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Royal Monetary Authority of Bhutan

ANNUAL REPORT
2012/13



January 2014

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PREFACE

This report reviews macroeconomic developments that have taken place in the Bhutanese economy during the fiscal year 2012/13. Nonetheless, some important events that have occurred in the recent past have also been covered. Commentaries on the economic sectors are based on information provided by government authorities, financial institutions, corporate bodies and private sector sources. Time series data on various economic statistics are available in the statistical section of the report. The annexure provides detailed background and updates on selected economic sectors. An overview of events in the global economy and forecasts for the medium term is also presented based on the IMF World Economic Outlook publications. The annual accounts of the RMA are published in accordance with the stipulations of the Royal Monetary Authority of Bhutan Act, 2010. *The RMA Act, 2010 (Chapter X, Articles 166 and 167) also empowers the RMA to collect data from individuals, companies, organizations and government bodies.*

All views expressed in this report pertaining to the domestic economy 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.

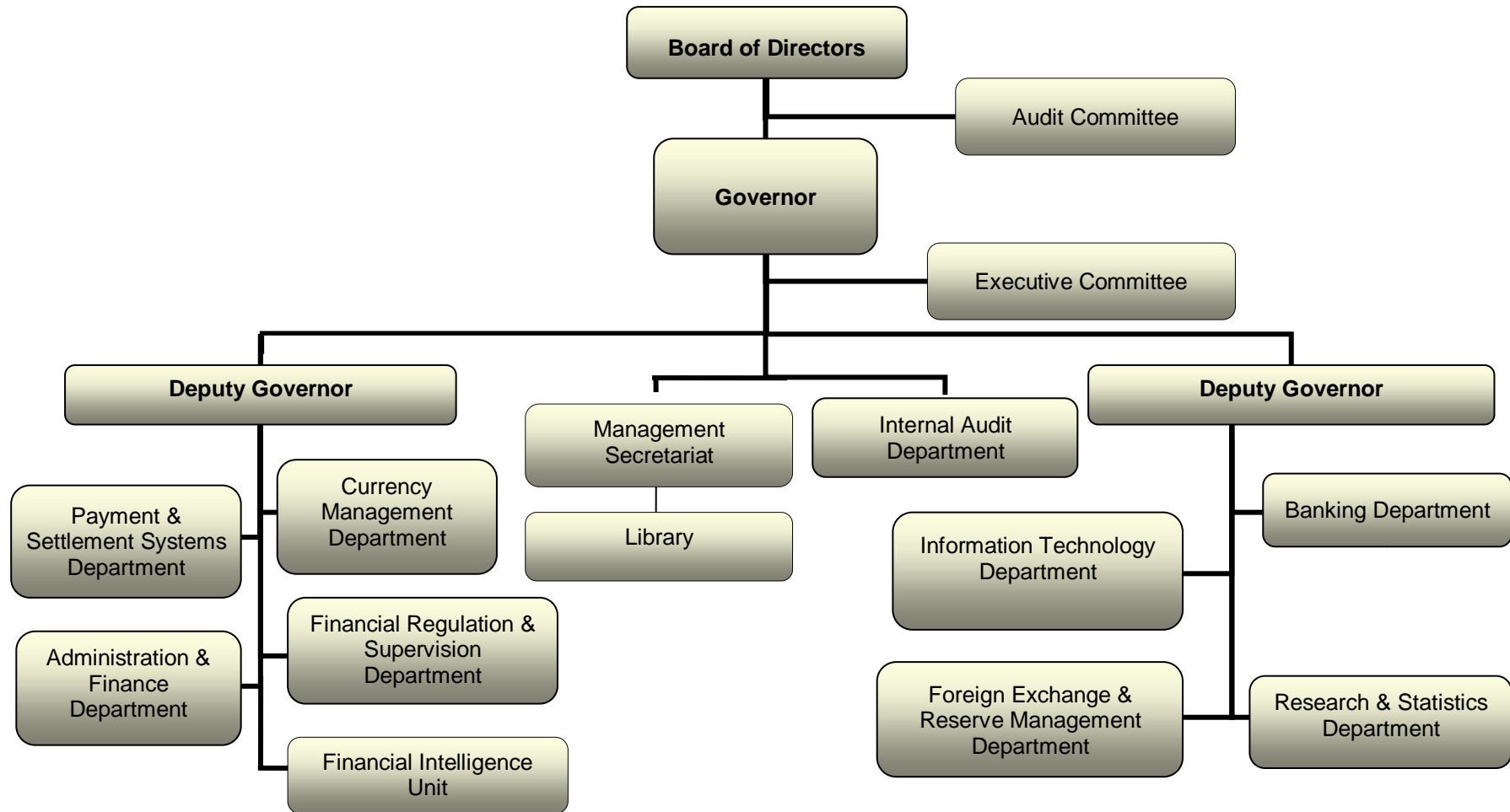
BOARD OF DIRECTORS

H.E. Mr. Daw Tenzin Governor Royal Monetary Authority of Bhutan	-	Chairman
Mr. Lam Dorji Secretary Ministry of Finance	-	Deputy Chairman
Mr. Nima Wangdi Secretary Ministry of Health	-	Director
Mr. Sonam Wangchuk Independent Member	-	Director
Mr. Loknath Chapagai Department of Industries (Specialist) Ministry of Economic Affairs	-	Director
Mr. Pushpa Lal Chhetri Deputy Governor Royal Monetary Authority of Bhutan	-	Director
Ms. Eden Dema Deputy Governor Royal Monetary Authority of Bhutan	-	Director & Member Secretary

MANAGEMENT

- | | |
|---|--------------------|
| 1. Governor | Daw Tenzin |
| 2. Deputy Governor | Eden Dema |
| 3. Deputy Governor | Pushpa Lal Chhetri |
| 4. Director, Administration & Finance Department | Phub Dorji Tangbi |
| 5. Director, Banking Department | Phajo Dorjee |
| 6. Director, Currency Management Department | Rinzin Lhamu |
| 7. Director, Financial Regulation & Supervision Department | Tshering Dema |
| 8. Director, Foreign Exchange & Reserve Management Department | Karma Rinzin |
| 9. Director, Information Technology Department | Sherab Jamtsho |
| 10. Director, Internal Audit Department | Julien Gurung |
| 11. Director, Management Secretariat | Namgay Tshering |
| 12. Director, Payment & Settlement Systems Department | J.N. Pradhan |
| 13. Director, Research & Statistics Department | Pema D. Dorjee |

ORGANIZATION CHART OF THE RMA



ABBREVIATIONS AND SYMBOLS

Abbreviations

ACU	Asian Clearing Union
ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
ATM	Automated Teller Machine
BBPL	Bhutan Board Products Limited
BCCL	Bhutan Carbide and Chemicals Limited
BDBL	Bhutan Development Bank Limited
BEA	Bhutan Electricity Authority
BEVL	Bhutan Eco Ventures Limited
BFAL	Bhutan Ferro Alloys Limited
BHP	Basochhu Hydropower Plant
BIL	Bhutan Insurance Limited
BNBL	Bhutan National Bank Limited
BOBL	Bank of Bhutan Limited
BOP	Balance of Payments
BPCL	Bhutan Power Corporation Limited
BRCL	Bhutan Resorts Corporation Limited
BTCL	Bhutan Tourism Corporation Limited
BTL	Bhutan Times Limited
CAR	Capital Adequacy Ratio
CASA	Current and Saving Account
CC	Convertible Currency
CHP	Chhukha Hydropower Plant
CIB	Credit Information Bureau
COTI	Countries Other Than India
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CY	Calendar Year (Jan-Dec)
DACL	Druk Air Corporation Limited
DFAL	Druk Ferro Alloys Limited
DGPC	Druk Green Power Corporation Limited
DHI	Druk Holding and Investments
DMB	Deposit Money Bank
DPA	Department of Public Accounts, Ministry of Finance
DPNBL	Druk PNB Bank Limited
DPOP	Druk Plaster and Chemicals Limited
DPRs	Detailed Project Reports
DRC	Department of Revenue and Customs

DSCL	Druk Satair Corporation Limited
DWAL	Druk Wang Alloys Limited
EBCCL	Eastern Bhutan Coal Company Limited
EFIC	Export Finance and Insurance Corporation
EFTCS	Electronic Funds Transfer and Clearing System
EJG	Empowered Joint Group
FCA	Foreign Currency Account
FDI	Foreign Direct Investment
FI	Financial Institution
FIRMA	Financial Institutions Ratio Management and Analysis System
FSA	Financial Services Act
FSDP	Financial Sector Development Program (ADB TA)
FY	Fiscal Year (July-June)
GDP	Gross Domestic Product
GEPF	Government Employees Provident Fund
GIC	General Insurance Corporation of India
GNH	Gross National Happiness
GOI	Government of India
ICT	Information and Communication Technologies
IDA	International Development Association (World Bank)
IFAD	International Fund for Agricultural Development (UN)
IG	Inter-governmental
IIP	International Investment Position
IMF	International Monetary Fund
INGO	International Non Government/Profit Organization
INR	Indian Rupee
IPO	Initial Public Offering
JICA	Japan International Cooperation Agency
JMCL	Jigme Mining Corporation Limited
JV	Joint Venture
KFAED	Kuwait Fund for Arab Economic Development
KHP	Kurichhu Hydropower Plant
KCL	Kuensel Corporation Limited
LOC	Line of Credit (also referred to as Standby Credit Facility, SCF)
LPG	Liquid Petroleum Gas
M0	Reserve Money
M1	Narrow Money
M2	Broad Money

MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MICE	Meetings, Incentives, Conferences, Exhibitions
MOLHR	Ministry of Labour and Human Resources
MOU	Memorandum of Understanding
MW	Megawatt
MTFF	Medium Term Fiscal Framework
MFCTC	Macroeconomic Framework Coordination Technical Committee
NBFI	Non Bank Financial Institution
NDC	Net Domestic Credit
NECS	National Electronic Clearing System
NEFT	National Electronic Funds Transfer System
NFA	Net Foreign Assets
NPL	Non Performing Loans
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese
NSB	National Statistics Bureau
ODF	Overdraft Facility
OIN	Other Items Net
PCAL	Penden Cement Authority Limited
PFP	Provident Fund Plan
PNB	Punjab National Bank
POS	Point of Sales
PPI	Producer Price Index
PPN	Purchasing Power of Ngultrum
PPP	Public Private Partnership
PR 2002	Prudential Regulations 2002
PSU	Public Sector Undertakings
QM	Quasi Money
RBI	Reserve Bank of India
RCC	Roller Compact Concrete
RGOB	Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority of Bhutan
RSEBL	Royal Securities Exchange of Bhutan Limited
RSTLAW	RMA Short Term Liquidity Adjustment Window
RWCR	Risk Weighted Capital Adequacy Ratio
SAARC	South Asian Association for Regional Cooperation
SAARCFINANCE	Network of SAARC Central Bank Governors and Finance Secretaries

SBI	State Bank of India
SDC	Swiss Agency for Development and Cooperation
SEACEN	South East Asian Central Banks
SLR	Statutory Liquidity Ratio
SME	Small and Medium Scale Enterprise
STCBL	State Trading Corporation of Bhutan Limited
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunications
TA	Technical Assistance
TBL	T-Bank Limited
TCB	Tourism Council of Bhutan
THP	Tala Hydropower Plant
UNCDF	United Nations Capital Development Fund
UNESCAP	United Nations Economic & Social Commission for Asia & Pacific
UNWTO	United Nations World Tourism Organization
UTB	Unit Trust of Bhutan
VPN	Virtual Private Network

Statistical Abbreviations and Symbols

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

Note: Discrepancies in the totals are due to rounding.



MESSAGE FROM THE GOVERNOR

The Royal Monetary Authority once again congratulates the People's Democratic Party for winning the 2013 National Elections and forming the new government. The Prime Minister, in the State of the Nation Address in September 2013, highlighted the vulnerability of the Bhutanese economy hit by external shocks in the preceding year and outlined policy imperatives for much-needed reforms to strengthen fundamentals and diversify our economy, boosting domestic production, exports and increasing foreign investment. Recent fiscal austerity efforts and political commitment to prioritize private sector growth to reverse unhealthy economic trends are a positive step in the right direction and sets the appropriate message and agenda for domestic and external stakeholders alike. Long-term macroeconomic stability built on the foundation of strong fundamentals and aimed at future sustainable development remains at the heart of achieving GNH-based progress.

Following from the events of the past year, growth in our economy slowed down during 2012 with real GDP falling to 4.6 percent down from 8.6 percent in the preceding year while per capita income remained steady at USD 2,585. Though this is still commendable performance when viewed in the context of the global economic downturn, the drop in Bhutan's growth was largely attributed to a negative growth in the community, social and personal; financial, and insurance, as well as mining/quarrying and electricity sectors. Other key sectors that also experienced a slowdown in economic performance were the construction, real estate, and transportation sectors. Nevertheless, the hotel and restaurants; trade, manufacturing and agricultural sectors experienced improved growth during the year and nominal GDP for Bhutan grew by 15.8 percent to Nu.99.5 billion. Inflation since the quarter ending June 2012 has been on a declining trend falling to 5.5 percent as of June 2013 against 13.5 percent as of the same period last year, and the rate of unemployment dropped further to 2.1 percent in 2012 from 3.1 percent.

As of the FY ending 2012/13, Bhutan's international reserves increased by 36 percent to USD 916.9 million, while there was a re-composition of reserves between convertible currency and Indian Rupees following the sale of USD 200 million for Rupees on June 26, 2013. The increase in gross reserves is also reflected in the corresponding improvement in Bhutan's BOP overall balance from negative Nu.9.1 billion to a surplus of Nu.9.2 billion as of the FY ending 2012/13. While the current account deficit widened to 25 percent of GDP from 23 percent during the previous year, there was a slight improvement on the trade front with COTI that resulted in improving the merchandise trade deficit from 23.1 percent of GDP to 19.5 percent as of the year ending June 2013 and once again, deficits were considerably countered by substantial inflows on the capital account due to both budgetary as well as hydro-power related grant receipts. External debt outstanding for Bhutan continued to expand by 22.0 percent to USD 1.7 billion at the end of June 2013, of which 66.0 percent were outstanding on INR-related debt and of the latter, 75.8 percent, constituted hydropower related debt. With short-term INR ODF disbursements growing by 68.2 percent during FY

2012/13 (totaling INR 68.1 billion), Bhutan's overall debt service ratio escalated to over 200 percent; excluding the ODF, the debt service ratio still remains elevated at 18.2 percent as of June 2013 on account of other sector loans.

However, while Rupee pressures remain, they have been slightly alleviated with steady inflows of external revenue and funds; since June 2013, Bhutan has liquidated the INR ODF with no additional ODF availed till date. Looking ahead, we need to remain vigilant against widening external imbalances; BOP pressures for trade settlement and debt service in INR continue to be marked by mismatches in currency composition relative to liabilities. During FY 2013/14, it is projected that Bhutan's current account deficit will further deteriorate to 25.5 percent of GDP corresponding to a substantial growth in merchandise imports, especially from India. Demand management to stall external imbalances has played its role and will continue to do so; however it has its limitations and we are hopeful that in the coming Parliament sessions, there will be consensus in the introduction and endorsement of additional fiscal measures to discourage non-essential imports so that stakeholders can gradually withdraw other restrictions in a synchronized manner.

Bhutan's financial sector continued to expand and the banking sector recorded a growth of 20.1 percent in its total assets to Nu.71.6 billion for the FY ending June 2013. Though profits after tax decreased slightly to Nu.0.55 billion from Nu.0.59 billion in the previous year, banks' overall capital remained well above regulatory limits with the CAR at 18.2 percent, end-June 2013. There have been growing concerns that in the aftermath of 2012's spillovers of tight liquidity and credit conditions, our financial system is facing a downturn with looming and high NPLs. There have also been additional reports that constructions, particularly in urban centers remain incomplete due to constraints in accessing remaining credit necessary.

On both issues, I would like to clarify that towards the end of 2013 the RMA conducted extensive dialogue with all financial institution stakeholders at which time it was established that our financial industry currently faces no problems with loan disbursements towards housing projects and constructions approved on or before March 9, 2012. Undisbursed loans for on-going housing constructions currently stand at a sector-wide total of Nu.647.6 million and Nu.604.7 million towards on-going hotel and resorts constructions. Similarly on both counts, and for the most part, there have also been no additional loans requested that stand pending. Cases where additional loans were not sanctioned by the banks were done to avoid credit outstanding exceeding loan to equity ratios which would have posed risks to future repayment capacity. However, when it comes to NPL trends, it is true that NPLs have risen in the past year. Latest information available as of September 2013-end indicates that total NPLs have in fact increased from 10.6 percent to 12.2 percent from the previous year. As of end-June 2013, year-on-year NPLs had also risen from 7.8 percent to 9.7 percent. Growth in NPLs has been driven by steep NPLs increases in the trade/commerce, manufacturing/industry and housing sectors. NPLs in these three sectors alone account for 59.7 percent of total NPL as of September 2013.

On the other hand, according to reports from the financial institutions, rather than the concern of inaccessibility to credit to complete constructions, the present overriding concern is that of income-recovery by house owners after completion of constructions as evident by the looming vacancies in the peripheries of urban towns like Thimphu; and especially in pockets of new housing clusters faced with challenges associated to unreliable and sufficient access to water utilities and public transport. The RMA has brought these issues to the attention of

local municipal authorities as well as public transport providers in the hope that these issues can be taken forward by the relevant stakeholders.

During the year, the RMA and Government have taken several steps to address volatility in the external sector and pressures on Rupee reserves. The INR Swap arrangement with the RBI raised INR 5.4 billion at an interest rate of 5.5 percent p.a. in March 2013 for the duration of 6 months; the Swap was liquidated in September 2013. Similarly, USD 200 million was sold against INR on June 28, 2013, in light of a comfortable convertible currency reserve position and taking advantage of the favorable exchange rate conditions, and positioning for upcoming Rupee payment obligations, including hydropower debt and BOP transactions on the imports of goods and services. Establishing the Central Registry for Movable Property in September 2013 has helped the RMA facilitate smooth credit appraisal, while our strategy to contain over-exposure of financial institutions towards select credit portfolios and to regulate rapid credit expansion required us to adjust prudential provisions pertaining to loan provisioning, risk weight limits twice, during November 2012 and then again in June 2013. During the course of the year, the RMA also embarked on endorsing Bhutan's improved Foreign Exchange Regulations, 2013 in addition to conducting the first Bilateral Base Rate Review with the financial institutions during April 2013, following its introduction on September 1, 2012. Operational concerns of the banks were accommodated in the revised Base Rate Guidelines re-issued in July 2013; meanwhile, reflective of tight liquidity conditions, overall base rates for the financial system were re-calculated upwards to the range of 10.8 to 11.3 percent; while set at 13.2 percent for NBFIs.

In an attempt to ease the current liquidity shortage and to restart lending to productive and priority economic sectors, the RMA was selected to participate in the Government-constituted Economic Stimulus Plan (ESP) Taskforce from August 2013 to draw up the ESP Strategy and Implementation Plan. INR 5 billion secured by the newly elected Government as grant support outside of the 11th FYP from the GoI, is being distributed to inject financial resources through the financial institutions towards improving financial sector liquidity levels and lending; creation of revolving funds for collateral-free lending towards cottage and small industries and non-formal rural activities (agri-based); as well as other Special Support Schemes targeting youth education and employment and senior citizen support. The first tranche of funds under the ESP through a subordinated debt issue to the FIs is scheduled for early this year and is expected to enhance FI capital adequacy ratios while boosting liquidity; institutions shall be allowed to lend under broad parameters of export promotion, import substitution and employment generation. As of December 19, 2013, a Government Order issued by the Prime Minister has approved the establishment of the Business Opportunity and Information Centre (BOIC) under the Ministry of Economic Affairs for the implementation of the Revolving Fund created under the ESP to channel resources to priority sectors. Meanwhile the RMA was also involved in the Taskforce to review selected import restrictions placed in May 2012 (on non-essential furniture, alcohol and vehicle imports); recommendations on proceeding forward will be presented to the Cabinet soon.

There have been reports that economic slowdown in Bhutan has been the result of numerous policy interventions including import bans, restricted access to INR, and limited access to financial sector credit. I have on numerous occasions expressed my concern over the unsustainable trajectory of Bhutan's macroeconomic fundamentals. Therefore, while policy interventions initiated may have taken an adjustment toll on certain sectors, temporary measures should be withdrawn in tandem with the introduction of long-term policy interventions by the Government. Formation of the December 2013 Task Force to Review the

Existing Import Restriction on Import of Vehicle, Furniture and Alcohol is indicative of efforts towards doing so.

Meanwhile, here at the RMA, we continued our efforts to improve and enhance reserve management operations by conducting an in-depth needs assessment with the IMF and the World Bank during July and September 2013. Subsequently, we have recently issued the newly revised Reserve Management Policy and Operational Guidelines to be submitted for review and endorsement by the RMA Board of Directors and implementation early this year. Simultaneously, this year we plan to implement a joint Action Plan with the financial sector to deal with asset-liability mismatches to insulate the sector and mitigate growing credit risks.

And notably, in this edition of the Annual Report, we are issuing for the first time, BOP and IIP statistics from FY 2006/07 compiled under IMF's Balance of Payments Manual 6th Edition (BPM6) including quarterly BOP statistics for the year under review. Successful migration of Bhutan's BOP to BPM6 was carried out under the IMF TA and Japan Subaccount (JSA) Project on the Improvement of External Sector Statistics (ESS) in the Asia and Pacific Region. This makes Bhutan one of the first Asian countries as well as other IMF Member nations to implement the BPM6 framework on a quarterly basis and ensures international comparability of Bhutan's BOP statistics.

Under the visionary leadership of their Majesties the Kings, Bhutan has achieved unprecedented progress in the past FYPs. Poverty alone has been slashed to 12 percent in 2012 from 23.2 percent five years ago. Recently, a key issue of discussion during the 12th Round Table Meeting in Thimphu during December 2013 was that of working towards self reliance and reducing dependence on external assistance by 2020. The overarching goal of the 11th FYP is that of self-reliance and inclusive green socio-economic development. Key thrust areas for accelerated socio-economic development have been identified under strategies including infrastructure development (urban, transport, industrial estates, energy); the Economic Stimulus Plan, strengthening the cottage, small and medium industry sector, and financial sector development.

Yet, aside the progress we have achieved in social indicators and robust growth performance during the 10th FYP period, Bhutan still faces numerous structural weaknesses and challenges that needs close attention to ensure long term sustainability. Our economy can no longer be sustained on the back of a single economic sector although hydropower development remains a vital catalyst for socio-economic development. In light of our vulnerabilities and exposure to potential external shocks, longer term strategies are needed for structural transformation of our economy, by strengthening agricultural productivity and marketing, as well as boosting the contribution of value added production and services.

All in all, with the slew of measures implemented early 2012; the fiscal year was one of watching and waiting to see how measures pan out. With slight improvements on the external trade front, and some volatility as backlash from regional and global changes, even with the slowdown in domestic growth, we now make way for another year of great expectations; expectations that the newly elected government will take a renewed stand towards moving past the rhetoric on bridging institutional, structural and resource gaps and working out a clear roadmap for the development of Bhutan's private industry and economic sectors. Unemployment trends among the youth are worrisome but with concerted political will and effort, challenges are not insurmountable. We are ready to work actively together with all our stakeholders; we must view our mandates in a wider perspective where other important

considerations including cross-sectoral linkages, transparency, and long-term sustainability, take precedence.

