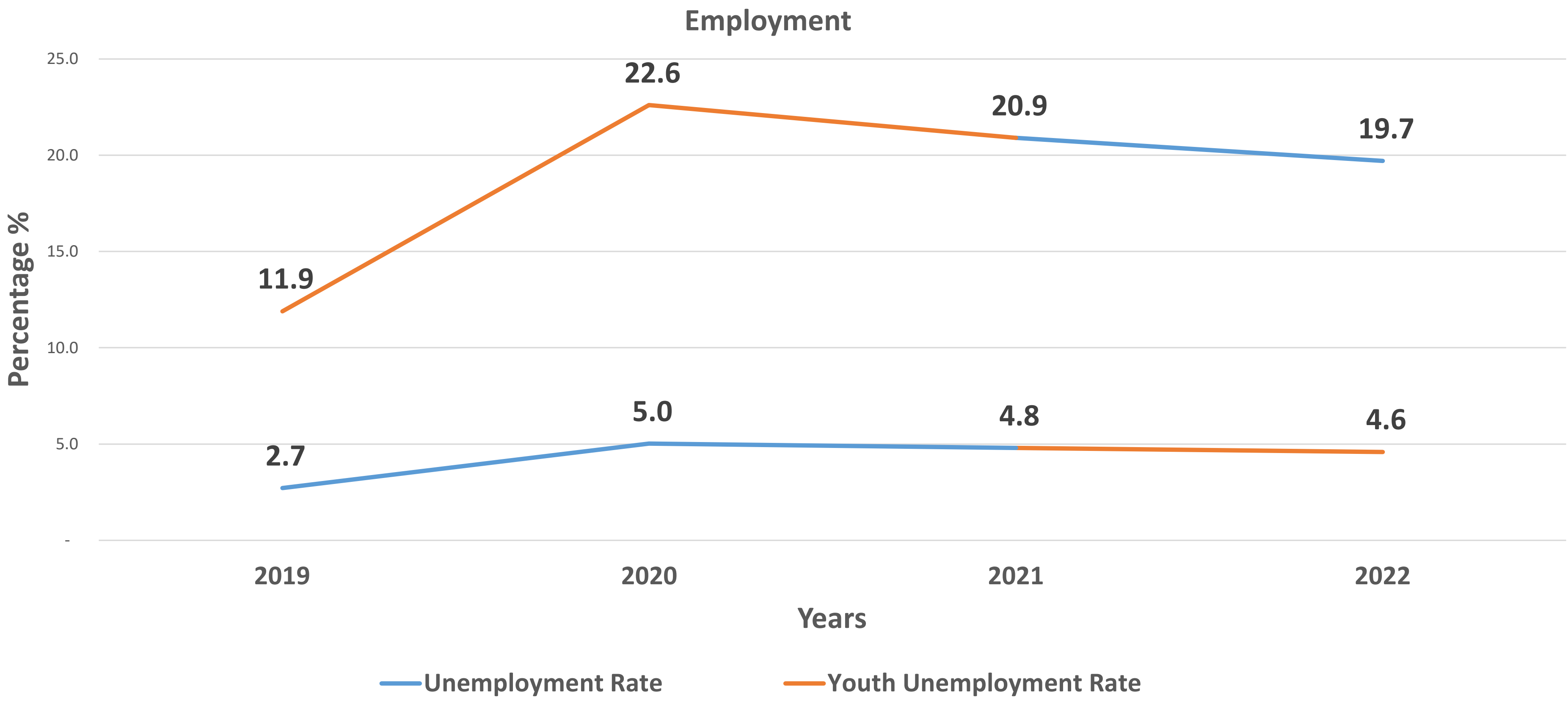
1. Economic Performance – *Tourism*



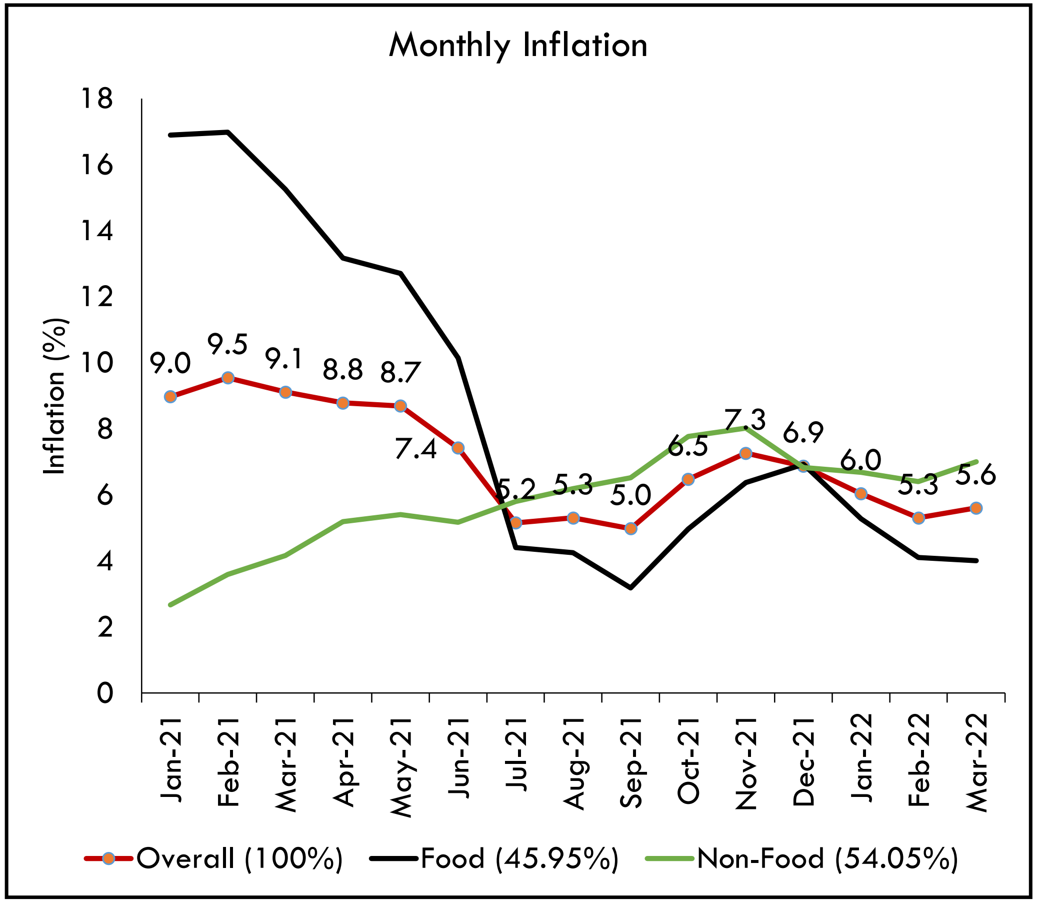
- Estimated to contribute about 9% of GDP
- Tourism Arrivals declined by 91% in 2020
- Gross Receipt Earnings declined by almost 206m USD in 2020 as compared to 2019.
- Tourism Sector likely to open from September 2022
- Recover to pre-pandemic level may take around 4-5 years

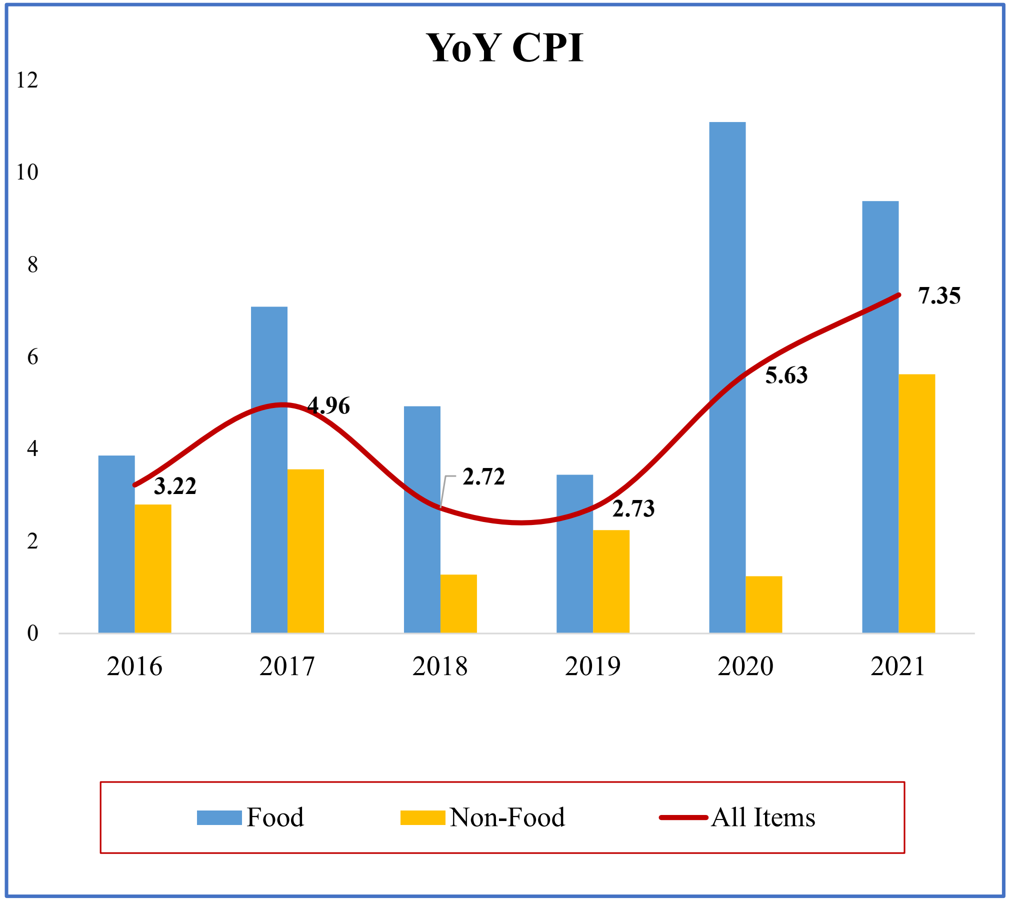
Data Source: NSB & MFCTC

1. Economic Performance – *Employment*



1. Economic Performance – *Price and Inflation*





2. Fiscal Performance – *Fiscal Policy Principles*

- Ensure that the cost of recurrent expenditures is met from internal resources of the country.
- Over the medium term, the current operating deficit, as determined in the Budget Policy and Fiscal Framework Statement shall be maintained near zero.
- Level of public debt shall be contained such that it will not create undue burden on future generations and threaten national solvency.
- Meeting the requirements for sustainability of the fiscal balance shall not be achieved at the expense of development projects.

2. Fiscal Performance – *Fiscal Policy Implementation Process*

- **Is based on an integrated macroeconomic framework (MEF)**
- **To manage the MEF two-tier approach has been adopted**
  - **Macroeconomic Framework Coordination Committee (MFCC)**
  - **Macroeconomic Framework Coordination Technical Committee (MFCTC)**
- **The committee meet on quarterly basis**
- **Serve as the basis for determining resource envelope and preparation of annual budget.**
- **The current framework in Bhutan is largely based on the Medium-Term MEF.**