For the cooperation rendered to us during the year, I am deeply indebted to all those who supported our efforts in the Royal Government, financial sector, Bhutan Chamber of Commerce and the media fraternity.

Tashi Delek and Happy New Year!

A handwritten signature in black ink, reading "Daw Tenzin". The signature is written in a cursive style with a long horizontal line extending to the right and a loop at the end.

Daw Tenzin
Governor
January 2014

BHUTAN KEY ECONOMIC INDICATORS

Item	2009/10	2010/11	2011/12	2012/13
GDP Growth and Prices (percent change)				
GDP at Constant(2000) Price (a), (b)	6.7	11.7	8.6	4.6
Consumer Prices (b), (c)	6.1	8.3	13.5	5.5
Producer Price Index, Industry (b), (d)			0.1	-0.2
Producer Price Index, Product (b), (d)			0.1	-0.2
Wholesale Prices (India) (e)	10.6	9.9	7.4	4.9
Government Budget (in millions of Nu.) (f)				
Total Revenue & Grants	30990.7	28171.8	32646.4	37648.2
Of which: Foreign Grants	11118.9	10497.7	12501.5	15798.6
Total Expenditure and Net Lending	29888.9	29842.4	33688.0	38604.4
Current Balance	6969.1	2938.9	3439.2	2636.0
Overall Balance	1101.8	-1670.7	-1041.7	-956.2
(in percent of GDP)	1.8	-2.3	-1.2	0.9
Money and Credit (percent change, end of period)				
Broad Money, M2	30.1	21.2	-1.0	18.6
Credit to Private Sector	40.7	29.4	30.1	7.1
Interest Rates (end of period)				
One Year Deposits	4.8	5.3	5.0-6.0	5.0-6.5
Lending Rate	10.0-16.0	10-16.0	10.4-16.0	11.7-16.0
91-days RMA Bills/ Treasury Bills	2.0	2.0	4.1	3.0
Balance of Payments (in millions of Nu.)				
Trade Balance (Goods)	-12568.3	-20835.3	-19880.6	-19441.6
With India	-5855.3	-15160.0	-12795.1	-17265.4
Current Account Balance	-14863.5	-23621.4	-19774.3	-24892.2
(In percent of GDP)	-24.3	-32.6	-23.0	-25.0
With India	-9211.2	-18171.5	-15685.8	-26504.9
(In percent of GDP)	-15.0	-25.1	-18.3	-26.7
RGOB Loans, net (including hydropower)	4359.0	11974.7	11435.1	18454.7
Of which: India	1293.2	7376.8	9878.4	14798.4
Errors and Omissions	3354.0	-1823.4	-9271.4	2395.9
Overall Balance	750.5	-604.0	741.7	9212.2
(In percent of GDP)	1.2	-0.8	0.9	9.3
External Indicators (end of period)				
Gross Official Reserves (in Millions of USD)	759.4	796.2	674.3	916.9
(In months of merchandise imports)	11.5	8.4	9.0	12.6
External Debt in percent of GDP	66.6	81.8	91.6	102.4
Debt-Service Ratio (g)	30.7	51.7	127.1	215.6

	2009/10	2010/11	2011/12	2012/13
Memorandum Items				
(in millions of Nu. Unless otherwise indicated)				
Nominal GDP (in millions of Nu.) (a), (b)	61220.6	72496.6	85913.0	99455.1
Ngultrum per USD (fiscal year average)	46.7	45.3	50.3	
Money Supply, M2 (end of period)	41778.7	50639.8	50122.9	59451.2
Money Supply, M1 (end of period)	22537.7	30270.3	31960.2	37794.1
Counterparts				
Foreign Assets (Net)	34918.5	35144.5	35168.6	48566.4
Domestic Credit	23136.5	30705.7	46466.1	52432.3
Claims on Private Sector	25994.0	33625.2	43734.6	46824.6
Components				
Currency Outside Banks	5386.5	6893.7	6390.7	5681.2
Transferable Deposits	17151.2	23376.6	25569.5	32112.9
Other Deposits	19241.0	20369.5	18162.7	21657.1
Reserve Money, MO (in millions of Nu.)	20574.7	19727.6	16743.1	23997.4
Of which Banks' Deposits	14683.9	11927.4	9397.7	16607.6
Money Multiplier (M2/MO)	2.0	2.6	3.0	2.5
Income Velocity (GDP/M2)	1.5	1.4	1.7	1.7
Population growth rate (h)	1.3	1.8	1.8	1.9
Unemployment rate (a), (i)	4.0	3.3	3.1	2.1

a) On a calendar year basis, e.g., the entry under 2011/12 is for 2011. b) Source: National Accounts Statistics 2012, NSB c) The CPI reflected in this table is for the last quarter of the fiscal year. d) The NSB released the first PPI bulletin for Bhutan during second quarter of 2012. e) Source: Reserve Bank of India. Wholesale Price Index of All Commodities, Base = 2004-05. Effective August 2010, the RBI revised the base year from 1993-04 to 2004-05, creating a break in the continuity and comparison of data. The newly-recalculated WPI commences from April 2004; reference period same as for Bhutan CPI. f) Data for 2011/12 are revised estimates. g) Debt service payments in percent of exports of goods and services. h) Data on CY basis; sourced from NSB; i) Updates sourced from Labour Market Information System, MOLHR.

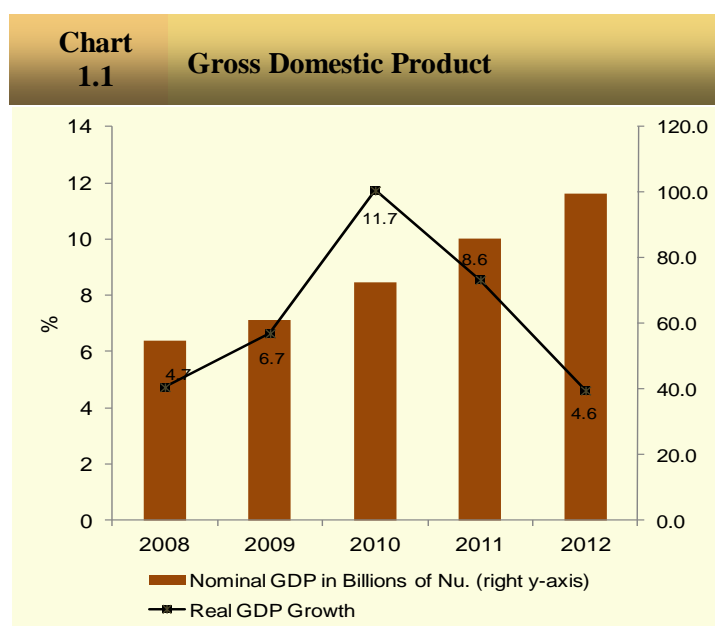


SECTION I

ECONOMIC
REVIEW

1. DOMESTIC ECONOMY

According to the National Statistics Bureau (NSB), Bhutan's **real GDP** growth decreased to 4.6 percent in 2012, by 4 percentage points from 8.6 percent in 2011 (Table 1.1). In a review of the sector-wise performance of the economy, the growth in 2012 was driven by the tertiary sector which recorded the highest growth at 6.6 percent. The secondary sector grew at 2.9 percent and the primary sector grew at 3.4 percent during the year.



The decline in growth was attributed to negative growths in community, social and personal services (general government) by 6.4 percent; finance, insurance, real estate and business services by 2.9 percent; mining and quarrying by 2.2 percent; and electricity and water supply by 0.6 percent.

On the other hand, sectors which performed relatively better and contributed to the overall growth in 2012 were hotels and restaurants with 27.8 percent, followed by wholesale and retail trade at 24.2 percent; manufacturing: 8.9 percent; construction: 4.2 percent; and agriculture: 3.4 percent.

Bhutan's per capita GDP in 2012 decreased marginally to USD 2,585 from USD 2,590 in 2011.

Meanwhile, the unemployment rate improved from 3.1 percent to 2.1 percent in 2012. Higher rates of unemployment were observed in the age bracket of 15-24 years.

*Unemployment rate, 2012
(in percent)*

*Male vs. Female: 1.9: 2.2
Urban vs. Rural: 3.5: 1.5*

*Youth Unemployment rate, 2012
(in percent)*

*Male vs. Female: 7.3: 7.2
Urban vs. Rural: 13.5: 5.0*

Bhutan's labour force participation rate declined to 64.4 percent in 2012 from 67.4 percent.

Labour Force Participation Rate, 2012 (in percent)

Male vs. Female: 65.7: 63.2

Source: National Statistics Bureau and Ministry of Labour and Human Resources (Labour Force Survey Report – 2012).

¹The **tertiary sector** consists of wholesale and retail trade; hotel and restaurants; transport, storage and communications; finance, insurance and real estate; general government, and other private and recreational services. The **secondary sector** comprises of mining and quarrying; manufacturing; electricity and water supply; and construction and the **primary sector** consist of crops; livestock; and forestry and logging activities.

Table 1.1 Real GDP Growth by Major Economic Sectors: 2005 - 2012

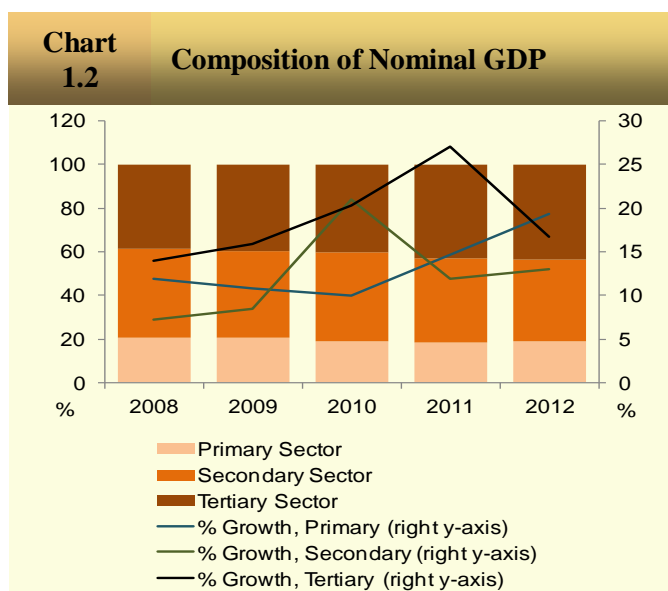
Item	Year-on-year % change							
	2005	2006	2007	2008	2009	2010	2011	2012
Gross Domestic Product	7.1	6.9	17.9	4.7	6.7	11.7	8.6	4.6
Primary Sector	-5.0	2.5	0.8	0.7	2.7	0.9	2.4	3.4
Secondary Sector	7.8	8.8	40.7	6.2	3.5	12.5	4.1	2.9
Tertiary Sector	13.7	7.3	5.9	4.8	12.2	15.2	15.5	6.6

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

* Kindly note that from the 2012 series published for the first time in the RMA AR 2012/13, the NSB has (i) revised past GDP figures based on new information which may explain differences in GDP data featured in other RMA publications; and (ii) has categorized Mining and Quarrying under the secondary sector; NSB has backtracked this change to its GDP data to 2000; hence the share and composition of the primary sector to the total GDP will be different from past reported figures.

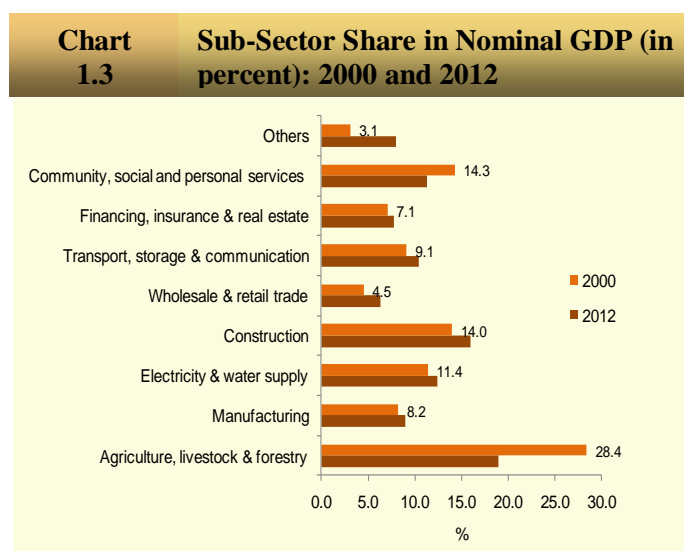
In nominal terms, the level of GDP reached Nu.99.5 billion in 2012, compared with Nu.85.9 billion in 2011, an increase of 15.8 percent over the previous year.

Within the **tertiary sector**, hotels and restaurants recorded the highest growth of 27.8 percent in 2012, followed by wholesale and retail trade at 24.2 percent, private social, personal and recreational services at 2.7 percent, and transport, storage and communications at 1.1 percent. Meanwhile, negative growth was observed in financing, insurance and real estate (2.9 percent in 2012, down from 21.8 percent in 2011), as well as in the community, social personal services sub-sector (6.4 percent in 2012 against 3.4 percent in 2011).



The growth in the **secondary sector** decreased by 2.9 percent compared to 4.1 percent in 2011. Except for the electricity and water supply sub-sector which witnessed a negative growth of 0.6 percent, manufacturing grew by 8.9 percent (7.3 percent in 2011) and the construction sector by 4.2 percent (14.7 percent in 2011). Overall performance of the **primary sector** improved in 2012 with the forestry and logging sub-sector recording a positive growth of 5 percent, crops by 4.1 percent and livestock by 1.1 percent. On the other hand, the mining and quarrying sector witnessed a negative growth in 2012 of 2.2 percent from 24.2 percent in 2011.

Comparing **sub-sector wise contribution share to nominal GDP** (Chart 1.3), in 2000, the agriculture sub-sector dominated with a contribution of 28.4 percent, followed by community and social services (14.3 percent), construction (14.0 percent), and electricity (11.4 percent). As of 2012, agriculture sub-sector's contribution to nominal GDP still remains the highest though it has fallen to 17 percent, followed by construction at 16 percent, electricity at 12.4 percent, and community and social services at 11.3 percent.



In terms of **contribution to real GDP growth** (Table 1.2), the contribution of the tertiary sector accounted for 2.9 percentage points, down from 6.4 percentage points in 2011. Similarly, the contribution of the primary sector declined from 0.8 percentage points to 0.4 percentage points and the secondary sector decreased marginally by 1.3 percentage points from 1.4 percentage points.

Table 1.2 Contribution to Real GDP Growth by Sector: 2005 - 2012

Sector	Real Contribution to GDP Growth							
	2005	2006	2007	2008	2009	2010	2011	2012
I. PRIMARY SECTOR	0.2	0.5	0.2	0.1	0.4	0.1	0.3	0.5
1. Agriculture, livestock & forestry	0.2	0.5	0.2	0.1	0.4	0.1	0.3	0.5
1.1 Crops	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.3
1.2 Livestock	0.3	0.1	0.2	0.0	0.1	0.1	0.0	0.0
1.3 Forestry & logging	-0.2	0.3	-0.1	-0.1	0.1	-0.1	0.1	0.2
II. SECONDARY SECTOR	1.4	3.3	15.3	2.8	1.6	5.5	1.8	1.2
2. Mining & quarrying*	0.2	0.3	0.4	0.4	-0.1	0.2	0.4	0.0
3. Manufacturing	0.6	0.9	2.0	0.7	0.6	1.8	0.7	0.8
4. Electricity & water	1.0	3.6	12.2	3.0	-0.6	1.2	-1.1	-0.1
5. Construction	-0.4	-1.6	0.7	-1.3	1.7	2.4	1.8	0.5
III. TERTIARY SECTOR	5.5	3.1	2.5	1.8	4.7	6.1	6.4	2.9
6. Wholesale & retail trade	0.9	0.1	0.2	0.0	0.3	1.0	1.1	1.5
7. Hotels and restaurants	0.1	0.2	0.1	0.3	-0.1	0.0	0.3	0.3
8. Transport, storage & communication	0.8	0.7	0.7	0.5	0.8	1.0	1.9	0.1
9. Financing, insurance & real estate	2.1	1.6	0.9	0.5	0.6	0.8	1.9	-0.3
9.1 Finance	2.1	1.5	0.7	0.4	0.5	0.7	1.8	-0.3
9.2 Real estate	0.0	0.0	0.2	0.0	0.1	0.0	0.1	0.1
9.3 Business services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Community, social & personal service	1.4	0.6	0.4	0.3	3.1	1.7	0.5	-0.8
10.1 Public Administration	1.1	-0.2	0.0	0.2	1.4	1.0	0.3	-0.4
10.2 Education & health	0.3	0.7	0.4	0.1	1.7	0.7	0.2	-0.4
11. Private social, personal & recreational services	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
12. Plus indirect taxes less subsidies	0.1	-0.1	0.1	0.2	0.0	1.6	0.8	2.1
Total (Real GDP Growth in %)	7.1	6.9	17.9	4.7	6.7	11.7	8.6	4.6

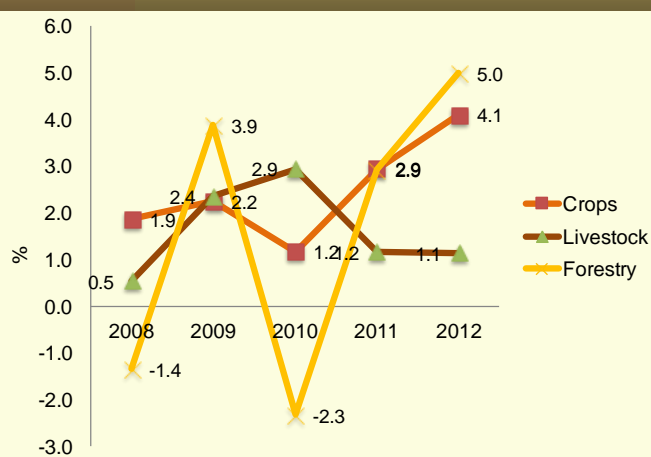
Source: National Statistics Bureau.

* Mining and Quarrying is now included in the secondary sector. The series was revised from 2012 and backtracked to 2000. Hence the share and composition of the primary sector to the total GDP will be different from the past reported figures.

1.1 Primary Sector

The primary sector consisting of crops, livestock, and forestry and logging activities recorded real growth of 3.4 percent over the previous year. Correspondingly, the sector's share to overall GDP at current prices increased by 0.9 percentage points to 17 percent in 2012 from 16.1 percent in 2011. Improved growth in the sector was mainly contributed by the **forestry and logging** sub-sector (5 percent in 2012 from 2.9 percent in 2011) followed by growth in **crops** at 4.1 percent from 2.9 percent in 2011; **livestock** noted a slight decline from 1.2 percent to 1.1 percent in 2012.

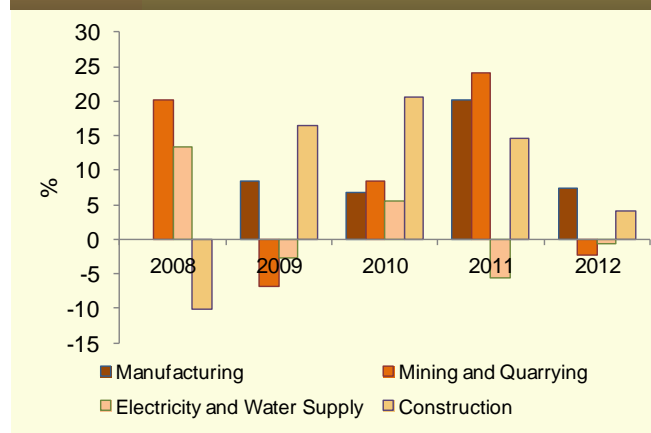
Chart 1.5 Growth of Crops, Livestock and Forestry: 2008-2012



1.2 Secondary Sector

Mining and quarrying, manufacturing, electricity and water supply, and the construction sub-sectors under the secondary sector registered one of the lowest growths at 2.9 percent in 2012 from 4.1 percent in 2011. Of the 4.6 percent real GDP growth in 2012, 1.3 percentage points was contributed by the secondary sector, down from its 1.4 percentage point contribution in 2011. In 2012, secondary sector share to total GDP decreased to 39.3 percent down by 1.2 percentage points from 40.5 percent in 2011, mainly on the account of the decline in the individual sector performances.

Chart 1.6 Real Growth in Secondary Sub-Sectors: 2008-2012



1.2.1 Manufacturing

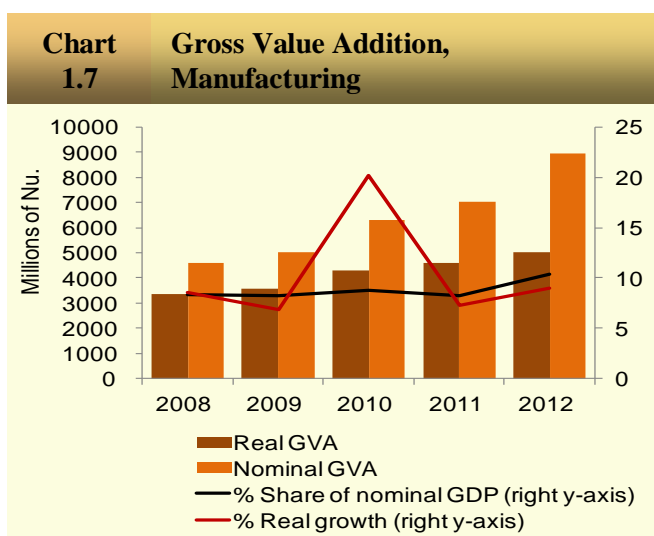
This sub-sector registered 8.9 percent real growth in 2012, recording slight improvement from 2011 (7.3 percent). Manufacturing constituted 9 percent of nominal GDP in 2012, up from 8.2 percent in the previous year. Its corresponding real contribution to overall GDP growth increased from 0.7 percentage points to 0.9 percentage points in 2012.

Major industries which fall under this sub-sector include cement, food, iron and steel, and wood based industries. Small, unregistered activities such as weaving, *thangka* (*wall hanging*) painting and clay works are also included. In 2012, of Bhutan's top 11 major industries, the Bhutan Ferro Alloys Limited (BFAL) ranked as the largest seller of

manufactured items (including both domestic and export sales) recording total sales of Nu.1.8 billion. Of the total turnover of all manufacturing industries (Nu.9,9 billion), 21.1 percent of the total sales belonged to BFAL, followed by the Penden Cement Authority Limited and Bhutan Fruit Products Limited at 20 percent and 17.8 percent, respectively.

Gross value addition (GVA) contribution of the manufacturing sub-sector at current prices amounted to Nu.8.9 billion in 2012, posting 26.8 percent growth over the previous year. Positive trend in GVA implies that Bhutan's manufacturing sector continued to remain progressive despite structural constraints.

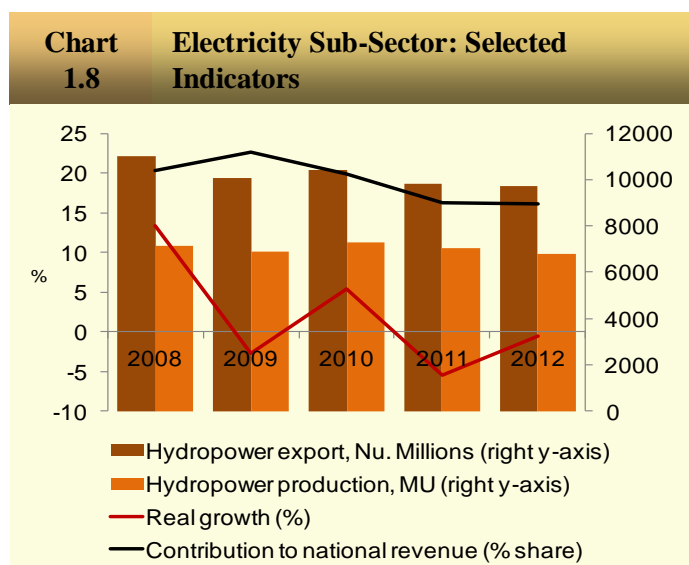
As illustrated in Chart 1.7 (right y-axis), the sub-sector's share to nominal GDP has remained consistent over the last five years, recorded at 9 percent in 2012.



1.2.2 Electricity and Water Supply

The electricity and water supply sub-sector includes all electricity generation and distribution activities and water supply, purification and distribution activities of municipal bodies. Overall growth performance of this sub-sector is contingent on the performance of the above activities.

In real terms, while the electricity noted some improvement from 2011, it continued with a negative growth of 0.6 percent in 2012. Since 2008, it is the third time that this sub-sector experienced negative growth. The decrease was mainly due to the drop in overall generation by the four generating plants – CHP, BHP, KHP and THP (Table 1.3)



by 3.3 percent from the previous year. Correspondingly, the real value of this sub-sector decreased marginally to Nu.8.8 billion from Nu.8.9 billion in 2011, while the share of this sub-sector to nominal GDP was recorded at 12.4 percent in 2012 compared to 13.9 percent in 2011.

In 2012, the sub-sector's contribution to **national revenue** (through the transfer of corporate income tax, dividend payments, and royalty of DGPC) increased marginally to Nu.3.4 billion from Nu.3.3 billion as compared to the previous year. In terms of ranking sources of contributions to the national exchequer, the DGPC still ranks as the highest contributor to tax revenue for the year 2012/13.

Table 1.3 Hydropower Production: 2008-2012

	<i>Millions of Units</i>					
	2007	2008	2009	2010	2011	2012
Basochhu	310.7	330.8	320.2	330.0	322.3	299.8
Chhukha	1,788.1	1,802.4	1,808.3	1,869.6	1,774.1	1,744.5
Kurichhu	379.7	386.3	370.1	377.7	361.8	360.9
Tala	3,918.9	4,610.9	4,396.2	4,726.8	4,588.0	4,405.5
TOTAL	6,397.4	7,130.5	6,894.9	7,304.0	7,046.2	6,810.7
	<i>Percent Change over Previous Year</i>					
Basochu	-4.1	6.5	-3.2	3.1	-2.3	-7.0
Chhukha	-4.8	0.8	0.3	3.4	-5.1	-1.7
Kurichhu	3.9	1.7	-4.2	2.0	-4.2	-0.2
Tala		17.7	-4.7	7.5	-2.9	-4.0
TOTAL	91.9	11.5	-3.3	5.9	-3.5	-3.3

Source: Respective hydropower plants; 1 unit = 1KWh.

Total energy sales (exports and domestic sales) from the four major hydropower plants in 2012 decreased by 1 percent from the previous year. Contributions to total electricity sales were as follows: THP at 60.9 percent (59.4 percent in 2011), followed by CHP at 31.2 percent (32.8 percent in 2011), KHP at 4.5 percent (4.3 percent in 2011), while the share of BHP stood at 3.4 percent (3.6 percent in 2011). The export of electricity to India decreased by 1.1 percent in 2012, from Nu.9.8 billion in 2011 to Nu.9.7 billion in 2012. During the same period, overall domestic sales increased by 0.5 percent.

Details of the sales of all four plants are available in Table 4 while a detailed description of developments in Bhutan's power sector is presented in **Annex V**.

1.2.3 Construction

The construction sub-sector recorded 4.2 percent real growth in 2012 against 14.7 percent in 2011. Its growth in the last five years has averaged around 10 percent, and its performance in 2012, despite sluggish growth, did improve than most other sectors.

This sub-sector's share to total GDP composition stood at 16 percent, and ranked second in 2012, after agriculture which recorded 17 percent. GVA from construction sub-sector at current prices recorded Nu.15.9 billion, growing by 14.2 percent from Nu.13.5 billion in 2011.

Table 1.4 GVA by Categories of Construction

	<i>(In mill. Nu.)</i>				
Category	2008	2009	2010	2011	2012
Private Construction	2,434.0	2,662.8	3,614.8	3,779.3	4,199.8
Public Construction	1,024.5	1,513.3	2,997.9	5,264.1	5,584.4
General Govt. Construction	2,798.9	2,457.0	3,694.2	4,451.9	6,103.3
Total GVA	6,257.4	6,633.1	10,306.9	13,495.3	15,887.5

Source: National Statistics Bureau

Private constructions constituted 26 percent of the total, and its growth dropped from a high of 36 percent in 2010 to 11 percent in 2012. Public sector construction, which consists largely of hydro-power related activities and had experienced considerable growth of 98 percent and 76 percent in 2010 and 2011 respectively, dropped to 6 percent in 2012. Government and public sector construction jointly constituted 73 percent of total construction activity in 2012.

Correspondingly, this sub-sector witnessed a significant decline in the growth rate of credit allocated towards building and construction at 12.2 percent in 2012 compared to 35.5 percent in 2011. Meanwhile, its share to nominal GDP was recorded at 18.5 percent in 2012 up from 16.2 percent in 2011.

1.2.4 Mining and Quarrying

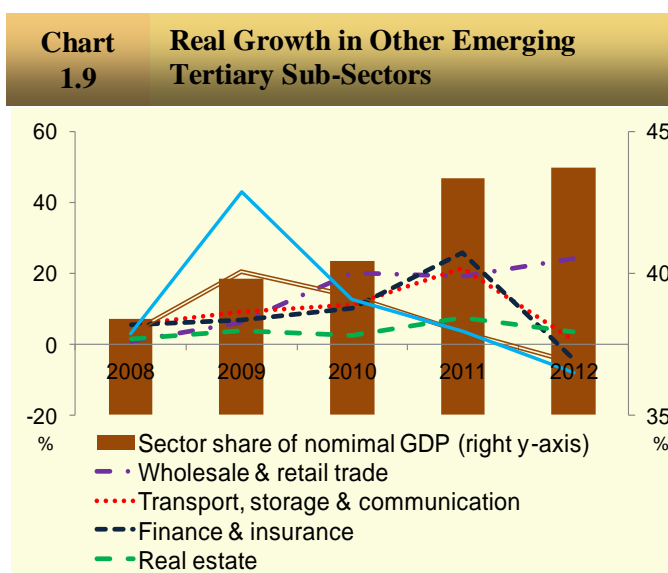
In real terms, this sub-sector witnessed a negative growth of 2.2 percent in 2012. In comparison to the past years, it noted a sharp fall from a high growth of 24.2 percent and 8.5 percent in 2011 and 2010, respectively. Correspondingly, the contribution of this sub-sector to the overall GDP also dropped from 2.3 percent in 2011 to about 2 percent in 2012.

1.3 Tertiary Sector

Unlike in the past, Bhutan's tertiary sector recorded a sharp decline in its growth rate, from 15.5 percent in 2011 to 6.6 percent in 2012; its performance at the broad aggregate level was much better than the primary and secondary sector. The sector's share to the total GDP however remained more or less steady at 43 percent.

Growth in this sector was mainly propelled by considerable growth in the hotels and restaurants sub-sector, followed by growth in wholesale and retail trade, transport, storage and communication and private social, personal and recreational sub-sector.

On the other hand, real growth of the financing, insurance and real estate along with the community, social and personal services (public administration, and education and health) sub-sector witnessed negative growth in 2012.



1.3.1 Wholesale and Retail Trade

This sub-sector which comprises of services including wholesale trade, retail trade, repair of motor vehicles and household appliances witnessed real growth of 24.2 percent as compared to 19.2 percent in 2011. Growth was mainly attributed to trading activities which grew at an average rate of 20.6 percent per annum in the last five years.

Sub-sector contribution to overall real GDP growth increased from 1.1 percentage points in 2011 to 1.6 percentage point in 2012. However, its share to nominal GDP stood at 6.3 percent in 2012, up from 5.4 percent as of 2011.

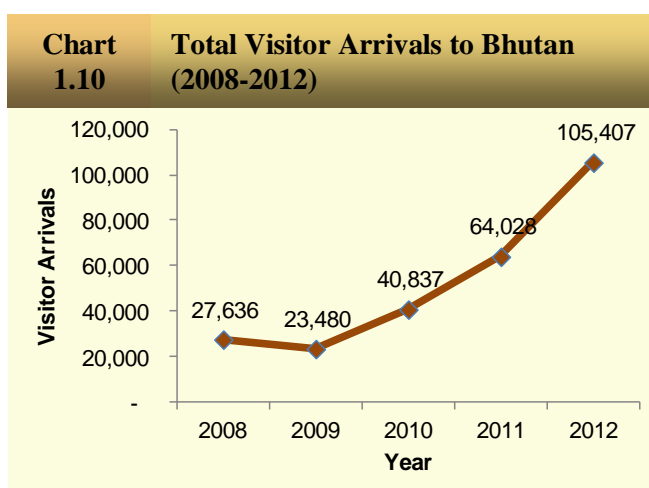
1.3.2 Hotels and Restaurants

Hotel and restaurants is one of the fastest growing sectors in the Bhutanese economy and during 2012 continued to be one of the top performers.

Strong performance of this sub-sector can be explained by increased number of tourist arrivals¹ during the year (105,407), a figure that marked a record growth rate of 65 percent compared to 2011.

The hospitality industry, in general, did extremely well as indicated by higher tourist earnings, occupancy rate, and the surge in regional visitors from India, Bangladesh and Maldives. International visitors constituted 52 percent, while regional visitors constituted 48 percent of the total visitors in 2012.

Sub-sector contribution to real GDP growth recorded 0.3 percentage points similar to 2011; its share to the total GDP stood at 1.4 percent in 2012 as compared to 1.1 percent in 2011. Please refer to Section 1.4 and **Annex IV** of this report, for an overview of developments in the Bhutanese tourism industry.



1.3.3 Transport, Storage and Communication

Activities under this sub-sector include land and air transport services, telecom services, publishing services, and travel services in the economy. This sub-sector registered a growth of 1.1 percent in 2012, largely driven by and sustained by improved performance of tourism and hospitality industries. This sub-sector's share to nominal GDP decreased to 10.4 percent from 11.1 percent in 2011, while its contribution to real GDP growth was registered at 0.1 percentage points.

1.3.4 Financing, Insurance, Real Estate and Business Services

In 2012, finance, insurance and real estate recorded a negative growth of 4.1 percent for the first time in five years compared to 25.8 percent in 2011. This slowdown can be attributed mostly to finance and insurance, and business services where liquidity constraints in financial institutions and reduction in lending activity hampered sector growth. However, real estate and dwelling showed a positive growth of 3.3 percent during 2012.

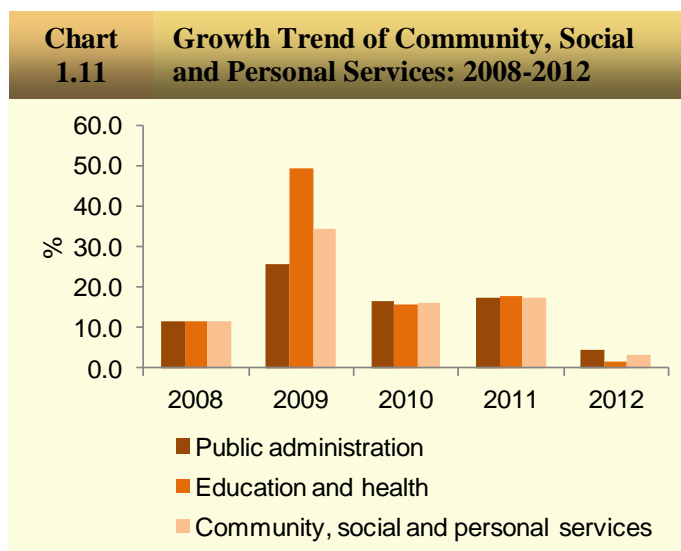
Similarly, sub-sector contribution to real GDP growth declined from 1.9 percentage points in 2011 to negative 0.3 percentage points during 2012, while its share in nominal GDP decreased to 7.8 percent in 2012 from 8.2 percent in 2011.

¹ This figure includes international, regional, business, official and FAM visitors.

1.3.5 Community, Social Services (General Government)

General government is one of the major sub-sectors in the economy and in 2012, constituted 11.3 percent of nominal GDP (12.7 percent in 2011). Activities covered under this sub-sector include public administration services and education and health services.

This sub-sector recorded a negative growth of 6.4 percent in 2012 compared to 3.4 percent in 2011. The decline was mainly contributed by a negative growth in public administration and education and health sub-sector of negative 5.3 percent and 8.1 percent, respectively.



During 2012, public administration was allocated a budget of Nu.5.21 billion (Nu.5.24 billion in 2011) and education and health with Nu.9.3 billion (Nu.9.6 billion in 2011). However, the share of this sub-sector to nominal GDP recorded a decrease of 11.3 percent from 12.7 percent in 2011.

1.3.6 Private, Social and Recreational Services

In real terms, this sub-sector registered 2.7 percent growth in 2012, which is more or less the same as the previous year (2.6 percent). The share of this sub-sector to total GDP constituted less than 1 percent.

1.4 Tourism

International leisure visitor arrivals increased to 43,931 in 2012, increasing by 19.5 percent from 2011 (36,765 arrivals), with a corresponding increase in the foreign exchange revenue collection by 31.7 percent to USD 62.8 million. For the first time, Japanese arrivals surpassed US arrivals, making it the biggest international leisure source market and contributing 16 percent of total international arrivals. Meanwhile, US arrivals constituted 13.7 percent in 2012, and recorded a decrease of negative 3.5 percent in comparison to last year.

Even though Japan dominated international leisure arrivals, USA was still the biggest contributor in terms of bed nights owing to their longer duration of stay. The top Asian markets of Japan (76.7 percent), Malaysia (65.9 percent), Thailand (59.9 percent), China (30 percent), and Singapore (19 percent) recorded significant growth rates in 2012. Malaysia also featured in the top 10 international source markets for Bhutan for the first time, therefore indicating an emerging major market.

Data on tourist arrivals and revenues is presented in Table 5 while a detailed description of developments in the Bhutanese tourism sector is presented in **Annex IV**.

Table 1.5 Major Source Markets by Growth Rates: 2008 - 2012

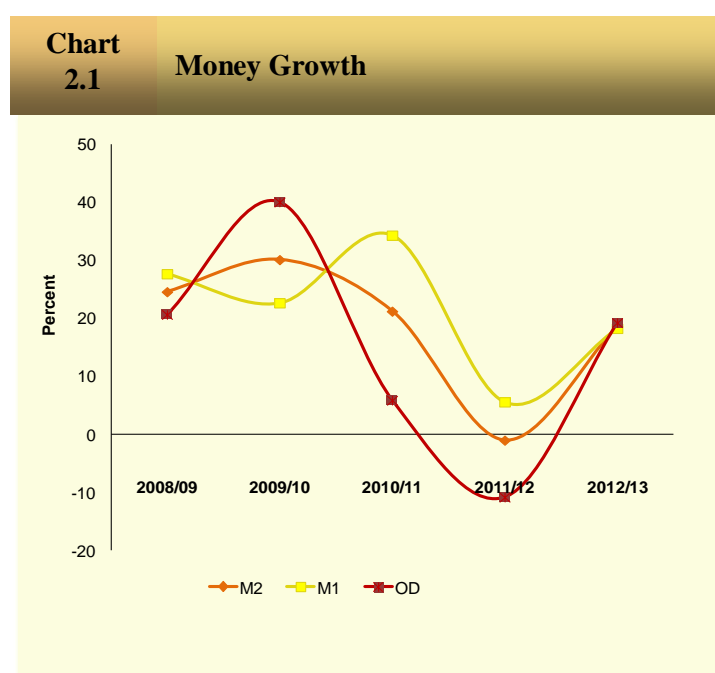
Nationality	2008	2009	2010	2011	2012	% Change from 2011
Japan	2,745	3,136	2,963	3,943	6,967	76.7
Malaysia	221	367	354	788	1,307	65.9
Thailand	627	975	875	2,235	3,573	59.9
China	1,069	1,143	1,494	2,896	3,766	30.0
Germany	1,717	1,587	2,250	2,287	2,880	25.9
Singapore	667	708	785	1,349	1,605	19.0
France	1,402	1,189	1,454	1,585	1,847	16.5
Australia	1,524	970	1,318	1,773	1,926	8.6
United States of America	6,941	4,786	5,189	6,226	6,007	-3.5
United Kingdom	2,758	1,968	1,772	2,795	2,466	-11.8
Total	27,636	23,480	27,196	36,765	43,931	

Note: Columns do not add to the year-end totals-only the top 10 source markets are detailed. Year totals are shown at the base of the table. Arrival figures by nationality are including FAM visitors. (Source: Tourism Council of Bhutan.)

2. MONETARY AND FINANCIAL DEVELOPMENTS *

2.1 Monetary Developments

The average annual growth of broad money supply (M2) in 2012/13 was lower at 2.7 percent compared to 5.8 percent in 2011/12. As of June 2013, the year-on-year growth of M2 increased to 18.6 percent from negative 1 percent as of June 2012. This increase in M2 was mainly on account of a significant growth in the net foreign assets (NFA), a key driver of M2, as well as higher growth in transferable deposits and other deposits.



Of the two major **components** of M2¹, M1 increased to 18.3 percent in June 2013 from 5.6 percent in June

Since the first quarter of 2012, in order to restrain external account pressures, especially on the trade front with India, RMA's policy stance remained tight and is expected to do so for the medium term.

In the midst of 2012, the RMA undertook several policy measures (including the downward revision of the CRR twice during the year, introduction of a short term liquidity adjustment facility and introduction of policy and base rates) as well as amending the Prudential Regulations 2002 in order to safeguard financial sector soundness.

The RMA will focus on effective management of demand and supply of market funds geared towards building productive capacity in the economy and priority sectors identified for development.

RMA will continue to use its monetary policy tools to achieve its macroeconomic objectives and to support financial sector development in the country.

*) For monetary analysis, the balance sheet of banks are classified within the framework of the Monetary and Financial Statistics Manual (MFSM 2000) published by the IMF. Note that the data classification and computation done by the Research and Statistics Department of the RMA is not directly comparable to those compiled and published by the Financial Regulation and Supervision Department of the RMA.

1). Narrow money (M1) = (1) currency outside the RGOB treasury, the RMA, and the vaults of depository institutions; (2) transferable deposits; and (3) other deposits, consisting primarily of negotiable order of withdrawal accounts at commercial banks. Bank reserves are not included in M1.

M2 = M1 + Other Deposits (OD). M2 represents money and close substitutes for money. M2 is a broader classification of money and can be measured identically from the asset (*Counterpart*) and liability perspectives (*Component*) of the monetary sector. On the counterpart side, M2 = Net Foreign Assets (NFA) + Net Domestic Credit (NDC) + the Other Items Net (OINs), and from the component side, M2 = M1 + QM.

The term Demand Deposits and Quasi Money has been replaced by Transferable Deposits and Other Deposits as per the MFSM 2000 of IMF.

2012, due to improvement in growth of its constituent *transferable deposits which comprises of current deposits and saving deposits*. Growth in transferable deposits increased to 25.6 percent in June 2013 up from 9.4 percent in June 2012. While both the current deposits and saving deposits recorded growth of 33.9 percent and 15.2 percent in June 2013 as compared to 10.5 percent and 8 percent, respectively in June 2012. Similarly, growth in currency in circulation outside banks dropped further to negative 11.1 percent in June 2013 from negative 7.3 percent in June 2012. There was also a significant increase in the annual growth of other deposits (including time deposits and foreign currency deposits), from negative 10.8 percent to 19.2 percent (See Table 2.1).

On the **counterpart side**, the annual growth in NFA (which includes net convertible currency and net Rupee positions) as of June 2013, was recorded at 38.1 percent compared to 0.1 percent in June 2012. The Rupee asset balance improved from ₹ (9.6) billion to ₹ 1.5 billion while on the other hand, net convertible currency assets increased to Nu.47.1 billion in June 2013 from Nu. 45.1 billion in June 2012. Domestic credit (including credit to the government, public and private sectors) decreased significantly from an annual growth of 51.3 percent in June 2012 to 12.8 percent as of June 2013. Slow-down in the growth of credit to the private sector (decreased from 30.1 percent as of June 2012 to 7.1 percent as of June 2013) attributed to a fall in the growth of domestic credit.