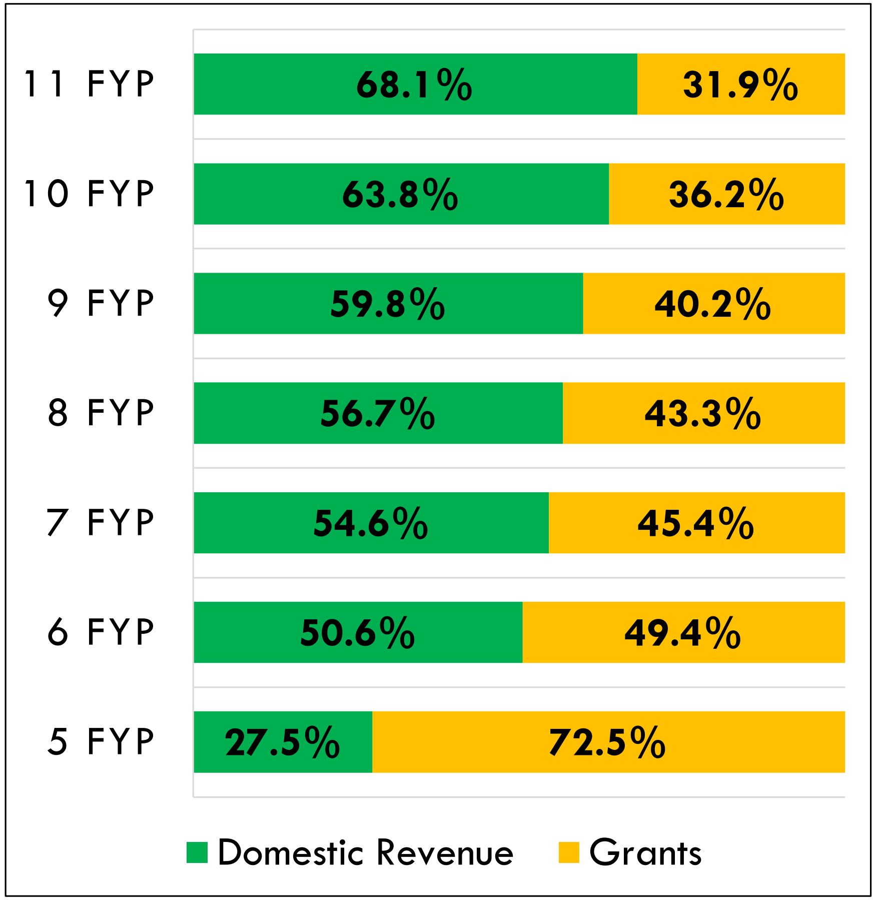
2. Fiscal Performance – *Fiscal Policy Statement and Targets (12FYP)*

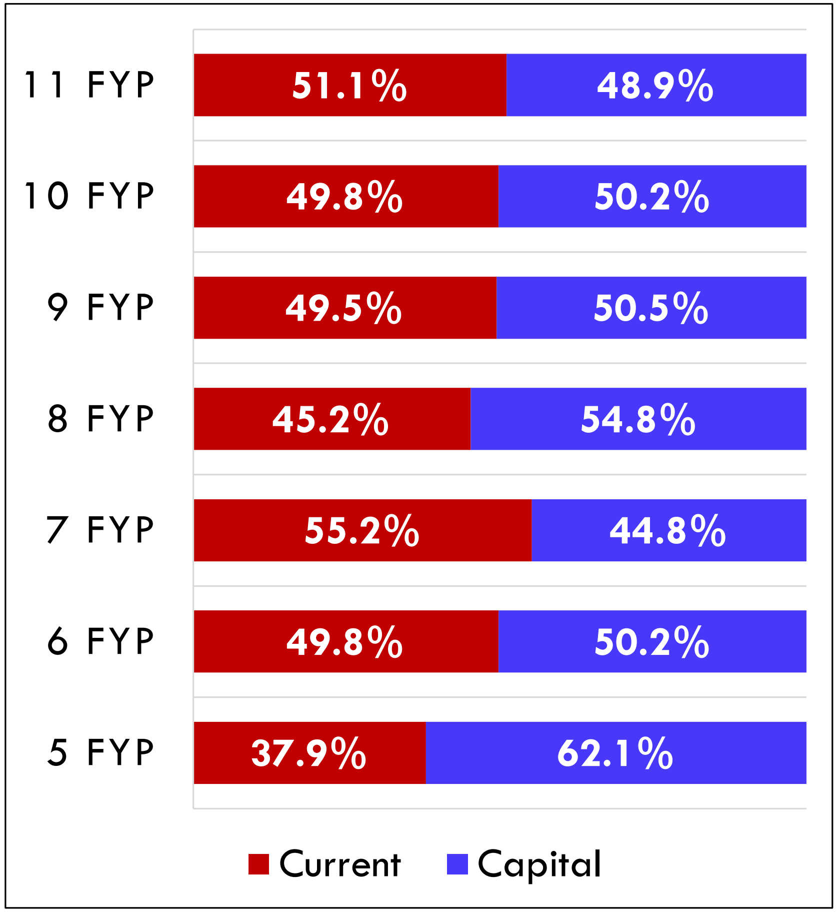
- Maintain sustainable fiscal balance, ensure debt sustainability and resort to borrowings at lowest possible cost.
- Contain fiscal deficit below 5 percent of GDP
- Minimum GDP growth of 3 percent;
- Tax to GDP ratio of at least 11 percent
- Recurrent expenditure to be covered by domestic revenue; and
- Non-hydro debt maintained below 35 percent of GDP