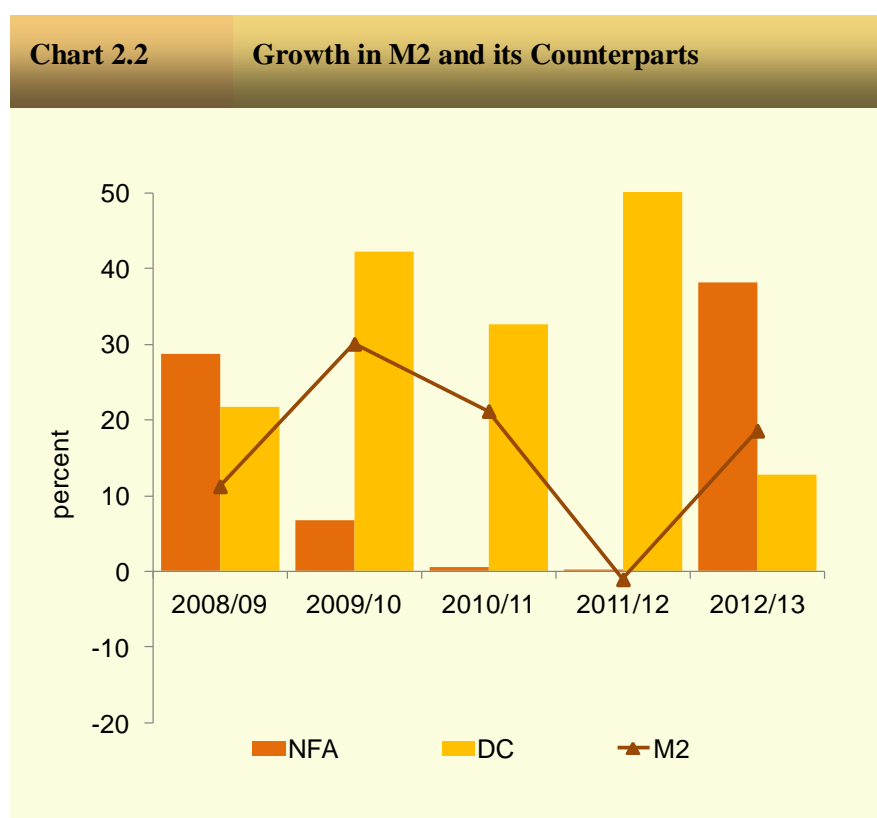


Table 2.1 Selected Monetary Aggregates (millions of Ngultrum, as of June)

	Millions of Nu., as of June				
	2008/09	2009/10	2010/11	2011/12	2012/13
MONEY SUPPLY, M2	32,114.8	41,778.7	50,639.8	50,122.9	59,451.2
MONEY SUPPLY, M1	18,375.0	22,537.7	30,270.3	31,960.2	37,794.1
Counterparts					
1. Foreign Assets (Net)	32,720.6	34,918.5	35,144.5	35,168.6	48,566.4
O/w: Rupee	-3,258.5	-3,070.8	-7,113.4	-9,550.8	1,492.9
Convertible Foreign Currency	35,979.1	37,989.2	42,257.9	44,719.4	47,073.5
2. Net Domestic Assets	-605.8	6,860.2	15,495.3	14,954.3	10,884.9
Domestic Credit	16,259.9	23,136.5	30,705.7	46,465.0	52,432.3
Claims on Other Public Sector ¹	-2,211.1	-2,857.4	-2,919.5	2,730.4	5,607.7
Claims on Private Sector ²	18,471.1	25,994.0	33,625.2	43,734.6	46,824.6
3. Other Items Net ³	16,865.7	16,276.3	15,210.4	31,510.7	41,547.4
Components					
4. Currency Outside Banks	4,541.8	5,386.5	6,893.7	6,390.7	5,681.2
5. Transferable Deposits	13,833.2	17,151.2	23,376.6	25,569.5	32,112.9
6. Other Deposits	13,739.8	19,241.0	20,369.5	18,162.7	21,657.1
O/w Foreign Currency Deposits	1,110.9	1,301.9	2,958.6	1,520.9	1,283.5
<i>Percent Change over Previous Year</i>					
M2	24.6	30.1	21.2	-1.0	18.6
M1	27.7	22.7	34.3	5.6	18.3
1. Foreign Assets (Net)	25.4	6.7	0.6	0.1	38.1
O/w: Rupee	-265.8	5.8	-131.6	-34.3	115.6
Convertible Foreign Currency	33.3	5.6	11.2	5.8	5.3
2. Domestic Credit	21.7	42.3	32.7	51.3	12.8
Claims on Other Public Sector ¹	-128.4	-29.2	-2.2	193.5	105.4
Claims on Private Sector ²	28.9	40.7	29.4	30.1	7.1
3. Other Items Net ³	23.3	-3.5	-6.5	107.2	31.9
4. Currency Outside Banks	24.7	18.6	28.0	-7.3	-11.1
5. Transferable Deposits	28.7	24.0	36.3	9.4	25.6
6. Other Deposits	20.6	40.0	5.9	-10.8	19.2
O/w Foreign Currency Deposits	15.0	17.2	127.2	-48.6	-15.6

M2= 1 plus 2 minus 3 (Counterpart) and M2= 4 Plus 5 plus 6 (Components); M1=4 plus 5.

1. Claims on Other Public Sectors includes claims on Government Corporations and Claims on Public Corporations.

2. Claims on Private Sectors includes Claims on NBFIs.

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

2.2 Developments in the Banking Sector

The performance of the banking sector remained progressive with total assets increasing by 20.1 percent from Nu.59.6 billion as of June 2012 to Nu.71.6 billion as of June 2013.

On the **assets side**, commercial banks' reserves increased to Nu.17.4 billion as of June 2013 from Nu.10.5 billion in June 2012, representing 24.3 percent of their total assets. Of their total reserves, 15 percent were absorbed through the CRR, while 10 percent and 75 percent were held as cash in hand and other deposits, respectively. In

addition to these reserves (excluding cash in hand), the banks held Nu.2.7 billion worth of foreign assets, denominated in Indian Rupees (Nu.0.6 billion) and convertible foreign currency (Nu.2 billion).

On the **liabilities side**, annual growth in total deposits (including foreign currency deposits) remained at Nu.53.7 billion. Of their total deposits, demand deposits constituted Nu.32.1 billion, time deposits Nu.20.4 billion and foreign currency deposits Nu.1.3 billion. Time deposits and foreign currency deposits increased to Nu.21.7 billion as of June 2013 from Nu.18.1 billion as of June 2012.

On the other hand, as of June 2013, the **total loan portfolio** of commercial banks increased to Nu.50.3 billion from Nu.45.4 billion at the end of June 2012. The sector-wise distribution of credit showed the largest share of the credit portfolio in building and construction sector with (26.3 percent), followed by manufacturing (18.7 percent), personal loans (18.3 percent), and service and tourism (15 percent), with the remainder allocated to other sectors.

Chart 2.3 Composition of Commercial Bank's Reserves

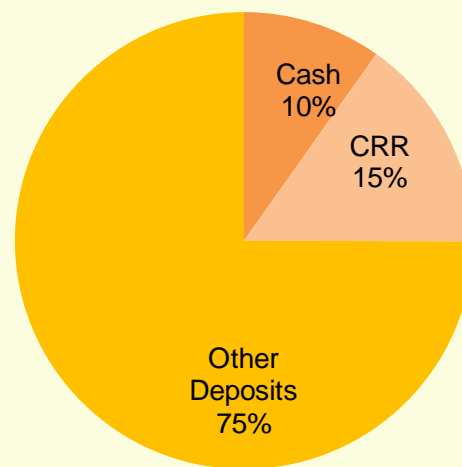


Chart 2.4 Growth in Deposits of Commercial Banks

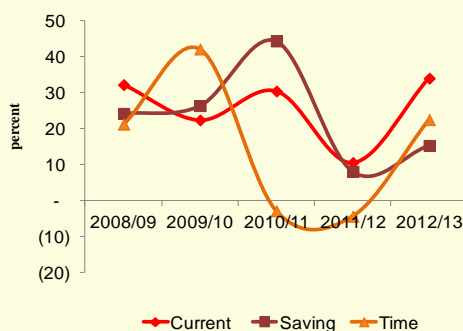
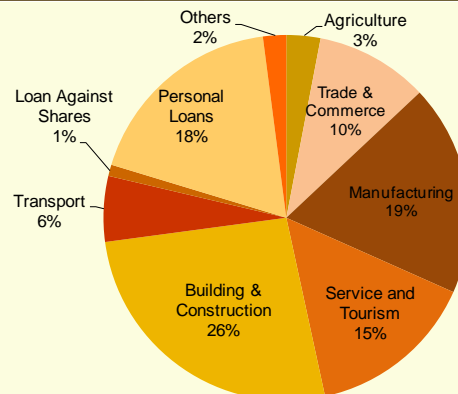


Chart 2.5 Commercial Banks Investment by Sector



Since 2010, with the licensing of 2 new commercial banks and the conversion of the development finance company into a commercial bank, there has been a shift in the share composition of banks to total deposits mobilized and credit activity. New banks mobilized total deposits amounting to Nu.2.2 billion at the time of their entry in 2010 and as of June 2010, the banking sector had mobilized deposits totaling Nu.36.4 billion (including deposits of the BOBL and BNBL). Since then, newly licensed commercial banks' deposits have been increasing steadily from Nu.4.8 billion in June 2011 to Nu.7.7 billion in 2012 and as of June 2013, it totaled Nu.10.9 billion. In terms of percentage, the new commercial banks contributed only 6.1 percent to the overall deposit of the banking sector during their entry and their share has been increasing steadily from 6.1 percent in 2010 to 17.6 percent in 2012 and further to 20.3 percent in 2013.

More interestingly, in tandem with a steady increase in the percentage share of new banks to the overall deposits, the percentage share of old commercial banks to total deposits have declined from 93.9 percent as of June 2010 to 82.4 percent as of June 2012 and further to 79.7 percent in 2013. After the decline of old commercial banks' deposit mobilization during 2012, they have mobilized huge deposits in 2013 which has increased from Nu.36 billion to Nu.42.8 billion. Meanwhile, new commercial banks' credit levels grew steadily from Nu.8.4 billion in 2011 to Nu. 11.1 billion in 2012 and further to Nu.13.6 billion in 2013, while in percentage terms, the share of old commercial banks to total credit has declined gradually during the same periods from 76.4 percent in 2011 to 76 percent in 2012 and further to 73.4 percent in 2013, although growth in overall credit has been positive (Table 2.2).

Table 2.2 Impact of New Commercial Banks: Banking Sector Deposits and Credit								
								End of June
Bank	Deposits (Nu. Million)				Credit (Nu. Million)			
	2010	2011	2012	2013	2010	2011	2012	2013
Old Banks								
BOBL	17555.6	22195.5	20801.4	26814.1	10092.4	11877.6	17256.3	18883.9
BNBL	16617.6	16771.8	15226.7	16034.5	12470.4	15460.1	17934.5	18757.7
Total	34173.1	38967.3	36028.1	42848.6	22562.7	27337.7	35190.8	37641.6
New Banks								
BDBL	706.2	727.4	2646.8	4143.5	3278.7	4289.3	5355.4	7652.1
T BANK	214.0	951.9	1506.1	1990.4	500.8	1952.2	2360.6	2269.0
DPNBL	1298.9	3099.5	3551.3	4787.6	823.3	2181.9	3367.6	3692.9
Total	2219.1	4778.8	7704.1	10921.4	4602.8	8423.4	11083.6	13614.0
Grand Total	36392.2	43746.1	43732.2	53770.0	27165.5	35761.1	46274.4	51255.6
% Share of Total Deposits and Credit								
Old Banks	93.9	89.1	82.4	79.7	83.1	76.4	76.0	73.4
BOBL	48.2	50.7	47.6	49.9	37.2	33.2	37.3	36.8
BNBL	45.7	38.3	34.8	29.8	45.9	43.2	38.8	36.6
New Banks	6.1	10.9	17.6	20.3	16.9	23.6	24.0	26.6
BDBL	1.9	1.7	6.1	7.7	12.1	12.0	11.6	14.9
T BANK	0.6	2.2	3.4	3.7	1.8	5.5	5.1	4.4
DPNBL	3.6	7.1	8.1	8.9	3.0	6.1	7.3	7.2

As shown in Table 2.3, private sector deposits remain the major source of funds for the banking sector with its share increasing from 71.6 percent as of June 2012 to 73.6 percent as of June 2013. After a significant slowdown in the growth of the total deposits of commercial banks in 2012, it recorded growth of 24.3 percent in 2013. Reviewing key financial indicators of the banking sector, the credit to GDP ratio decreased to 51.5 percent in June 2013 from 54.1 percent in June 2012. On the other hand, as of June 2013, the overall savings to credit ratio of the banking sector increased to 25.6 percent from 24.6 percent as of June 2012.

Table 2.3 Key Indicators of the Banking Sector		End of June				
Indicator	2009	2010	2011	2012	2013	
Credit Concentration by Institution						
Total banking sector credit (Nu. millions)	20,447.0	27,165.5	35,761.1	46,274.4	51,255.6	
% share of total credit						
Government	5.2	3.9	3.1	2.3	4.2	
Other Public Sectors ¹	4.6	0.5	2.9	3.2	4.5	
Private Sectors ²	90.3	95.6	94.0	94.5	91.3	
Deposit Concentration by Institution						
Total deposits (Nu. millions)	27,573.0	36,392.2	43,746.1	43,732.2	53,770.0	
% share of total deposits						
Government ³	0.0	0.0	0.0	0.0	0.0	
Other Public Sector	34.6	33.6	31.8	28.4	26.4	
Private Sector ⁴	65.4	66.4	68.2	71.6	73.6	
Growth Rates of Deposits by Type						
Total Deposits	25.0	32.6	16.2	3.5	24.3	
Current deposits	32.1	22.3	30.4	10.5	33.9	
Saving deposits	24.1	26.3	44.3	8.0	15.2	
Time deposits	21.2	42.0	-2.9	-4.4	22.4	
Ratios (in %)						
Credit to deposit	74.2	74.6	81.7	105.8	95.3	
Credit to asset	60.3	59.8	66.2	77.6	71.6	
Savings to credit	28.3	26.9	29.5	24.6	25.6	
Credit to GDP	33.4	37.5	41.8	54.1	51.5	

1) Other Public Sector includes Government Corporations and Public Corporations.
2) Private Sector includes loans and advances to Private companies, Individuals and NBFIs.
3) Government is a net borrower from the banking sector
4) Includes Private sector, NBFIs, Individuals and Foreign Currency Deposits.

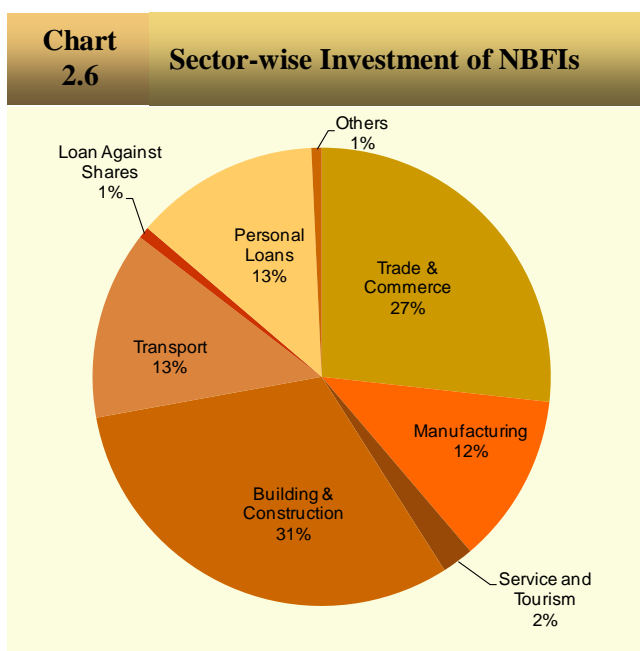
Table 2.4 Sources of Deposits by Type		End of June				
Deposits by Type	2009	2010	2011	2012	2013	
Corporate Deposits as % of Total Deposits	62.6	63.0	56.3	53.2	54.4	
<i>Of which As a percent of total corporate deposits</i>						
Government	19.1	17.3	18.5	20.0	25.7	
Govt Corporations	40.3	40.0	38.7	37.3	32.4	
Public Corporations	3.3	2.0	2.7	3.7	1.3	
Private Companies	16.1	15.6	10.8	14.8	11.6	
Commercial Banks	11.7	12.9	20.6	15.3	17.1	
NBFIs	9.5	12.2	8.7	8.8	11.8	
Retail Deposits as % of Total Deposits	37.4	37.0	43.7	46.8	45.6	
<i>Of which As a percent of total retail deposits</i>						
Individuals	90.0	91.1	86.7	93.2	95.3	
Foreign Currency	10.0	8.9	13.3	6.8	4.7	

Source: Financial Regulation and Supervision Department, RMA. This table is to supplement the information on deposits shown in Table 2.3 above. Please note that these figures may not be directly comparable with other tables due to differences in classification methodology.

2.3 Developments in NBFIs

The **combined assets** of the NBFIs recorded growth of 15.4 percent between June 2012 (Nu.7.2 billion) and June 2013 (Nu.8.3 billion). The growth in assets of the NBFIs was attributed mainly due to an increase in claims on the private sector. As of June 2013, the NBFIs claims on the private sector increased to Nu.6.5 billion from Nu.5.9 billion in June 2012. The NBFIs' overall credit portfolio accounted for 92.9 percent of their total assets as of June 2013.

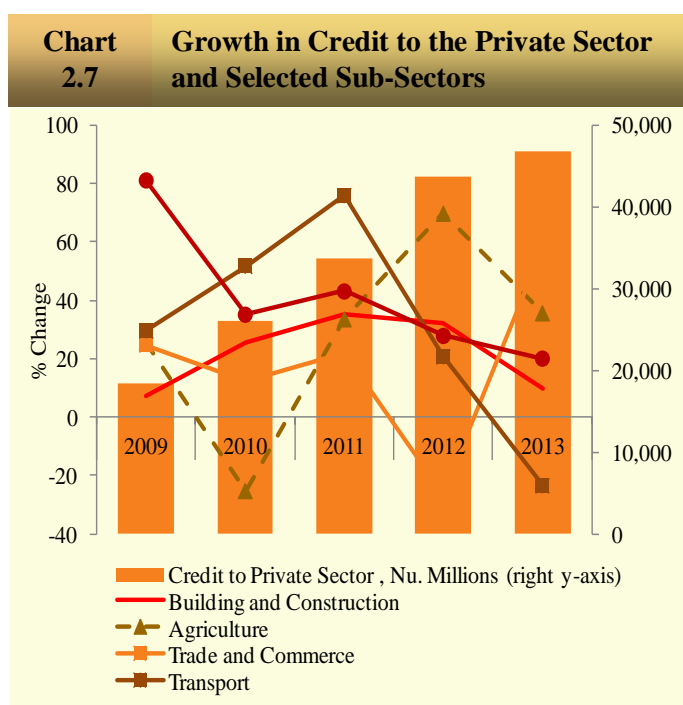
Similarly, the overall reserves of the NBFIs increased to Nu.580.5 million as of June 2013, compared to Nu.456 million for the same period last year. This increase was mainly due to the increase in cash in hand, which increased from Nu.26.8 million in June 2012 to Nu.213.9 million in June 2013. The NBFIs' reserves represent 7 percent of their total assets. Of these reserves, 63.1 percent (Nu.366 million) were in the form of bank balances and 36.9 percent (Nu.214.3 million) was held in the form of cash in hand. On the **liabilities side**, the NBFIs' domestic borrowings from the financial institutions continued to remain at Nu.3.4 billion during the year.



2.4 Developments in Credit Markets

The financial sector's (*banks and non-banks, excluding the NPPF*) overall loan exposure increased from Nu.40.6 billion in 2011 to Nu.56.8 billion as of June 2013. Banking sector credit continued to remain concentrated in the private sector, constituting 91.3 percent of total credit as of June 2013. The total loan portfolio of the NBFIs increased to Nu.6.5 billion as of June 2013 from Nu.5.5 billion as of June 2011. Of the total loan portfolio, the building and construction sector constituted the highest share with 31 percent, followed by trade and commerce sector (27 percent), personal loans (13 percent) and transport (13 percent), while the rest were allocated to other sectors of the economy.

In terms of the percentage share of overall credit composition, the **building and construction sector** remained highest as of June 2013 at 26.8 percent up from 25.1 percent during 2011. Financial institutions' exposure to personal loans has also



expanded from 2009 and now constitutes 17.6 percent of total credit. Similarly, exposure to the transport sector remains at 6.7 percentage share, which has decreased from 9.5 percentage share in June 2012 due to the imposed of ban on vehicle imports. Meanwhile, other sectors (including staff loans, small business and artisans' scheme, and the EDP loan) decreased from 9 percent in June 2012 to 1.9 percent at the end of June 2013 (See Table 2.5 for details).

Table 2.5 Loan Exposure of the Financial Sector (*)

Economic Sectors	Nu. in millions, End of June								
	2011			2012			2013		
	Banks	Non banks	Total	Banks	Non banks	Total	Banks	Non banks	Total
Agriculture	657.5	0.0	657.5	1,116.1	0.0	1,116.1	1,514.0	0.0	1,514.0
Trade & Commerce	2,727.8	1,385.5	4,113.3	2,751.2	1,511.7	4,262.8	5,025.7	1,725.8	6,751.5
Manufacturing	5,981.0	591.0	6,572.0	6,689.0	646.1	7,335.2	9,394.1	774.8	10,168.9
Service and Tourism	4,624.3	164.6	4,788.9	6,057.5	106.7	6,164.1	7,513.7	143.9	7,657.5
Building & Construction	8,560.9	1,720.5	10,281.3	11,694.4	1,883.7	13,578.1	13,225.1	2,009.6	15,234.7
Transport	2,671.0	1,129.9	3,800.9	3,795.1	1,086.7	4,881.9	2,920.2	856.9	3,777.1
Loan Against Shares	197.6	58.0	255.6	488.0	34.0	522.0	504.3	53.0	557.3
Personal Loans	6,197.3	430.2	6,627.5	7,785.3	549.4	8,334.7	9,189.6	841.0	10,030.6
Government (short term loans)	0.0	0.0	0.0	492.1	0.0	492.1	0.0	0.0	0.0
Credit Card	6.3	0.0	6.3	7.1	0.0	7.1	7.7	0.0	7.7
Others	3,497.7	44.5	3,542.2	4,566.9	44.2	4,611.0	1,032.7	46.3	1,078.9
Total	35,121.5	5,524.1	40,645.6	45,442.7	5,862.5	51,305.2	50,327.0	6,451.3	56,778.3
	% share of total								
Agriculture	17.9	0.0	1.6	2.5	0.0	2.2	3.0	0.0	2.7
Trade & Commerce	74.3	37.8	10.1	6.1	25.8	8.3	10.0	26.8	11.9
Manufacturing	163.0	16.1	16.2	14.7	11.0	14.3	18.7	12.0	17.9
Service and Tourism	126.0	4.5	11.8	13.3	1.8	12.0	14.9	2.2	13.5
Building & Construction	233.3	46.9	25.3	25.7	32.1	26.5	26.3	31.2	26.8
Transport	72.8	30.8	9.4	8.4	18.5	9.5	5.8	13.3	6.7
Loan Against Shares	5.4	1.6	0.6	1.1	0.6	1.0	1.0	0.8	1.0
Personal Loans	168.9	11.7	16.3	17.1	9.4	16.2	18.3	13.0	17.7
Credit Card	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	95.3	1.2	8.7	10.0	0.8	9.0	2.1	0.7	1.9

(*) Excluding the NPPF.

Note: Prior to 2011, Government (short term loans) have been clubbed with other economic sectors and therefore not shown separately. From 2011 onward Government's short term borrowing has been shown separately.

In terms of financial institutions' asset quality (Table 2.6), the overall **NPLs ratio** increased to 9.7 percent as of June 2013 from 7.8 percent in June 2012. In absolute terms, the NPL increased from Nu.4 billion to Nu.5.5 billion. As a percentage of total NPL, the trade and commerce sector of the financial institutions observed the highest NPL of 32.8 percent, followed by the manufacturing and industry sector at 15.2 percent, housing sector at 15.2 percent and personal loans with 14.1 percent.

Table 2.6 Non-Performing Loans of FIs by Sector of Investment

Sector						Nu. Millions; End of June	
	2009	2010	2011	2012	2013	% of total NPL	
Agriculture/Animal Husbandry	205.3	110.0	131.2	166.3	218.2	3.9	
Trade & Commerce	382.9	216.0	625.2	434.5	1812.9	32.8	
Manufacturing/Industry	1,099.0	244.5	546.1	542.3	843.1	15.2	
Service & Tourism	774.2	424.4	255.1	455.2	476.4	8.6	
Housing	763.2	726.0	436.6	503.5	841.9	15.2	
Transport	151.2	178.4	300.8	450.1	492.5	8.9	
Loan Against Shares	41.7	1.2	7.6	1.5	8.0	0.1	
Personal	316.0	303.9	416.8	483.7	779.6	14.1	
Government (short term)			0.0	0.0	0.0	0.0	
Credit Card			2.2	5.0	6.1	0.1	
Others	9.0	15.3	738.0	971.8	51.0	0.9	
Overdraft/Working Capital*	696.1	799.3	0.0	0.0	0.0	0.0	
Total NPL	4,438.4	3,018.9	3,459.5	4,014.1	5529.7	100.0	
Total Loans of FI	24,256.7	29,775.8	40,645.6	51,305.2	56778.3		
Total NPL Ratio	18.3	10.1	8.5	7.8	9.7		

*) From 2011, the figures under Overdraft/Working Capital have been allocated to their various sectors for each bank except for BNBL where it has been re-categorized under Others. Source: Financial Institutions (excludes NPPF).