2. Fiscal Performance –*Policy Measures to COVID-19*

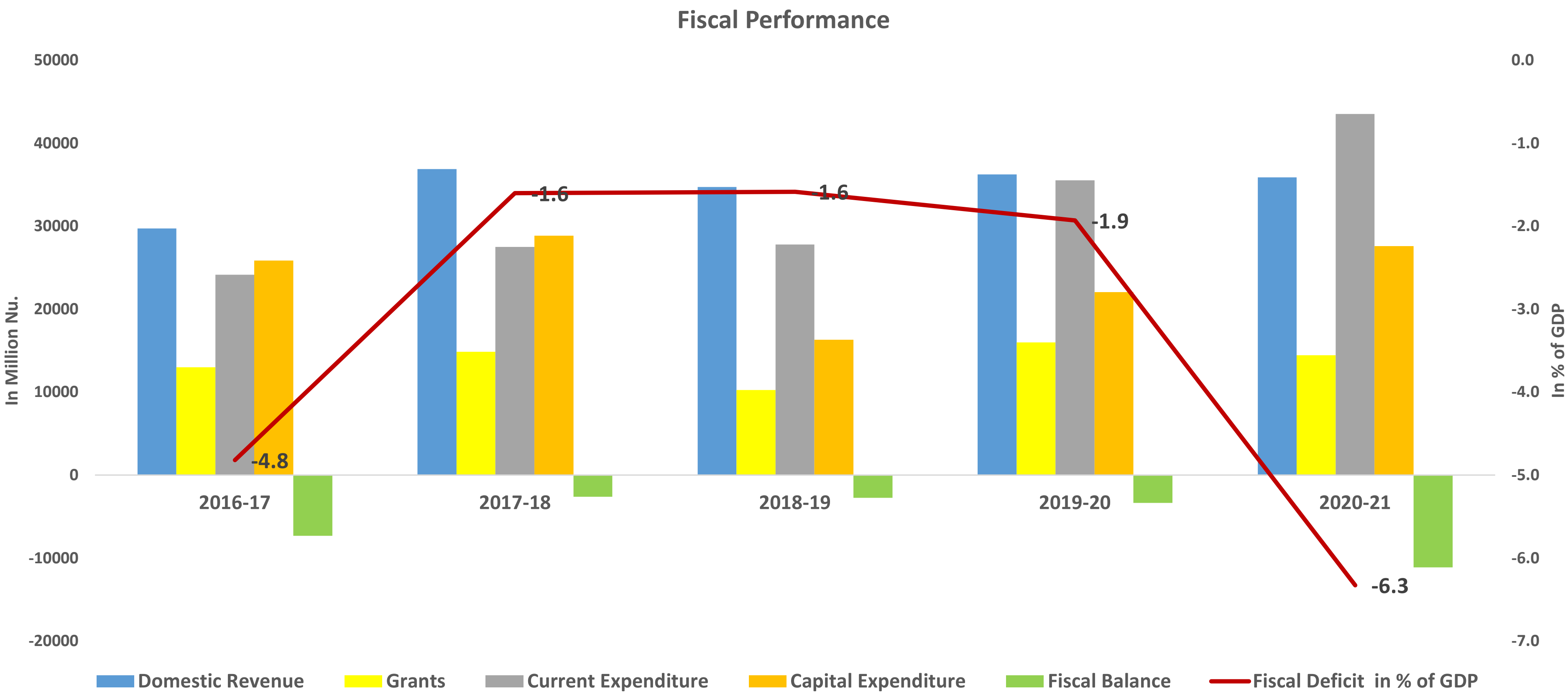
- National Resilience Fund (Nu. 30 Billion)- *Income and interest payment support*
- Economic Contingency Plan and Build Bhutan Project
- Expansionary Fiscal Stance - *33 % of the planned capital outlay has been allocated.*
- Initiated tax reforms (Income Tax Amendment Act 2020, Fiscal Incentives Amendment Act 2020, Property Tax Act 2020, Custom Duty Rates)
- E-governance programs- *ePEMS, eGP, eDATS*
- Established NCGS as a counter cyclical policy measure for economic recovery- *enhance access to credit and support financing for viable projects*