2.5 Developments in Interest Rates

Compared to the past years of stickiness in interest rates, the financial sector experienced some movement in their interest rates during the year. This could be due to implementation of base rate in 2012 as well as tight liquidity in the financial system.

The saving deposit rates of commercial banks averaged 5.25 percent as of June 2013, increasing from 5 percent during the same period last year. Similarly, as of June 2013, the fixed deposit rates of commercial banks averaged 7.3 percent, increasing from 7.2 percent during the same period of the previous year. The lending rates of the commercial banks also slightly increased from an average of 13.1 in 2012 to an average of 13.3 as of June 2013.

In terms of interest rate during 2013, the saving rates of commercial banks increased marginally from the 4.50-5.00 percent range in June 2012 to the 5.00-5.50 percent range in June 2013. Interest rates on deposits of commercial banks with maturity of 3 months to less than 1 year also slightly increased from the range of 5.00-6.00 percent in 2012 to 5.00-6.50. While the interest rates of commercial banks' deposits with maturity of 1 year and above ranged from 7.00-8.75 percent during the same period under review. Similarly, average interest rates paid by commercial banks on corporate deposits (46 days to 1 year) remained in the same range as that of the previous year (2.50-7.00 percent).

The lending rates of commercial banks and other financial institutions across major sectors such as manufacturing industry, general trade, transport, and housing ranged between 11.73-13.13 percent, 13.00-14.00 percent, 11.73-16.00 percent, and 12.73-14.63 percent, respectively. (Refer to **Annex III** for details).

2.6 Developments in the Capital Market

The capital market fared well during 2012 with various new issues of rights, bonus and off-market transactions (conversion of unsubscribed shares of rights issue to employees stock option or private placement etc.); a total of 16.3 million shares worth over Nu.1.7 billion were listed on the market as additional issues. While there was no single Initial Public Offering (IPO) during the year, in terms of overall traded value and volume, (including secondary trading, bonus and right issues) it increased to Nu.1.9 billion for 17.1 million numbers of shares as compared to Nu.1.8 billion for 6.1 million numbers of shares in the previous year.

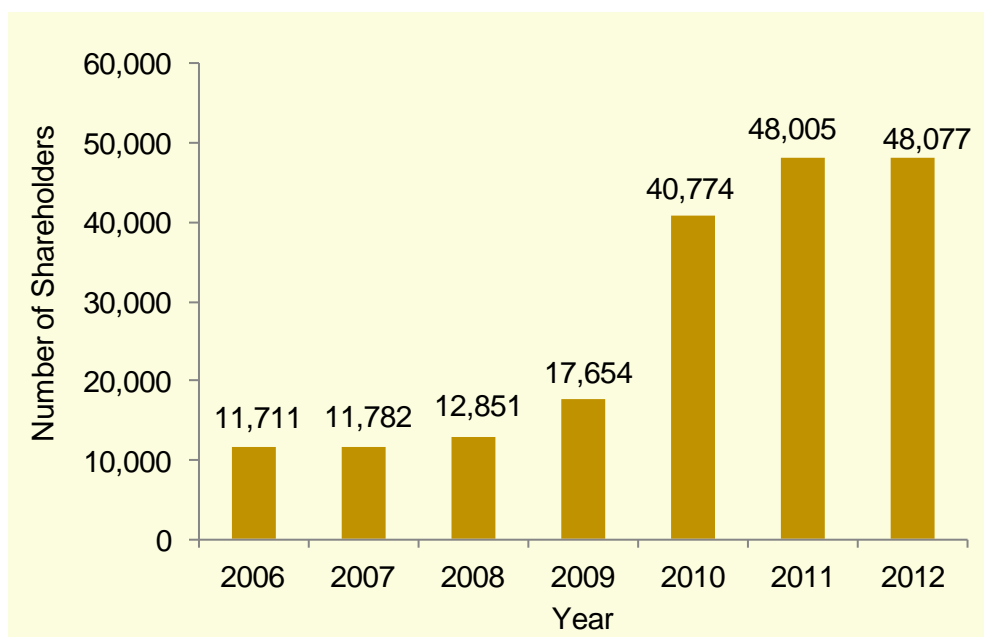


Market capitalization of the 20 listed companies increased significantly to Nu.17.6 billion as compared to Nu.14.4 billion in 2011. The significant increase in market capitalization was attributed to the infusion of new shares in the market through rights offers of DPNBL and BIL, as well as bonus issue by the BNBL. In addition, the issue of the remaining unsubscribed shares of DPNBL and BIL through off-market transactions to its employees and institutional investors also contributed to the growth in market capitalization.

With the introduction of an integrated and on-line trading system in the Stock Exchange since beginning 2012 to facilitate share trading and information dissemination to the general public and investors, RSEBL has issued several Guidelines and Rules to provide a legal basis for the effective implementation of the integrated system. The following are the Guidelines and Rules issued during the year:

- 1) Automated Trading System Rules
- 2) Central Depository Rules
- 3) RSEB Clearing and Settlement House Rules
- 4) RSEB Clearing and Settlement House Procedure
- 5) Initial Public Offering Procedures

(More information on developments in the stock market is presented in **Annex II** and **Table 32**).



2.7 Monetary Policy Instruments

The RMA pursues a multi-faceted monetary policy strategy aimed at ensuring stability in credit and financial markets, domestic inflation and growth. This requires the monitoring and analysis of movements in a number of macro indicators including broad money supply, interest rates, credit growth, inflation, trade, capital flows and the fiscal position, along with trends in output. Moreover, the RMA also places large emphasis on financial inclusion and financial literacy programs in collaboration with the government and international development partners including the World Bank.

In the pursuit of monetary policy, the RMA uses the following tools to manage and influence key macroeconomic variables that impact macroeconomic trends and development in the country.

- **The CRR and SLR:** Changes in the CRR and SLR addresses non-autonomous, structural mismatches in the liquidity conditions of the economy (such as large mismatches in the growth of domestic deposits, domestic credit and domestic investment).
- **Policy Rate:** The RMA operates a single lending facility through the Repo window. This repo facility is normally used to address autonomous frictional liquidity mismatches that occur due to (i) liquidity pressures originating from currency demand which is periodic and seasonal in nature; (ii) changes in commercial banks reserve levels and cash balances maintained with the RMA; and (iii) changes in government cash balances at the RMA.
- **RMA Short-term Liquidity Adjustment Window Facility (RSTLAW):** The RSTLAW provides short-term funds to liquidity-deficient banks to meet daily operational requirements and short term outstanding liabilities, and not for long term lending activities; this is to ensure that liquidity injected through the RSTLAW are prudently utilized and not directed towards further credit expansion.

- **Base Rate:** The base rate provides a broad framework for assessing the cost of funds for commercial banks. Changes in the monetary policy stance signaling through base rates of the commercial banks influence lending and the deposit rates of the financial sector, thereby having some impact on savings and investment levels in the economy.
- **Open Market Operations (OMOs):** OMOs are conducted through periodic auctioning of government Treasury Bills. Treasury Bills are issued *(i) to help finance the short term fiscal deficit of the government and (ii) towards liquidity sterilization for monetary policy purposes*. Similar to the policy rate, OMOs are more often used to meet shorter-term structural liquidity mismatches than the CRR.
- **Macro-prudential Measures:** Other instruments at the discretion of the RMA include the enforcement of macro-prudential measures and guidelines as embodied in the RMA's Prudential Regulations 2002.

Box 2.1 Highlights of Major Monetary and Credit Policy (2012-13)

July 2012	<p>In order to improve the payments and settlement systems and in line with the introduction of the Electronic Fund Transfer and Clearing System (EFTCS), the RMA launched the Point-of-Sale (POS) Integration System connecting all POS terminals across different banks in Bhutan. This will benefit foreign visitors, and promote cashless transactions and hence enhance convenience and safety for both customers and merchant businesses.</p>
September 2012	<p>To strengthen the management and transmission of monetary policy, the RMA in collaboration with the financial institutions introduced a system of the base rate to indirectly manage and influence domestic credit growth.</p>
November 2012	<p>To ease liquidity stress of the commercial banks, the RMA revised several prudential provisions pertaining to loan provisioning and gestation period.</p>
March 2013	<p>In continuation to RMA's "Circular on Foreign Currency" issued in March 2012, the RMA (i) lowered the international credit card limit from USD 3,000 p.a. to USD 1,000 p.a., and (ii) lowered the transaction limit on point-of-sale (POS) machines in India (through debit cards) from ₹ 1 lakh per month to ₹ 15,000, to ease pressures on Rupee reserves since INR outflows from these channels were escalating.</p> <p>The RMA in collaboration with the Royal Government, entered in a Rupee Currency SWAP agreement with the RBI for a total of ₹ 5.4 billion at 5.5% p.a. for the duration of 6 months (3 month period with an additional 3 months rollover). This financing had provided short-term relief to meet immediate BOP transactions. This arrangement was liquidated in September 2013.</p> <p>The new Foreign Exchange Regulations, 2013 was endorsed by the RMA Board of Directors and supersedes the Foreign Exchange Regulations, 1997.</p>
June 2013	<p>To regulate credit flows and reduce pressures on the external account, the RMA raised risk weight percentages as follows:</p> <ul style="list-style-type: none">(i) Service and Tourism – 200%(ii) Housing – 200%(iii) Transport – 200%(iv) Personal – 300%(v) Others – 200% <p>These amendments have been implemented with the additional conditions:</p> <ul style="list-style-type: none">a) <i>Loans for education and loans against fixed deposits are excluded from the "personal" loan category;</i>b) <i>Loans to the entrepreneurship development program (EDP) are excluded from the "other" loan category;</i>c) <i>Education loans shall be disbursed directly to educational institutes; and</i>d) <i>Financial institutions shall not be allowed to sanction loans for the purchase of land unless the purchase of land is for investment/project purposes.</i>

August 2013

Further amendments to the RMA Prudential Regulations on Risk Weights was made. With effect from December 1, 2013 revised risk weights will be applied with the new sectoral classification for loan portfolio designed collaboratively with the financial institutions as follows:

- (i) *Agriculture - 50%*
- (ii) *Manufacturing/Industry – 100%*
- (iii) *Services – 150%*
- (iv) *Trade/Commerce – 100%*
- (v) *Housing – 150%*
- (vi) *Transport – 150%*
- (vii) *Loan to Purchase Securities – 100%*
- (viii) *Personal Loan – 300%*
- (ix) *Education Loan – 100%*
- (x) *Loan against Term Deposits – 0%*
- (xi) *Loans to FIs – 100%*
- (xii) *Infrastructure Loan – 100%*
- (xiii) *Staff Loan – 50%*
- (xiv) *Loan to Government Owned Corporations – 20%*
- (xv) *Consumer Loans (GE) – 50%*

These risk weights will be assigned to each sector and reviewed after 6 months from the date of compliance. Furthermore, for sector exposures above 20%, further 50% risk weight will apply for additional exposure.

Box 2.2 Foreign Exchange Management

Since the time Bhutan was granted membership to the IMF in 1981, Bhutan has been under Article XIV Status with the International Monetary Fund. In accordance with **Article XIV, Section 2, of the IMF Articles of Agreement, being in a “transition” stage, permits Bhutan to maintain restrictions on payments and transfers for current international transactions** (of a total membership of 187 members, 44 nations are signatory to the transitional Article XIV Status under the IMF Articles of Agreement).

In view of the limited capacity to earn foreign exchange and to safeguard against balance of payments difficulties, Bhutan has not yet reached a situation of "current account convertibility". The IMF recognizes that over the years Bhutan has made significant progress in liberalizing the foreign exchange regime. However, due to the nature of foreign exchange inflows (a majority of which are official inflows associated with aid and grants rather than from exports), the Fund allows Bhutan to continue to progress through the transitional period, as the nation's reserves serve as a cornerstone for economic policy and the exchange rate regime.

Since Bhutan maintains a pegged exchange rate with the Indian Rupee, there exists *de-facto* full convertibility exchange arrangement for both current and capital transactions. Foreign exchange controls on current and capital account transactions still prevail for other foreign currency dealings. *Since Bhutan has not achieved full convertibility of its current account, it maintains restrictions on most current and all capital transactions. While capital investments within the country are limited to FDI, Bhutanese are not permitted to invest abroad, nor are they permitted to acquire financial assets abroad without the prior authorization of the RMA and the MOF.* The criteria used by the RMA in granting authorization for payments and transfer of funds abroad are outlined in the Foreign Exchange Regulations and FDI Policy 2010.

Sustainable foreign exchange management assumes great importance for Bhutan today given the current pressures external imbalances have had on the depletion of our Rupee reserves, general liberalization in the economy and move towards greater integration with the rest of the world, particularly through FDI and regional and international trade cooperation.

Box 2.3 Base Rate System

With the view to strengthen monetary policy management, the RMA implemented the base rate system in September 2012. The base rate is the minimum rate below which it will not be viable for financial institutions to lend. The base rate also serves as the reference benchmark rate for floating rate loan products, apart from other external market-based benchmark rates.

The base rate include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the base rate comprises (i) interest rate on retail deposits with one year maturity (adjusting for current account and savings account deposits); (ii) adjustment for the negative carry in respect of the CRR and SLR; (iii) un-allocatable overhead cost of financial institutions which would comprise a minimum set of overhead cost elements; and (iv) the average return on the net worth. The actual lending rates charged to borrowers is calculated as the base rate plus borrower-specific charges, which include product-specific operating costs, credit risk premium and tenor premium. In order to make the lending rates responsive to the central bank's policy rate, the financial institutions periodically review and announce their base rates to the public.

The main objectives of introducing the base rate system are to: (i) ensure price discovery and competition in the financial sector (ii) promote transparency in the loan pricing system and (iii) reduce impediments to effective transmission of monetary policy signals.

Recent Developments

Following the launch of the base rate system on September 1, 2012, the first Base Rate Review was conducted bilaterally by the RMA with technical representatives from the commercial banks during April 19-25, 2013. Based on the initial consensus reached with the banks, their new base rates have been computed in line with their audited accounts for the year 2012 and the standing provisions contained in the base rate operational guidelines.

Concerns on operational matters relating to the implementation of the base rate were raised by the commercial banks during the review meetings. To address the issues, the RMA revised the base rate operational guidelines to reflect operational issues (frequency of the base rate revisions, issues related to application to rescheduling, renewal of loans etc.) faced by the commercial banks. On July 1, 2013, the RMA issued the amended base rate operational guidelines to the commercial banks and other financial institutions.

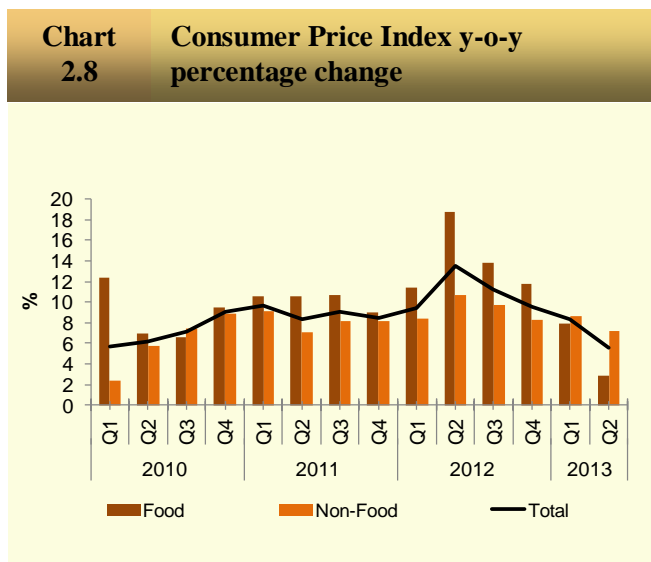
With the completion of the review meetings and finalization of the base rate for the year 2013, the RMA continued to maintain a tight monetary policy stance in light of continued demand-side external account pressures warranting continued aggregate-demand policy intervention to keep prospective credit growth in check. In accordance with the current policy stance, the base rates of the commercial banks ranged between 10.8 percent to 11.3 percent during 2013 and non-bank financial institutions' base rate has been set at 13.2 percent.

For more information, please see the Operation Guidelines on the Base Rate System which is available on the RMA website.

2.8 Prices

Bhutan's annual inflation for the quarter ending June 2013 was recorded at 5.5 percent, down by 8 percentage points against 13.5 percent in 2012 (year-on-year).

As illustrated in Chart 2.8 and Tables 2.7 and 2.8, the fall in the prices of both food and non-food items have contributed to the lowering of the CPI in the quarter ending June 2013. A significant decrease in the prices of **food commodities** was registered at 2.8 percent in Q2 2013, compared to 18.7 percent during the same quarter last year. Similarly, the prices of **non-food items** decreased by 7.1 percent during the second quarter of 2012 compared to 10.7 percent last year.



Box 2.2 Monthly Consumer Price Index (CPI) Bulletin

The National Statistics Bureau released the first Monthly Series of CPI Bulletin for Bhutan in May 2013.

Technical assistance for rebasing the CPI was provided by the International Monetary Fund (IMF) under the auspice of the Project on the implementation of the System of National Accounts (SNA) and the International Comparison Program (ICP) funded by Government of Japan.

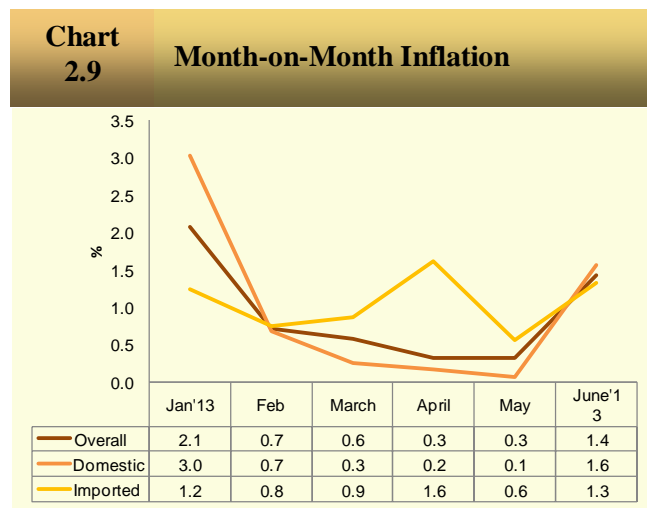
The monthly Bulletin is compiled using December 2012 as the price reference period. It covers the price movements of 438 commodities and services observed in 20 districts and 2 major urban areas. The rebased CPI is constructed using the Geometric Modified Laspeyres formula, and has separate indices for domestic and imported goods and services.

The current CPI weights were updated in 2012 following the conduct of the Bhutan Living Standard Survey (BLLS) in March – May 2012. The NSB has increased the weight of food in the CPI from 31.67 % to 39.92 %, and correspondingly decreased the weight for non-food from 68.33% to 60.08%. Expenditure details were broken down into imported and domestic goods to calculate domestic and imported inflation separately.

The overall monthly CPI recorded 1.4 percent in June 2013 as compared to 0.3 percent in the previous month. In June the prices of imported goods increased by 1.3 percent, while domestic goods and services increased by 1.6 percent.

The percentage contribution to the overall inflation from imported goods accounted for 48.6 percent while domestic goods and services accounted 51.7 percent for June 2013.

During Q2 2013, under **food items**, which constitute 35.1 percent of the overall weight assigned in the commodity basket, vegetables saw the highest *month-on-month* increase in prices by 6.2 percent followed by spirits at 3.7 percent; beer at 3 percent; mineral water, soft drinks, fruit and vegetable juices at 2.5 percent; and fish at 2.2 percent.



Moderate price increases were noted for meat at 1.3 percent; milk, cheese and egg items; food products n.e.c; and oils and fats at 0.6 percent; sugar jam and honey at 1.1 percent, coffee, tea and cocoa at 0.1 percent; wine at 0.8 percent and narcotics (*which comprises doma and paney*) at 0.9 percent.

Downward price movements in the food group came from a fall in the prices of fruit products by 0.5 percent.

Whereas, for **non-food items**, the highest *month-on-month* increase in prices was recorded for household textiles at 5.2 percent followed by maintenance and repair of dwelling at 4.7 percent; accommodation services at 4.4 percent; personal effects n.e.c at 3.9 percent; goods and services for routine household maintenance at 3.5 percent; and audio-visual, photographs and information processing equipments at 3 percent.

Other non-food items noted moderate price increases except for furniture and furnishing, carpets and other floor coverings, household appliances, glassware, tableware and utensils, telephone and telefax equipment and catering services which recorded negative growth during Q2 2013.

The PPN, as measured by CPI, recorded 94 Ngultrum as of June 2013. This implies, Ngultrum 100 in June 2013 was worth only Ngultrum 94 at December 2012 prices. The Ngultrum value depreciated by 6 percent in the past 6 months due to price increases in the economy.

In June 2013, overall **PPI inflation** fell by 0.2 percent compared to June of the previous year, due to the decrease in prices in the information and communication sector by 9.7 percent and manufacturing by 0.6 percent.

Prices for logs and water supply remained the same while the information and communication sector recorded a slight decrease in prices mainly due to the fall in prices of internet lease lines (Refer table 2.9 for details).

Table 2.7 Monthly PPI and Percentage Change by Industry, 2013

Sectors	Weights (%)	Index level (September 2011=00)							Annual Inflation (%)			Monthly Inflation (%)		
		Apr-12	May-12	Jun-12	Mar-13	Apr-13	May-13	Jun-13	Apr-13	May-13	Jun-13	Apr-13	May-13	Jun-13
All Industry	100.0	104.9	106.5	106.6	106.5	106.3	106.5	106.4	1.4	0.1	-0.2	-0.2	0.2	-0.2
Agriculture, Forestry and Logging *	0.7	112.4	112.4	112.4	112.4	112.4	112.4	112.4	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	5.8	103.7	103.7	104.4	111.9	111.8	112.0	112.3	7.8	7.8	7.6	-0.1	0.2	0.3
Manufacturing	47.7	105.0	108.0	108.0	107.3	106.8	107.2	107.3	1.7	-0.8	-0.6	-0.4	0.4	0.1
Electricity, gas, steam and air conditioning supply	35.4	104.5	104.5	104.5	104.8	104.8	104.8	104.8	0.2	0.2	0.2	0.0	0.0	0.0
Water supply; sewerage, waste management and remediation activities	0.1	104.6	104.6	104.6	104.6	104.6	104.6	104.6	0.0	0.0	0.0	0.0	0.0	0.0
Transport and Storage	5.9	110.3	113.4	115.2	114.1	114.1	114.5	116.4	3.5	1.0	1.0	0.0	0.3	1.6
Information and communication	4.5	99.7	99.5	99.5	96.5	96.5	96.5	89.8	-3.2	-3.0	-9.7	0.0	0.0	-6.9

*) Only Logging is included in this sector.

Source: National Statistics Bureau.

In terms of the monthly movements in the PPI (Table 2.9 and 2.10), the month-on-month percent change in the PPI by **industry** was recorded at negative 0.2 percent for June 2013 down from 0.2 percent in May 2013. In June, the overall index fell by 0.19 percent mainly due to a decrease in the information and communication sector by 6.9 percent. The decrease in this sector was mainly associated with the decrease in the price of internet lease lines.

In general, price movements in the mining and manufacturing sector is noted to be erratic while prices for logging, electricity and water supply remain fairly stable, or do not fluctuate much on a monthly basis as they are mostly government regulated prices.

Table 2.8 Monthly PPI and Percentage Change by Product, 2013

Description	Share (%)	Index level (September 2011=00)							Annual Inflation (%)			Monthly Inflation (%)		
		Apr-12	May-12	Jun-12	Mar-13	Apr-13	May-13	Jun-13	Apr-13	May-13	Jun-13	Apr-13	May-13	Jun-13
All Products	100.0	104.9	106.5	106.6	106.5	106.3	106.5	106.4	1.4	0.1	-0.2	-0.2	0.2	-0.2
Agriculture, forestry and fishery products	0.7	112.4	112.4	112.4	112.4	112.4	112.4	112.4	0.0	0.0	0.0	0.0	0.0	0.0
Ores and minerals; electricity, gas and water	5.8	103.7	103.7	104.4	111.9	111.8	112.0	112.3	7.8	8.0	7.6	-0.1	0.2	0.3
Food products, beverages and tobacco; textiles, apparel and leather products	3.6	105.3	105.8	105.1	109.1	107.8	107.3	107.2	2.4	1.4	1.9	-1.2	-0.5	-0.1
Other transportable goods, except metal products, machinery and equipment	15.4	109.7	112.2	112.2	113.9	113.9	114.0	113.9	3.8	1.6	1.5	-0.1	0.1	0.0
Metal products, machinery and equipment	28.8	102.6	106.1	106.1	103.6	103.1	103.7	103.9	0.5	-2.3	-2.1	-0.5	0.6	0.2
Distributive trade services; accommodation, food and beverage serving services; transport services; and electricity, gas and water distribution services	41.3	105.3	105.8	106.0	106.0	106.0	106.1	106.3	0.7	0.3	0.3	0.0	0.0	0.2
Business and production services	4.5	99.7	99.5	99.5	96.5	96.5	96.5	89.8	-3.2	-3.0	-9.7	0.0	0.0	-6.9

Source: National Statistics Bureau.

According to the month-on-month percentage change by **product** in PPI for June 2013, “ores and minerals; electricity, gas and water” recorded the highest increase at 0.3 percent followed by “metal products, machinery and equipment, and distributive trade services; accommodation, food and beverages serving services; transport services; and electricity, gas and water distribution services” at 0.2 percent. While, “business and production services, and food products, beverages and tobacco; textiles, apparel and leather products” recorded a negative growth of 6.9 percent and 0.1 percent respectively.

Table 2.9 CPI Major Component Indicators

	Weight %	Year-on-year % change	
		Q2 2012	Q2 2013
Consumer Price Index (Q2 2012=100)	100.0	13.5	5.5
<i>Of which</i>			
Food & non-alcoholic beverages	36.9	18.4	2.4
Alcoholic beverages, tobacco & narcotics	3.0	24.1	8.1
Clothing & footwear	9.2	21.1	10.7
Housing, water, electricity, gas & other fuels	21.7	6.9	7.1
Furnishing, household equipment & routine household maintenance	2.2	27.2	14.2
Health	4.7	7.1	6.1
Transport	12.0	3.1	3.4
Communication	3.0	-1.5	-2.3
Recreation & culture	2.4	13.8	7.8
Education	1.6	0.0	8.4
Restaurants & hotels	1.2	6.2	14.2
Miscellaneous goods & services	2.1	18.9	11.5

Source: National Statistics Bureau.

Table 2.10 Selected CPI Food-Component Indicators

	Weight %	Jan'13	Feb	Month-on-Month % change			
				Mar	Apr	May	Jun'13
Consumer Price Index (Q2 2012=100)	40.2						
Food	39.9	1.2	0.6	0.6	1.6	-0.5	1.8
<i>Bread & cereals</i>	9.7	2.3	1.9	0.8	1.3	0.3	0.2
<i>Meat</i>	3.1	4.9	0.0	0.6	-1.0	3.4	1.3
<i>Fish</i>	1.1	3.5	2.9	1.7	-2.2	2.3	2.2
<i>Milk, cheese & eggs</i>	6.9	4.4	0.5	0.1	0.4	-0.4	0.6
<i>Oils & fats</i>	3.2	-1.3	4.0	1.8	-0.6	-0.8	0.6
<i>Fruits</i>	1.7	4.9	5.3	-0.1	-5.8	2.5	-0.5
<i>Vegetables</i>	7.8	-4.4	-3.1	0.3	7.8	-4.8	6.2
<i>Sugar, honey, jam etc.</i>	1.0	1.8	0.7	1.1	-0.9	2.4	1.1
<i>Food products n.e.c</i>	0.6	1.1	-0.2	-0.8	2.3	6.7	0.6
<i>Coffee, tea and cocoa</i>	0.7	0.4	5.7	-7.6	2.8	2.2	0.1
<i>Mineral water, soft drinks and juices</i>	1.4	2.3	-2.6	-0.8	1.3	3.7	2.5
<i>Spirits</i>	0.7	6.0	-3.5	3.2	-3.4	2.3	3.7
<i>Wine</i>	0.4	3.0	1.1	0.0	1.5	0.3	0.8
<i>Beer</i>	0.6	1.7	-2.7	-1.7	3.4	3.0	3.0
<i>Narcotics</i>	1.4	1.7	16.9	-7.2	3.8	10.2	0.9

Source: National Statistics Bureau.

3. EXTERNAL SECTOR

*This report features Bhutan's balance of payments statistics (BOP) on the basis of the IMF's **Balance of Payments and International Investment Position Manual, sixth edition (BPM6)** from fiscal year 2006/07 onwards. During the transition to BPM6, several **other improvements in data coverage and classification** were also identified and implemented and where possible, these changes have been backtracked to FY 2006/07 as well. Moreover, in addition to the annual, fiscal year balance of payments, the RMA is also introducing **quarterly BOP statistics**, with quarterly data starting from FY 2010/11 featured in this report.*

The following highlight major changes in the new data series:

- **Imports from countries other than India** have been converted from cif to **job basis**. In consultation with the DRC, 20 percent of imports have been reclassified to freight (transportation services) and 1.125 percent to insurance services. Please see Table 3.2 for details on the reconciliation of trade data between the DRC and the RMA.
- Grants received by the RGOB as budget support were previously classified entirely as current transfers (secondary income in BPM6). Such **budgetary grants** have now been segregated based on purpose with all grants for **investment purposes to finance gross fixed capital formation** reclassified from the secondary income account into the Capital account as **capital transfers**.
- In line with the principle of accrual accounting of the BOP, **accrued interest** on existing **Indian Rupee denominated hydropower loans** have been recorded in the primary income account (debit) as well as to loan liabilities in the financial account. (Data will therefore, not be comparable to the ones published by the Ministry of Finance).
- Revisions have been made in the methodology to calculate the debit items for **compensation of employees and workers' remittances** affecting data for FY 2012/13. Until last year, old estimates were either being inflated annually or ratios applied to total external aid. From this year however, information on numbers and salaries of foreign workers from the Department of Immigration and the Ministry of Labour and Human Resources have been used to estimate the debit items for compensation and remittances as well as to estimate **business travel credits** (acquisition of goods and services by short term workers).
- **Trade credits**, which represented an important data gap in the past, are now being included for all sources that report transactions in trade credits.
- Reserve assets **exclude US dollar deposits that were pledged on the Indian Rupee overdraft facility** from the SBI and PNB by the amount of outstanding overdraft during the relevant reference period. The equivalent US dollars of the outstanding overdraft was considered to be encumbered assets and reclassified under other investments.

- **BPM6 sign convention** has been adopted for **all** the components of the BOP from FY 2006/07; the table below shows the changes in sign convention between BPM5 and BPM6:

Item	BPM6	BPM5
Current and capital accounts	Both credits and debits are recorded with positive signs	Credits “+” and debits “-”
Financial account	Increases in assets & liabilities “+” and decreases in assets & liabilities “-”	Increases in assets & decreases in liabilities “-” and decreases in assets & increases in liabilities “+”
Financial account balance (net lending (+) / net borrowing (-) in BPM6)	Calculated as change in assets minus liabilities	Calculated as change in assets plus liabilities

- Reclassifications that were required in line with BPM6 have been made although the resulting changes have not been significant because of minimal transactions in the reclassified items.

The transition to BPM6 reporting and other improvements that were effected in the compilation of Bhutan’s BOP statistics have been made possible under the umbrella of the Asia-Pacific module of the 3-year IMF project funded by the Government of Japan sub-account to improve external sector statistics (IMF-JSA project). Since the opening workshop of the project in October 2012, the RMA hosted two technical assistance missions from the IMF in 2013 and also participated in an additional workshop on the Practical Aspects of International Investment Position (IIP) and External Debt Statistics (EDS) compilation. Further improvements in data quality including the reporting of new data sets such as the EDS as well as increasing the frequency and timeliness of existing data sets are envisioned in the remaining years of the project.

As usual, Bhutan’s BOP statistics are compiled and published separately for India and for countries other than India (COTI), while the Overall BOP statement is an aggregation of the BOP with India and BOP with COTI statements. BOP data for FY 2012/13 are provisional.

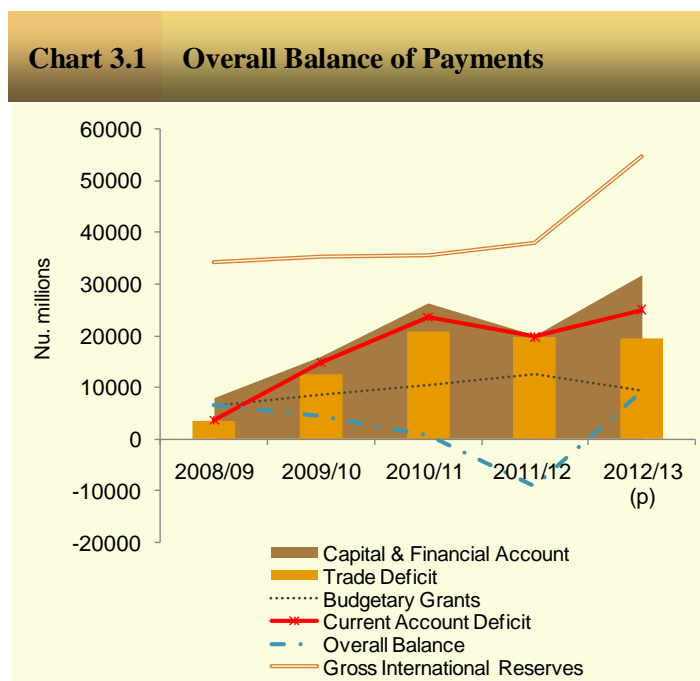
International Investment Position statistics were compiled and published for the first time in the RMA Annual Report 2010/11. Work has continued to improve data quality and also ensure consistency with other data sets such as the BOP and the CDIS, affecting the time series data.

3.1 Overall Balance of Payments

Since increasing significantly in FY 2009/10 (reaching double digits as a percent of GDP), Bhutan’s **current account deficit** continues to remain elevated, widening to an estimated 25 percent of GDP in FY 2012/13. Reflecting the slowdown in credit and temporary restrictions on selected imports following the Indian Rupee shortages in 2012, the **deficit in goods and services** moderated from 28.7 percent of GDP in FY 2011/12 to 22.9 percent in FY 2012/13

albeit still remaining at high levels. Despite improvements in the goods and services account, the current account deficit increased in FY 2012/13 because of much reduced inflows of **budgetary grants**¹ (47.7 percent decrease over the previous fiscal year) and much increased primary income debits.

However, net inflows in the **capital and financial account** were more than sufficient to finance the current account deficit. In particular, inflows of Indian Rupee grants for hydropower development increased from ₹ 1.3 billion in the previous fiscal year to ₹ 9.8 billion, while there was also a concomitant increase in the Indian Rupee denominated loans of the hydropower projects from ₹ 9.9 billion to ₹ 14.8 billion. After accounting for other flows in the capital and financial account and the net errors and omissions, against a current account deficit of Nu.24.9 billion, the capital and financial account surplus stood at Nu.31.7 billion, with a subsequent increase in the reserves by an equivalent of Nu.9.2 billion.



At the end of the fiscal year, **gross international reserves** stood at USD 916.9 million increasing from USD 674.3 million as of end-June 2012. Reserves were sufficient to finance 12.6 months of merchandise imports while covering 53.2 percent of public external debt. Of the total reserves, USD 726.7 million were convertible currency reserves while ₹ 11.4 billion were Indian Rupee reserves. Throughout the year, the economy continued to face intermittent shortages of Indian Rupees with the RMA continuing its reliance on the Indian Rupee overdraft facility with the SBI and PNB to meet the shortages. Towards the end of the fiscal year, given the strengthening of the US dollar against the Indian Rupee and in order to position for upcoming Rupee payment obligations, the RMA sold USD 200 million for Indian Rupees thereby accumulating a positive position in Indian Rupee reserves by the end of the fiscal year.

In **exchange rate** developments, the Ngultrum averaged Nu.54.9 per US Dollar in the fiscal year, depreciating by 8.4 percent from the previous fiscal year. In terms of June-to-June comparisons, the Ngultrum depreciated by 3.9 percent against the US Dollar between June 2012 and June 2013. The Ngultrum is pegged at par to the Indian Rupee and as such, the deterioration in the value of the Ngultrum against the US Dollar reflects the pressures that the Indian Rupee faced as a result of the large current account deficit and volatile capital flows in India.

¹ Budgetary grants for investment purposes to finance gross fixed capital formation have been reclassified as capital transfers in the capital account.

Table 3.1 Overall Balance of Payments and Selected External Indicators

Item	Nu million			USD million		
	2010/11	2011/12	2012/13 (p)	2010/11	2011/12	2012/13 (p)
A. Current Account	-23,621.4	-19,774.3	-24,892.2	-521.1	-393.4	-453.8
<i>o.w. India</i>	-18,171.5	-15,685.8	-26,504.9	-400.8	-312.0	-483.2
<i>o.w. COTI</i>	-5,449.9	-4,088.4	1,612.7	-120.2	-81.3	29.4
Trade Balance	-20,835.3	-19,880.6	-19,441.6	-459.6	-395.5	-354.4
<i>o.w. India</i>	-15,160.0	-12,795.1	-17,265.4	-334.4	-254.5	-314.7
<i>o.w. COTI</i>	-5,675.3	-7,085.5	-2,176.2	-125.2	-140.9	-39.7
Exports (fob)	30,160.1	30,997.4	32,498.3	665.3	616.6	592.4
o.w: Hydropower Exports	10,349.8	9,798.3	10,323.4	228.3	194.9	188.2
Imports (fob)	50,995.4	50,878.1	51,939.9	1,124.9	1,012.1	946.8
Services	-4,283.1	-4,749.9	-3,315.6	-94.5	-94.5	-60.4
Credit	3,703.8	5,146.0	6,837.0	81.7	102.4	124.6
Debit	7,986.9	9,896.0	10,152.6	176.2	196.9	185.1
Primary Income	-4,709.7	-5,922.4	-9,266.3	-103.9	-117.8	-168.9
Credit	753.6	875.1	965.9	16.6	17.4	17.6
Debit	5,463.3	6,797.5	10,232.1	120.5	135.2	186.5
Balance on Goods, Services & Primary Income	-29,828.2	-30,552.9	-32,023.5	-658.0	-607.8	-583.8
Secondary Income	6,206.7	10,778.7	7,131.3	136.9	214.4	130.0
Credit	8,562.2	12,907.3	8,417.7	188.9	256.8	153.4
o.w: Budgetary Grants	6,540.0	9,020.7	4,716.2	144.3	179.4	86.0
Debit	2,355.5	2,128.6	1,286.4	52.0	42.3	23.4
B. Capital Account	7,609.7	4,755.1	14,459.0	167.9	94.6	263.6
o.w. Budgetary Grants, Credit	3,957.7	3,436.5	4,698.6	87.3	68.4	85.7
o.w. Hydropower Grants, Credit	3,652.0	1,318.6	9,760.4	80.6	26.2	177.9
C. Financial Account¹	-18,632.7	-15,222.1	-17,249.4	-411.0	-302.8	-314.4
Direct investment in Bhutan: net incurrence of liabilities	1,408.8	1,209.7	1,166.8	31.1	24.1	21.3
Other investment: net acquisition of assets	-147.6	-63.4	934.4	-3.3	-1.3	17.0
Other investment: net incurrence of liabilities	17,076.3	13,949.0	17,017.1	376.7	277.5	310.2
o.w. INR denominated hydropower loans ²	7,376.8	9,878.4	14,798.4	162.7	196.5	269.8
o.w. CC loans of the RGOB	4,597.9	1,556.7	3,656.3	101.4	31.0	66.6
D. Net Errors & Omissions	-1,823.4	-9,271.4	2,395.9	-40.2	-184.4	43.7
E. Overall Balance (Reserve Assets)	797.5	-9,068.4	9,212.2	17.6	-180.4	167.9
In % of GDP						
Trade Balance (Goods)	-28.7	-23.1	-19.5			
Goods and services (net)	-34.6	-28.7	-22.9			
Current Account Balance	-32.6	-23.0	-25.0			
Overall Balance	1.1	-10.6	9.3			
GDP at current prices ³	72,496.6	85,913.0	99,455.0			
Memorandum Items:						
Gross International Reserves (end of period) ⁴				796.2	674.3	916.9
In months of merchandise imports				8.4	9.0	12.6
Short term external debt as a % of Reserves ⁵				13.8	13.6	9.9
External Debt Outstanding (end of period)				1325.9	1397.9	1705.4
In percent of GDP				81.8	91.6	102.4
Debt Service Ratio (including ODF)				51.7	127.1	215.6
Debt Service Ratio (excluding ODF)				12.5	12.9	18.2
Annual average exchange rate (Nu/USD)				45.3	50.3	54.9
End of period exchange rate (Nu/USD)				44.7	56.3	59.7

¹Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; excludes reserve assets. ²Includes accrued interest. ³Calendar year GDP used (CY 2011 = FY 2011/12 and so on); Source: NSB. ⁴Excluding pledge on any outstanding overdraft during the reference periods. ⁵Short term external debt by original maturity (currently includes the RBI Rupee swap and Indian Rupee overdraft facility).

Note: External debt includes only loan liabilities. Debt service ratio is in percent of exports of goods and services.

Goods Trade Account

The trade deficit with India increased by 34.9 percent in FY 2012/13 as exports experienced negative growth of 0.1 percent in the fiscal year compared to an 11 percent growth in imports. On the other hand, the trade deficit with COTI improved significantly because of a 44.5 percent growth in exports vis-à-vis a fall in imports of 32 percent. As a result, the **overall trade deficit** narrowed by 2.2 percent from the last fiscal year.

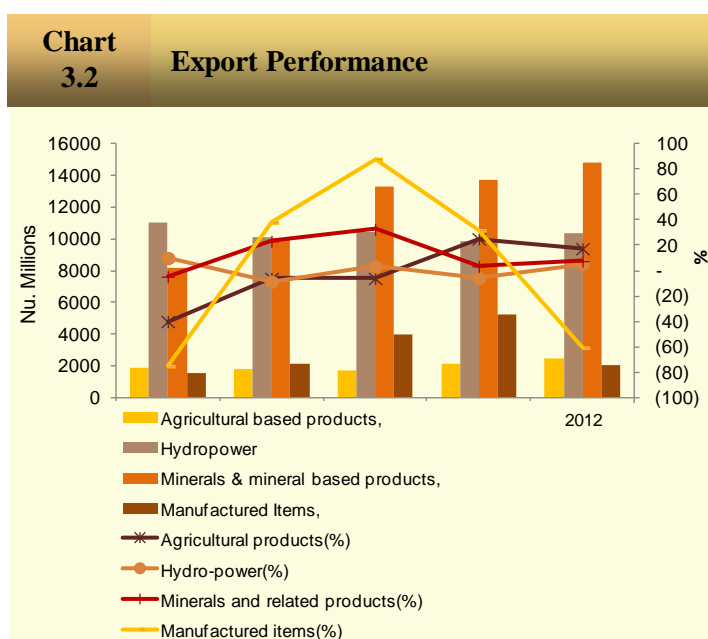
Table 3.2 Reconciliation between Merchandise Source Data & Total Goods on a Balance of Payments Basis				
In Nu millions	FY 2011/12		FY 2012/13	
	Exports	Imports	Exports	Imports
Merchandise trade statistics as provided by DRC ¹	21199.1	51134.4	22174.9	51671.4
Adjustments				
+ Hydropower exports ²	9798.3		10323.4	
+ Goods procured in ports by carriers ³		663.1		849.1
+ Informal Trade at the Border		1815.2		1210.2
+ Net exports of goods under merchandising				
- CIF/FOB adjustment for COTI		2734.6		1790.7
+ FOB adjustment for India ⁴				
Total goods on a balance of payments basis	30997.4	50878.1	32498.3	51939.9

¹ Excluding hydropower exports. ² Sourced from respective power plants. ³ Includes refuelling at stations abroad by carriers. ⁴ To be carried out in 2014.

The following section reviews the trade account in more detail. However, since detailed composition of trade data are currently available from the DRC only on a calendar year basis, the following section tracks developments in calendar year 2012. For the purposes of compiling fiscal year balance of payments, the DRC currently provides the RMA with quarterly aggregates of the trade data and not the detailed composition level data. Therefore, differences in general trends between fiscal year trade account data in the balance of payments and the following section are on account of the difference in the reference periods.

Merchandise Trade, 2012²

Hydropower remains Bhutan's largest **export**, accounting for 34.9 percent of total exports (to India and COTI) in 2012. **Hydropower** exports increased from Nu.9.8 billion in 2011 to Nu.10.3 billion in



² This section is based on the *Bhutan Trade Statistics* publications of the DRC and tracks *calendar year* developments in the composition and direction of Bhutan's trade.

2012. The export of *ferro alloys* (93.8 percent to India) increased from Nu.6.1 billion to Nu.6.8 billion accounting for 23 percent of the total exports in 2012.