2. Fiscal Performance – *Resources and Expenditure*

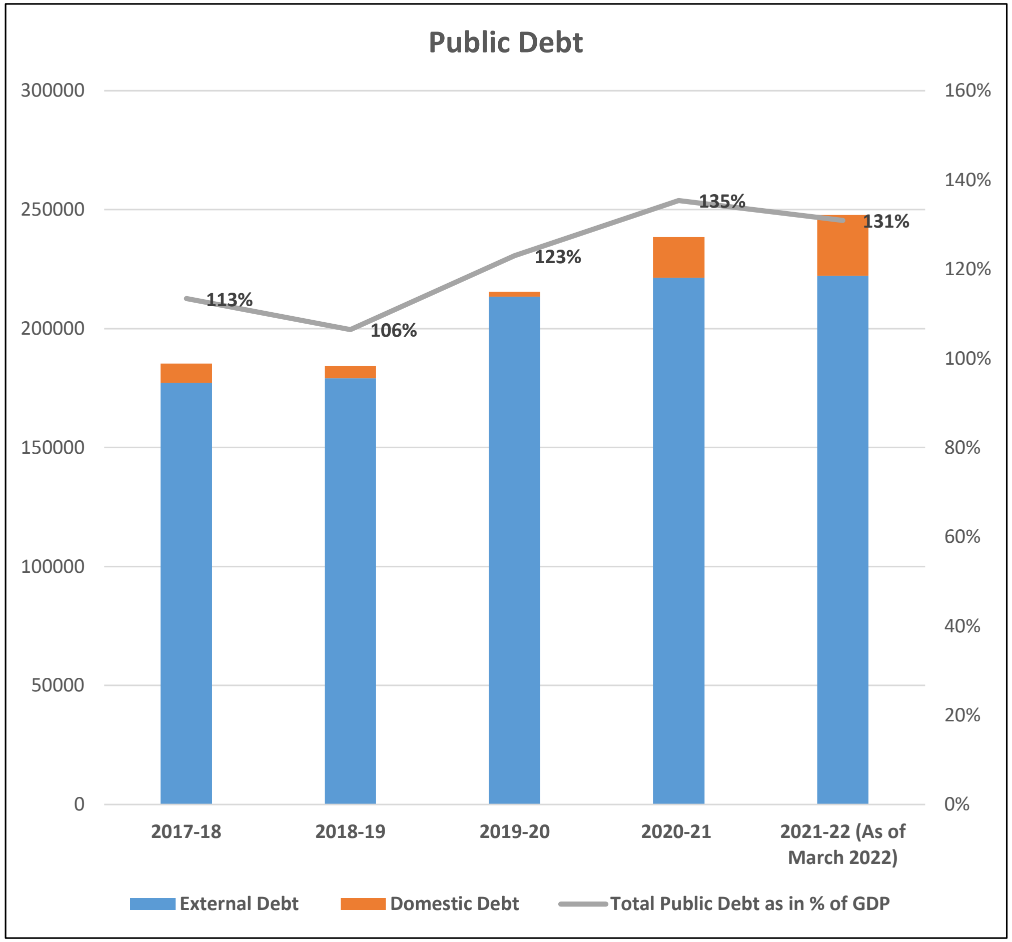


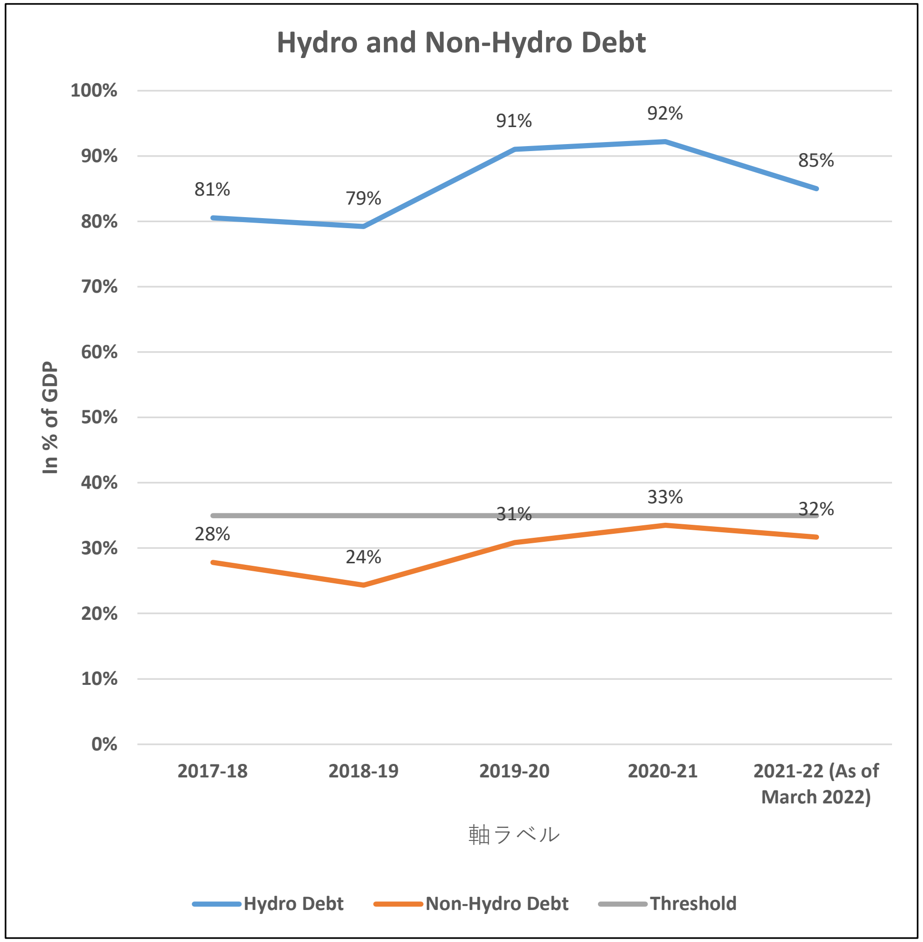


2. Fiscal Performance – *Fiscal Balance*



2. Fiscal Performance – *Current Debt Situation*





3. Key Economic Indicators- *External and Monetary*

1. Current Account Balance as a % of GDP: *narrowed from -15.8% to -12.4% of GDP in FY 2020-21*
2. General Reserves: *In FY 2021 GR improved by 16% from USD 1340 millions*
3. Credit to Private Sectors: *Declined from 13.7% in FY 2020 to 6.8% in FY 2021*
4. Non-Performing loans
5. Liquidity

3. Risk and Challenges

1. Continued uncertainties with the pandemic situation, on-going geopolitical conflicts, and rising oil and commodity prices are expected to weaken demand, affect manufacturing competitiveness and impact investment prospects.

2. The combination of supply disruptions and trade shock will likely weigh on growth, result in a sharper rise in inflation, broader price pressures and (lead to) a wider current account deficit. **Widening of the current account deficit is expected to put further strain on the overall reserve of the economy.**

3. Being a strongly import-dependent economy with a pegged exchange rate regime, any depreciation of the Indian rupee versus the US dollar would raise the cost of imports from third countries as well as the expense of servicing convertible currency debt. As the imports account for 54.9 percent of the CPI basket, imports from third countries will become more expensive, putting **upward pressure on inflation.**

4. The construction industry is also likely to experience a slowdown in the short to near term due to escalating construction material prices. **More risk could arise if global conditions weaken further, which could hamper export and capital expenditure investments.**

5. Other risks include deterioration in revenue performance due to underperformance of corporations and business entities owing to lockdown and supply-chain disruption. With increasing development, the need for financing is also on the rise, therefore the economy has experienced increasing levels of fiscal deficits and **the fiscal burden to the government is increasing**. Given the narrow tax base, it continues to remain a challenge.

Thank You