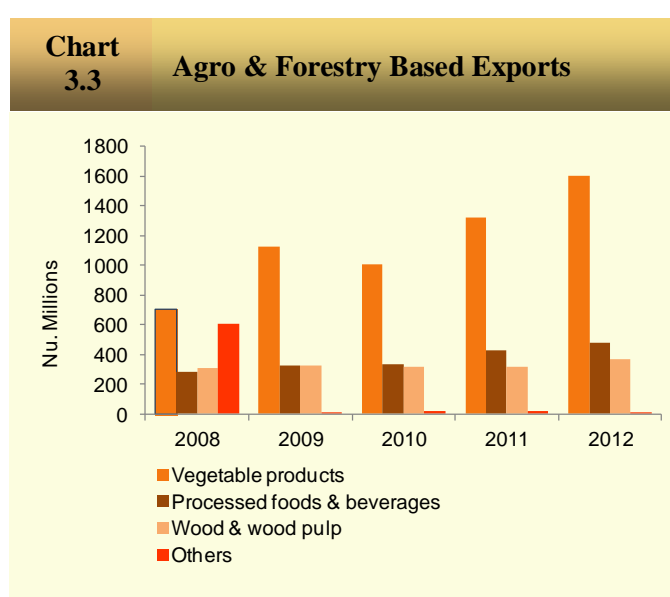
In the past Bhutan exported software in order to earn hard currency, which was then used to import copper from a third country for re-export to India. However, because the software was not produced but only packed and labeled in Bhutan, the Government stopped issuing the Certificate of Origin (COO) for these software products. Subsequently, there were no exports of *recorded and/or unrecorded media* to COTI in 2012. In 2010 and 2011, this export amounted to Nu.2.1 billion and Nu.3.3 billion, respectively.

Item	Millions of Nu.				
	2008	2009	2010	2011	2012
Agricultural based products,	1904.1	1788.9	1679.3	2099.8	2463.0
<i>of which</i>					
<i>Processed food & beverages</i>	283.0	326.0	334.9	432.5	478.4
Hydropower	11032.6	10072.5	10411.5	9825.0	10323.4
Minerals & mineral based products,	8134.4	10016.0	13290.0	13746.3	14786.9
<i>of which</i>					
<i>Base metals and related articles</i>	5535.3	7061.9	10024.3	10476.0	11221.0
Manufactured Items,	1519.6	2097.1	3943.3	5198.3	2045.1
<i>Products of chemical & allied industries</i>	895.1	1051.8	1454.5	1476.9	1641.9
<i>Plastic & rubber products</i>	214.2	308.4	246.1	309.8	331.3
<i>Textiles, footwear, headgear etc.</i>	294.3	67.1	41.5	32.5	47.5
<i>Magnetic disc/ recorded or/and unrecorded media</i>	0.0	619.3	2146.0	3340.7	0.0

Source: Department of Revenue and Customs.

Among other exports, the share of **agriculture based exports** increased from 6.8 percent in 2011 to 8.3 percent in 2012 (Nu.2.1 billion to Nu.2.5 billion). While exports of oranges increased by 38.1 percent from Nu.327.8 million to Nu.452.6 million, exports of potatoes and cardamoms increased by 23.4 percent and 13.2 percent, respectively.

Export of **minerals and mineral-based commodities** increased to Nu.14.8 billion from Nu.13.7 billion 2011, accounting for 49.9 percent of total exports. Within the category of base metals and related articles, the



export of ferro alloys increased by 11.3 percent and accounted for 23 percent of the total exports in 2012.

Table 3.4 Commodity Export Performance: Base metals & related articles

Item	Millions of Nu.					
	2010		2011		2012	
	India	COTI	India	COTI	India	COTI
Iron and Steel	7294.3	190.3	7,393.6	431.7	9,442.4	418.3
Articles of iron and steel	0.1	0.0	0.0	0.1	0.0	-
Copper and articles thereof	1762.2	0.1	2,016.6	-	1,297.9	0.8
Aluminium and articles thereof	6.1	0.0	3.0	-	5.1	-
Tin and articles thereof	5.2	0.0	7.4	-	15.2	-
Other base metals, lead and miscellaneous articles thereof	765.7	0.0	623.5	0.1	39.4	1.9
TOTAL	9,833.5	190.4	10,044.1	431.9	10,800.0	421.0

Source: Department of Revenue and Customs. Note: A figure denoted by 0.0 indicates a marginal value

With the government discontinuing the issuance of COOs for the export of software, the export of **manufactured merchandise** decreased by 60.7 percent as software export had accounted for 64.3 percent of manufacture merchandise in 2011. A list of the top twenty non-power commodity exports and imports are provided in Tables 3.4 and 3.6.

In terms of the relative share of various categories of goods to total exports between 2008 and 2012, while the share of minerals and mineral-based products have increased the share of hydropower exports has decreased due to an increase in domestic consumption (Charts 3.4 and 3.5).

Chart 3.4 Export Composition, 2008

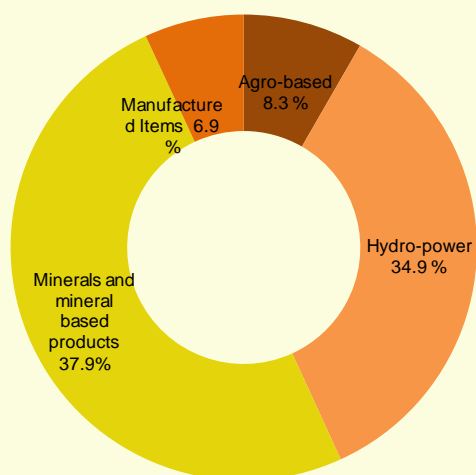


Chart 3.5 Export Composition, 2012

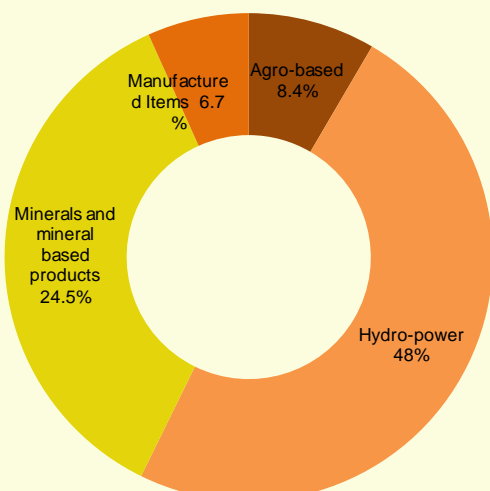


Table 3.5 Top Twenty Commodity Exports, 2012 (excluding hydropower)

Item	2012		2011	
	Value (Millions of Nu.)	% Share of total	Value (Millions of Nu.)	% Share of total
Ferro-alloys	6822.5	23.0	6,131.6	19.9
Carbides (<i>calcium, silicon, others</i>)	1580.2	5.3	1,440.5	4.7
Bars & rods (<i>hot-rolled, of iron or nonalloy steel</i>)	1490.7	5.0	1,165.5	3.8
Cement (<i>Portland, aluminous, slag, supersulphate</i>)	1341.6	4.5	1,065.2	3.5
Copper wire	1295.5	4.4	1,995.0	6.5
Semi finished products of iron & non alloy steel	1155.0	3.9	163.8	0.5
Dolomite	940.8	3.2	736.1	2.4
Gypsum (<i>anhydrite, plasters</i>)	552.5	1.9	562.3	1.8
Oranges	452.6	1.5	327.8	1.1
Cardamoms	434.8	1.5	384.3	1.2
Potatoes (<i>seeds & other</i>)	309.3	1.0	250.7	0.8
Ingots (<i>iron & non-alloy steel</i>)	285.5	1.0	279.8	0.9
Plastics (<i>plates, sheets, film etc</i>)	256.6	0.9	220.9	0.7
Limestone & other calcareous stone	248.2	0.8	293.9	1.0
Particle & similar board	227.1	0.8	255.3	0.8
Bituminous coal	221.3	0.7	189.4	0.6
Mineral water & aerated, sweetened waters	120.9	0.4	143.1	0.5
Wheat or meslin flour	114.6	0.4	94.4	0.3
Cordyceps sinensis	101.6	0.3	88.7	0.3
Jams, fruit jellies, marmalades etc	98.8	0.3	87.2	0.3
Total exports (including electricity & others)	29618.4	60.9*	30,869.5	63.4*

Source: Department of Revenue and Customs. *Share of top twenty non-power exports in total.

Gross merchandise imports increased by 8.2 percent in 2012 to Nu.52.7 billion, driven by growth in the import of **intermediate** and **consumption goods**. Major intermediate import components include base metal and articles thereof (which constituted 41.6 percent of all intermediate imports in 2012), as well as mineral based products (accounting for 33.7 percent of total intermediate imports). The import of **consumption goods** increased by 12.8 percent in 2012. However, capital imports decreased by 27.3 percent to Nu.11.0 billion. With the measures to slow down imports of nonessential commodities the import of transport and earth moving vehicles under capital imports decreased by 67.5 percent.

While the share of intermediate and consumption goods in total imports increased from 44.5 percent and 24.4 percent in 2011 to 53.7 percent and 25.4 percent, respectively, of the total imports in 2012, the share of capital goods decreased from 31.1 percent to 20.9 percent in 2012.

Table 3.6 Gross Merchandise Imports

Item	Value (Nu. Millions)					Annual % Change	
	2008	2009	2010	2011	2012	2011	2012
Consumption goods	6136.3	7147.4	8680.8	11860.2	13375.2	36.6	12.8
of which:							
Live Animals & Animal Products	789.2	992.8	1188.3	1311.8	2017.9	10.4	53.8
Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1131.9	1295.0	1559.7	2056.6	2881.7	31.9	40.1
Animal or Vegetable Fats & Oils	966.1	414.1	508.8	667.8	926.2	31.2	38.7
Processed Foods & Beverages	1002.1	1161.1	1425.0	1742.5	1931.5	22.3	10.8
Mineral Products inc. oils & fuels	946.0	990.6	1357.0	1839.1	2248.4	35.5	22.3
Intermediate goods	10754.2	11627.3	18231.1	21684.5	28290.8	18.9	30.5
of which:							
Mineral-based products	4082.1	4069.3	5987.3	7097.4	9521.4	18.5	34.2
Plastic & Rubber Products	763.6	789.7	1142.6	1478.1	1982.1	29.4	34.1
Base metals and related articles	3776.2	4405.6	8002.9	8565.7	11770.5	7.0	37.4
Capital goods	6604.6	6748.3	12163.3	15142.6	11007.8	24.5	-27.3
of which:							
Machinery, mechanical, electrical equip.	4001.5	5073.3	8993.6	10019.5	9081.7	11.4	-9.4
Goods transport & earth-moving vehicles/equipment and parts	2170.5	1355.4	2730.5	4762.8	1547.4	74.4	-67.5

Source: Department of Revenue and Customs

Table 3.7 Top Twenty Commodity Imports, 2012

Item	2012		2011	
	Value (Millions of Nu.)	% Share of total	Value (Millions of Nu.)	% Share of total
High speed diesel	4695.3	8.9	3,644.7	7.5
Ferrous products (by <i>direct reduction of iron ore</i>)	2178.7	4.1	1,421.9	2.9
Motor spirit (<i>gasolene</i>) including aviation spirit (<i>petrol</i>)	1636.3	3.1	1,369.4	2.8
Copper wire	1420.9	2.7	1,972.5	4.1
Rice	1258.8	2.4	853.7	1.8
Ferrous waste & scrap (cast iron, tinned iron or steel etc)	1148.0	2.2	783.1	1.6
Wood charcoal	994.4	1.9	1,086.1	2.2
Hydraulic turbines, water wheels & regulators	980.4	1.9	396.8	0.8
Excavators, front-end shovel loaders, other rollers & dozers	934.4	1.8	1,800.4	3.7
Coal, briquettes & similar solid fuels of coal	898.6	1.7	500.0	1.0
Bars & rods of iron or non-alloy steel	858.8	1.6	729.6	1.5
Coke & semi-coke of coal	856.8	1.6	772.6	1.6
Machinery for moving, grading, levelling, scraping, excavating, tamping, compacting & boring	720.3	1.4	628.1	1.3
Dumpers & motor vehicles for goods transport	715.6	1.4	2,157.7	4.4
Petroleum bitumen	704.4	1.3	187.9	0.4
Corrugated iron/non-alloy steel sheets	592.0	1.1	457.4	0.9
Towers & lattice masts (of iron or steel)	556.7	1.1	52.2	0.1
Soyabean oil (<i>crude & other</i>)	543.4	1.0	437.1	0.9
Milk powder	511.0	1.0	265.7	0.5
Electrical transformers, static convertors & inductors	496.0	0.9	416.7	0.9
Total imports (including remaining items)	52,673.8	43.09*	48,687.4	44.2*

Source: Department of Revenue and Customs. *Share of respective year top twenty imports in total imports.

Table 3.8 Food Trade Balance: Selected Food Items

	Millions of Nu						
	2010 Total	India	2011 COTI	Total	2012 India	COTI	Total
Selected Food Deficit/Surplus	-2370.7	-3253.1	364.7	-2888.4	-4601.0	407.1	-4193.9
Export of Selected Food Items,	723.2	368.8	387.0	755.8	467.3	456.6	923.9
<i>of which</i>							
<i>Milk, butter & cheese</i>	2.7	0.1	0.0	0.1	5.7	0.0	5.7
<i>Eggs</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Meat and related products</i>	0.0	0.0	0.0	0.0	0.1	0.0	0.1
<i>Cereals, of which</i>	15.2	0.2	5.7	5.8	0.0	6.3	6.3
<i>Rice</i>	15.2	0.0	5.7	5.7	0.0	6.2	6.2
<i>Vegetables, roots, tubers</i>	218.9	270.5	3.2	273.7	359.6	6.6	366.2
<i>Edible fruits & nuts</i>	472.8	74.3	378.2	452.4	94.4	443.7	538.1
<i>Edible Oils</i>	13.6	23.8	0.0	23.8	7.5	0.0	7.5
<i>Sugar</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import of Selected Food Items,	3093.9	3621.9	22.3	3644.2	5068.3	49.5	5117.8
<i>of which</i>							
<i>Milk, butter & cheese</i>	580.0	659.9	1.3	661.3	968.8	4.2	973.0
<i>Eggs</i>	22.4	6.8	0.3	7.2	0.0	0.0	0.0
<i>Meat and related products</i>	585.4	631.4	10.5	642.0	1024.3	18.8	1043.1
<i>Cereals, of which</i>	956.5	1166.1	0.3	1166.4	1369.4	0.5	1369.8
<i>Rice</i>	848.0	853.5	0.2	853.7	1253.9	0.3	1254.3
<i>Vegetables, roots, tubers</i>	215.1	243.0	2.6	245.6	451.0	3.7	454.7
<i>Edible fruits & nuts</i>	51.0	39.9	1.2	41.1	75.6	2.2	77.8
<i>Edible Oils</i>	508.8	661.9	5.8	667.8	906.3	19.9	926.2
<i>Sugar</i>	174.8	212.8	0.1	212.9	272.8	0.3	273.1

1) Meat and related products includes all live animals and meat including fish, and excluding eggs, milk, cheese and honey. 2) Cereals include wheat, barley, maize, rice, buckwheat, millet etc.

Source: Department of Revenue and Customs.

Food Trade Balance

Bhutan imported essential food items worth Nu.5.1 billion in 2012, with the overall food trade deficit increasing from Nu.2.9 billion in 2011 to Nu.4.2 billion. While Bhutan remains an agrarian economy with over 65 percent of the labor force engaged in farming, food sufficiency looms as a major issue of concern to policy makers, due to its vast socio-economic implications for the nation. Further, continued escalation in food prices across the border as well as rise in global food and energy prices make food security an important concern for the country.

Direction of Trade

As Bhutan's largest trading partner, **India** accounted for 93.9 percent of Bhutan's commodity exports in 2012 compared to 83.8 percent in 2011 (Chart 3.6). Top exports to India include *hydropower* and *ferro alloys*.

India is followed by **Bangladesh** with 4 percent share (*major exports include oranges, cardamoms and limestone*). The share of export to Hong Kong dropped to 0.3 percent from 10.8 percent in 2011 mainly due to the drop in the export of magnetic discs.

In terms of imports, **India** accounted for 79.4 percent of the total imports increasing from 72.3 percent in 2011 (Chart 3.7).

Following India were **South Korea** (*copper wire, passenger cars, bull dozers and similar earth moving vehicles/machineries*), **China** (*machines for transmission of voice and images, motor vehicles for 10 or more persons, electrical appliances, bull dozers, forklift trucks and similar machinery*), **Japan** (*transportation and communications equipment and parts, and other mechanical electrical appliances*), and **Austria** (*structures of iron and steel, hydraulic turbines and regulators, machinery, boards, panels, consoles for distribution of electricity*).

Services and Income Accounts

There was a turnaround for the worse in the **invisibles account** as the net surplus in the last fiscal year of 0.2 percent of GDP became a deficit of 4.6 percent of GDP in FY 2012/13. Driving this change was a worsening of the balance in both the primary and secondary income accounts. Notably, actual interest payments on external debt increased in the fiscal year by 37 percent while accrued interest on Indian Rupee denominated hydropower loans increased by 50.3 percent. In addition, budgetary grants received by the RGOB also fell by 47.7 percent.

Chart 3.6 Exports by Destination

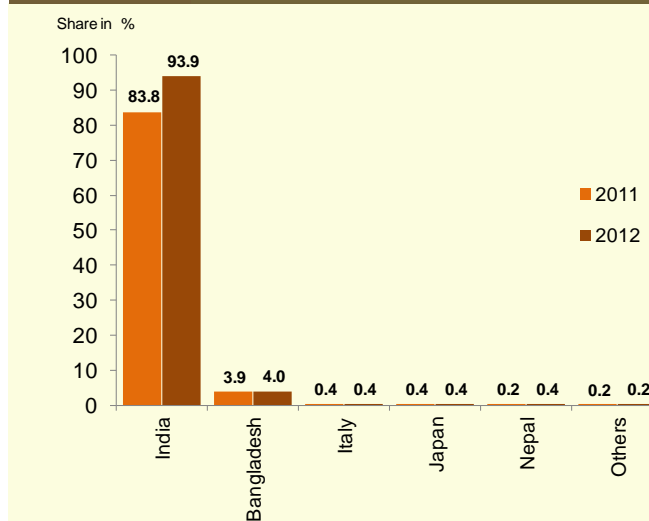


Chart 3.7 Imports by Source

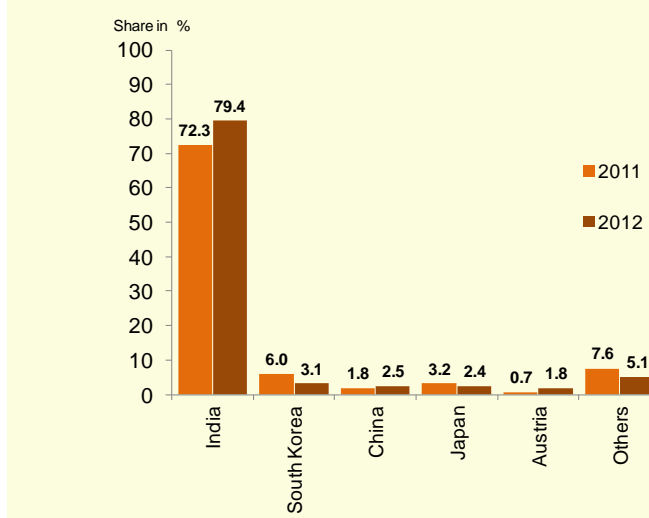


Table 3.9 Overall BOP: Invisibles

in Nu. million	2010/11	2011/12	2012/13 (p)
Services	-4,283.1	-4,749.9	-3,315.6
<i>Services: Credit</i>	3,703.8	5,146.0	6,837.0
<i>Services: Debit</i>	7,986.9	9,896.0	10,152.6
Maintenance and repair services n.i.e.	0.0	-14.2	-2.4
Transport	-1,441.0	-1,383.5	-325.6
Travel	-412.8	-327.8	1,152.4
Construction	-1,212.0	-1,548.3	-2,805.6
Insurance	-155.9	-190.4	-4.4
Financial services	-3.6	-6.7	-12.8
Charges for the use of intellectual property n.i.e.	-9.4	-2.5	-1.3
Telecommunications, computer, and information services	-106.9	-175.5	-124.9
Other business services (excluding merchanting)	-803.3	-898.0	-972.0
Government goods and services n.i.e.	-138.2	-203.1	-219.0
Primary Income	-4,709.7	-5,922.4	-9,266.3
<i>Primary Income: Credit</i>	753.6	875.1	965.9
<i>Primary Income: Debit</i>	5,463.3	6,797.5	10,232.1
Compensation of employees ¹	-2,043.2	-1,898.6	-2,296.4
Direct investment	-208.7	-88.1	-1,056.0
Interest on deposits	670.5	813.0	856.0
Interest on debt	-3,128.3	-4,748.8	-6,769.9
o.w. accrued interest on Indian Rupee hydropower debt	-1,006.9	-1,979.7	-2,975.8
Secondary Income	6,206.7	10,778.7	6,998.5
<i>Secondary Income: Credit</i>	8,562.2	12,907.3	8,284.9
<i>Secondary Income: Debit</i>	2,355.5	2,128.6	1,286.4
General Government	7,774.3	11,359.8	7,716.2
of which: Budgetary grants: Credit	6,540.0	9,020.7	4,716.2
Other Sectors	-1,567.6	-581.1	-717.6
of which: Workers' remittances ¹	-1,651.6	-935.8	-882.8
Total Invisibles	-2,786.1	106.4	-5,583.3
in percent of GDP	-3.8	0.1	-5.6

¹ Methodology to estimate debits were revised in 2013 affecting data for FY 2012/13.

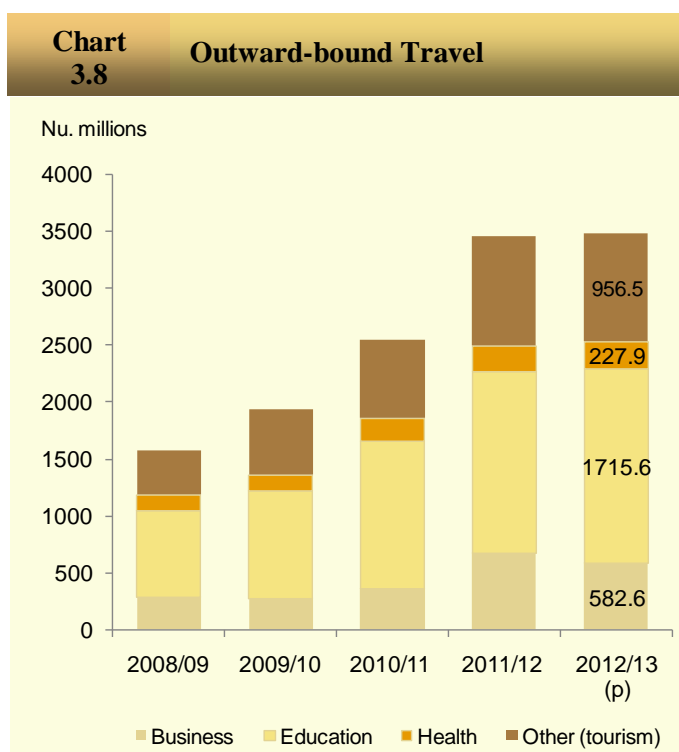
Note: All sub-components under each account are being reported on a net basis i.e. as credit minus debit.

The net **services account** deficit narrowed by 30.2 percent in the fiscal year, driven largely by the **transportation** and **travel** sub-components. In tandem with the fall in imports from COTI, the estimated freight on merchandise imports from COTI declined by 35.3 percent contributing significantly to the 76.5 percent fall in the overall net deficit in transportation services.

In the meantime, there was a positive turnaround in net travel services which however, was brought about largely because of expanded coverage in data (estimation and inclusion of acquisition of goods and services by short term workers under business travel credits based on data from the Department of Immigration and Ministry of Labour and Human Resources on the numbers and salaries of foreign workers).

Among other major items in travel services, gross receipts from **convertible currency paying tourists**³ (Nu.3.5 billion) increased by 23.2 percent over the last fiscal year, and accounted for 50.1 percent of the total service credits. On the debit side, expenditure on outbound personal travel increased by 4.8 percent with **education-related expenditure** continuing to account for the highest share (Chart 3.8).

The import of **construction**⁴ services (largely from India) increased by 81.2 percent from the last fiscal year to Nu.2.8 billion. These services constituted 27.6 percent of the total services imports for the fiscal year, and were largely related to the development and maintenance of major hydropower projects.



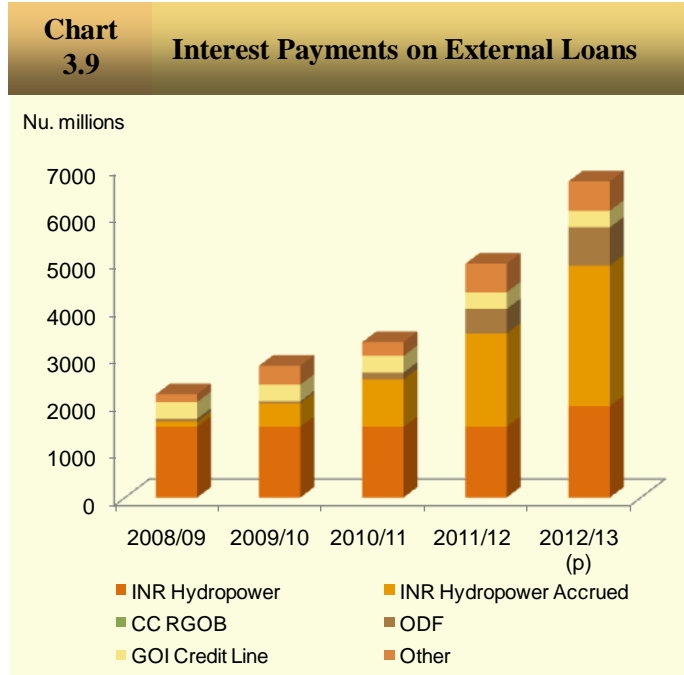
Development of hydropower projects have also resulted in an increase in the fourth major service imports (after travel, construction and transportation in that order) – other business services such as legal and accounting, architectural, engineering and technical services and so on. Import of **other business services** increased by 8.2 percent in the year to Nu.972 million.

In the **primary income account** the net deficit increased by 56.5 percent from Nu.5.9 billion in FY 2011/12 to Nu.9.3 billion driven by increased interest expenses on external loan liabilities (Chart 3.9).

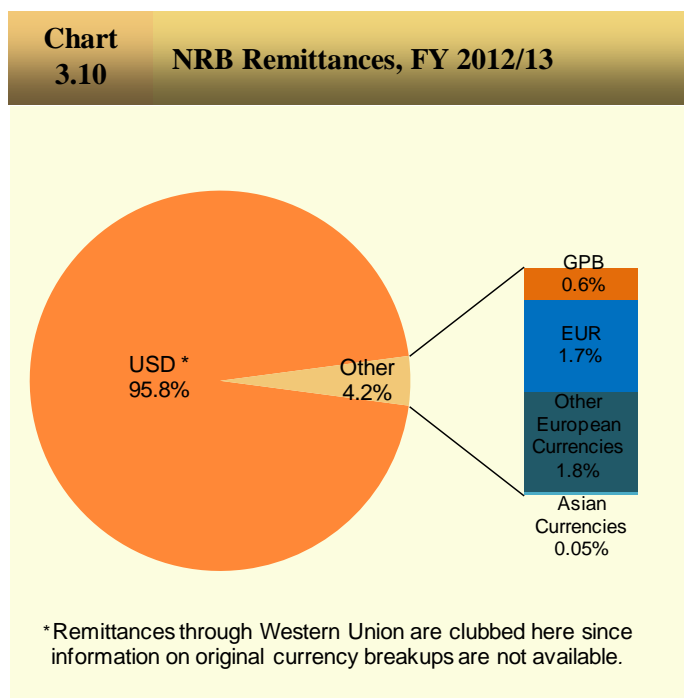
³ TCB figures on international inbound leisure tourists.

⁴ Currently covers data reported by hydropower projects and other enterprises reporting BOP data to the RMA; excludes households.

Actual interest payments on hydropower debt denominated in Indian Rupees amounted to ₹ 1.9 billion during the year while accrued interest on the three ongoing hydropower projects (Punatsangchhu I, Punatsangchhu II and Mangdechhu) amounted to almost ₹ 3 billion. The interest cost on loans for balance of payments support taken during the year (credit line from the GOI, overdraft from the SBI and PNB India and the RBI Rupee swap) amounted to ₹ 1.2 billion. Meanwhile, interest payments on convertible currency debt fell from an equivalent of USD 8 million to USD 7.2 million.



The net surplus in the **secondary income account** fell from Nu.10.8 billion to Nu. 7.1 billion as budgetary grants⁵ received by the RGOB fell by 47.7 percent to Nu.4.7 billion. While budgetary grant inflows from the GOI fell by 75.5 percent to Nu.1.5 billion, budget support from COTI increased by 12.8 percent to Nu.3.2 billion.



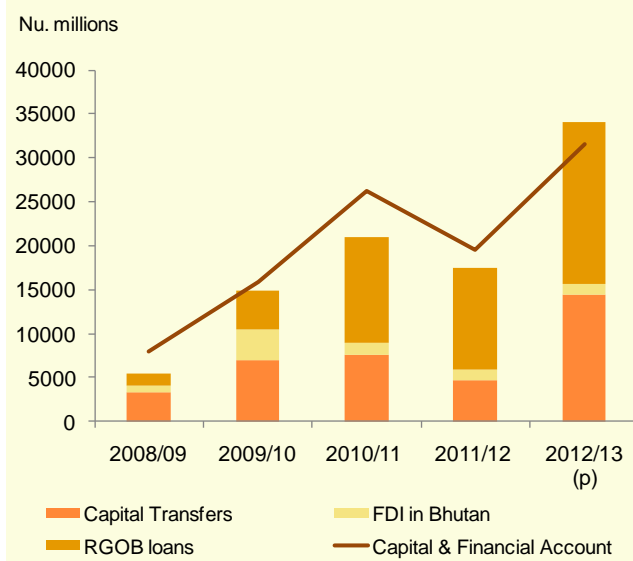
In terms of outflows, **outward workers' remittances** were estimated at Nu.1.3 billion for 2012/13. On the other hand, inward workers' remittances (**non-resident Bhutanese remittances** through formal channels) fell by 36.8 percent from Nu.848.1 million to Nu.536.4 million. A large share of these remittances were denominated in US dollars originating from the United States as well as from Australia (currently, remittances originating from Australia are converted to USD before being remitted to Bhutan through the banks).

⁵ Budgetary grants for investment purposes to finance gross fixed capital formation have been reclassified as capital transfers in the capital account. The decrease in portion of budgetary grants attributed to the secondary income account was more than the increase in the portion of budgetary grants attributed to capital transfers and total budgetary grants (secondary income receipts + capital transfers) fell by 24.4 percent from Nu.12.5 billion to Nu.9.4 billion in FY 2012/13.

Capital and Financial Account

Inflows in the **capital account** tripled in FY 2012/13 to Nu.14.5 billion as both budgetary grants and Indian Rupee denominated grants for hydropower increased in the year. Notably, grants for hydropower increased from ₹ 1.3 billion to ₹ 9.8 billion in the year. The **financial account**⁶ balance for the year was negative at Nu.17.2 billion (implying a net borrower status for the country). Flows related to direct investment have remained stable over the last few years at a little over a billion Ngultrums. Among other investments however, total loan liabilities increased by 22 percent during the year owing to a more than doubling of the convertible currency loans of the Royal Government and a 49.8 percent increase in Indian Rupee denominated hydropower loan liabilities⁷.

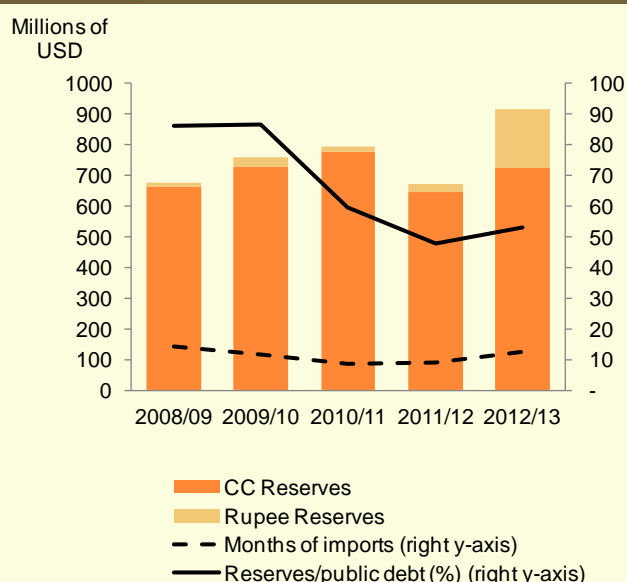
Chart 3.11 Capital and Financial Account



After provisioning for net errors and omissions, Bhutan's **overall balance** (change in reserve assets) was positive at Nu.9.2 billion for the year, since the net surplus in the capital and financial account (Nu.31.7 billion) was more than sufficient to finance the current account deficit (Nu.24.9 billion).

Corresponding to this positive overall balance, the country's **gross international reserves** increased from an equivalent of USD 674.3 million to 916.9 million between June 2012 and June 2013. Notably, the sale of an additional USD 200 million for Indian Rupees in June 2013, to position for upcoming Rupee payment obligations and given the strengthening of the US dollar against the Rupee, resulted in an increase in the Indian Rupee reserve position from ₹ 1.5 billion to ₹ 11.4 billion.

Chart 3.12 Gross International Reserves (end-June)



As of the year ending 2012/13, total reserves were adequate to meet **12.6 months of total merchandise imports** (10.6 of imports of goods and

⁶ Excluding reserve assets (overall balance).

⁷ Including accrued interest which increased by ₹ 996.1 million during the year.

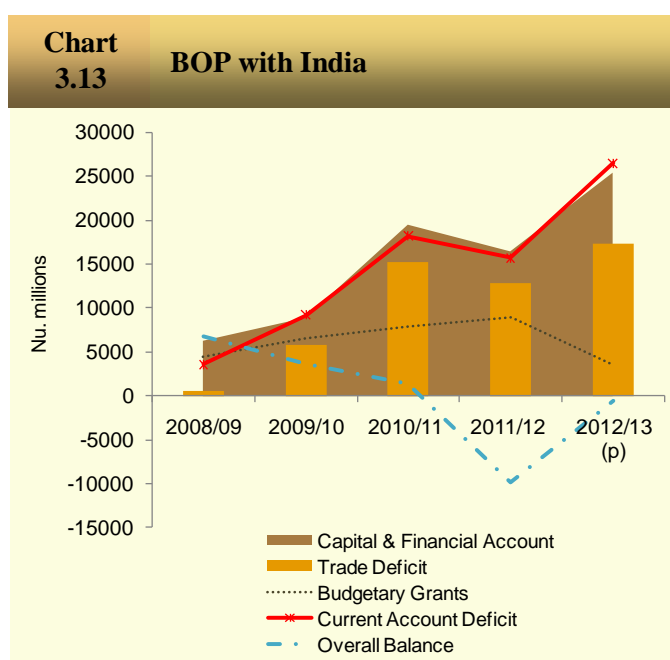
services), and 53.2 percent of public external debt outstanding as of June 2013.

The Constitution of Bhutan stipulates that “a minimum foreign currency reserve that is adequate to meet the cost of not less than one year’s **essential imports** must be maintained.” According to estimations by the Indian Rupee Taskforce⁸ endorsed by the 127th session of the Cabinet, reserve levels of USD 448.9 million are required to meet the Constitutional requirement of one year’s cover of essential imports for the year 2012. As of June 2013, Bhutan’s gross international reserves level of USD 916.9 million are sufficient to finance an estimated **24.5 months of essential imports**.

3.2 Balance of Payments with India

Bhutan’s **current account deficit** with India widened from 18.3 percent of GDP in FY 2011/12 to 26.7 percent of GDP in FY 2012/13. The worsening of the current account deficit was driven by the combination of a widening trade deficit and much reduced inflows of budgetary grants.

The **trade deficit** increased from Nu.12.8 billion to Nu.17.3 billion with large increases in the import bill for mineral products (notably diesel and petroleum) and base metal products⁹. In the **income account**, budgetary grants¹⁰ fell from ₹ 6.2 billion to ₹ 1.5 billion, while interest on debt (including accrued interest on hydropower debt) increased from ₹ 3.5 billion to ₹ 4.9 billion.



⁸ The Taskforce was formed in January 2012 by executive order from the Prime Minister of Bhutan to conduct an in-depth study on the Indian Rupee shortage issue, examining its causes and ramifications and recommending strategies for consideration by the Government.

⁹ As per the Bhutan Trade Statistics 2012, import of mineral products increased by 32.2 percent (Nu.11.6 billion) and import of base metals increased by 44.5 percent (Nu.8.9 billion) in 2012.

¹⁰ Budgetary grants for investment purposes to finance gross fixed capital formation have been reclassified as capital transfers in the capital account.

Chart 3.14 Exports to India 2012

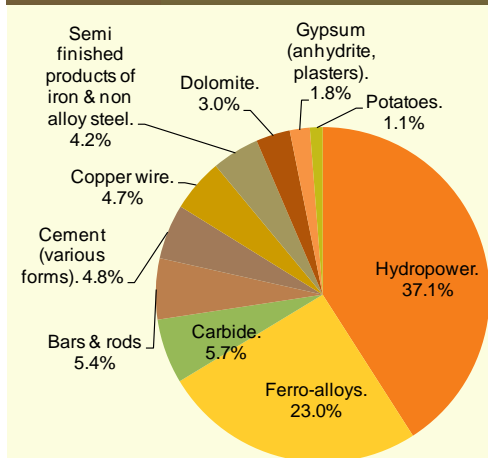
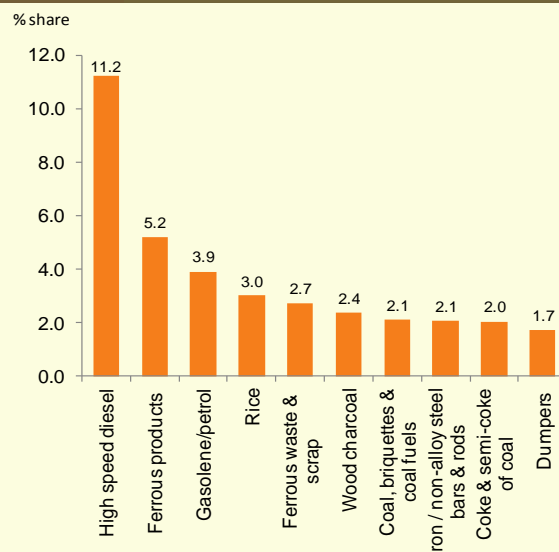


Chart 3.15 Imports from India 2012



In the **capital and financial account**, capital transfers (grants for budget support and for hydropower projects) increased by almost three-fold from ₹ 4.1 billion to ₹ 11.8 billion while net loan liabilities increased by 11.3 percent to ₹ 14.4 billion. Disbursements for the three ongoing projects increased by 49.3 percent to ₹ 14.2 billion, while additional amounts of ₹ 4 billion and ₹ 5.4 billion were availed from the GOI line of credit and the Rupee swap facility from the RBI, respectively. Principal repayments for the external loan of the Dungsam Cement Corporation Ltd. amounted to ₹ 1 billion for the year while ₹ 2.3 billion were repaid collectively on the Kurichhu and Tala loans.

The net surplus in the capital and financial account of ₹ 25.4 billion was insufficient to finance the current account deficit of ₹ 26.5 billion while throughout the year, the economy continued to face intermittent shortages of Indian Rupees. The RMA had to consequently continue its reliance on the Indian Rupee overdraft facility with the SBI and PNB to meet the shortages. Towards the end of the fiscal year in June 2013, given the strengthening of the US Dollar against the Indian Rupee and in order to position for upcoming Rupee payment obligations, the RMA sold USD 200 million for Indian Rupees thereby accumulating a positive position in Indian Rupee reserves at the end of the fiscal year.

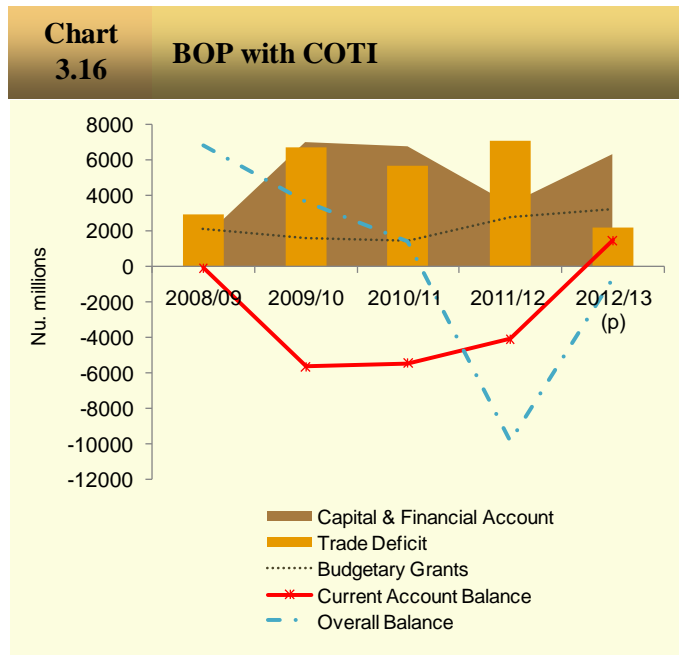
Therefore, even while the current account deficit could not be sufficiently financed by the capital and financial account balance which should result in a drawdown of Indian Rupee reserves (i.e. a negative overall balance), the **overall balance** for the BOP with India was positive at ₹ 9.8 billion because of the sale of the US Dollar reserves and subsequent recomposition of reserves from convertible currency to Indian Rupees. The counter entry to the increase in Indian Rupee reserve assets from the sale is in the BOP statement with countries other than India, thus resulting in a large and positive **net errors and omission** figure for the BOP with India of Nu.11.0 billion.

Timeline: BOP Financing through GOI Line of Credit, Overdrafts from the SBI & PNB and sale of US Dollar reserves

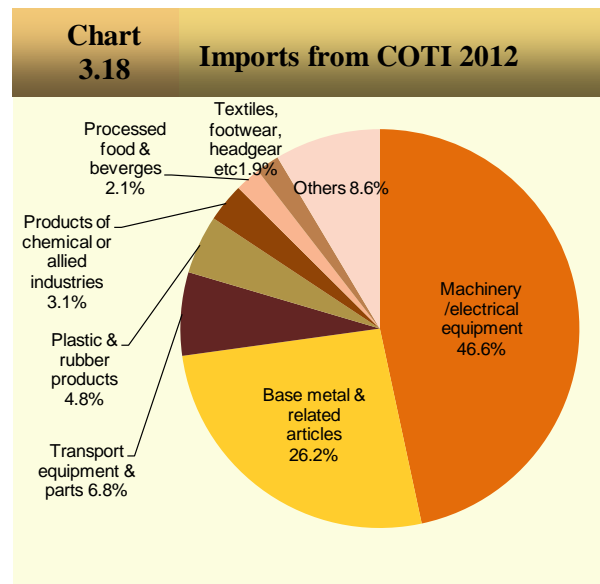
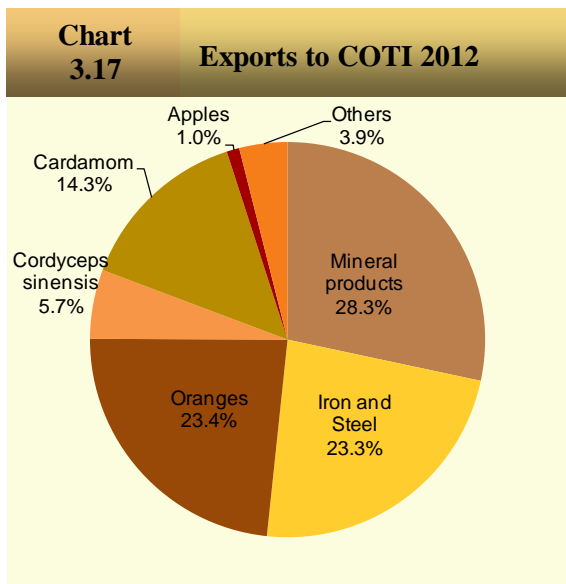
1993	GOI Line of Credit (LOC) – INR 100 million
1994	GOI LOC enhanced to INR 250 million
1998	SBI Overdraft Facility (ODF) – INR 800 million
1999	GOI LOC of INR 250 million <i>liquidated</i>
2003	SBI ODF enhanced to INR 2 billion
2007	SBI ODF enhanced to INR 4 billion (USD 25 million sold)
2009 (Mar)	INR 3 billion availed through GOI LOC
2010 (Jul)	SBI ODF enhanced to INR 5 billion
2011 (Jul)	SBI ODF enhanced to INR 6 billion; and then to INR 7 billion
2011 (Aug)	SBI ODF enhanced to INR 8 billion
2011 (Dec)	USD 200 million sold to liquidate SBI ODF
2012 (Mar)	SBI ODF enhanced to INR 10 billion
2012 (May)	PNB ODF – INR 2 billion availed (out to INR 5 billion limit)
2012 (Jun)	Additional INR 3 billion availed through GOI LOC
2013 (Jan)	USD 36.84 million sold for INR (<i>World Bank Development Policy Credit II received as budgetary support to RGOB</i>)
2013 (Mar)	INR SWAP with RBI – INR 5.4 billion
2013 (Jun)	USD 200 million sold for INR

3.3 Balance of Payments with Countries Other Than India

Bhutan experienced a **current account surplus** (of 1.6 percent of GDP) with COTI in FY 2012/13, after five years of sustained deficits. While the total surplus in the income accounts (primary + secondary) fell from Nu.4.1 billion to Nu.3.2 billion, the service account registered a surplus of Nu.498.9 million in the year while there was also a significant decrease in the trade deficit from Nu.7.1 billion to Nu.2.2 billion. Moreover, the net surplus in the **capital and financial account** rose from Nu.3.5 billion in 2011/12 to Nu.6.3 billion driven by a more than doubling of the convertible currency loan liabilities in the year.



Even as the BOP with COTI registered net surpluses in all major accounts – current, capital and financial – the **overall balance** (change in reserve assets) for COTI was negative for the year at Nu.623.8 billion because of the net effect of the sale of US Dollar reserve assets for Indian Rupees. Therefore, along with **net errors and omissions** arising from other sources in the BOP, the re-composition of reserves assets away from convertible currency from the sale, with its counter entry in the BOP statement with India (gain in Rupee reserves) was reflected in a large and negative net errors and omissions for COTI of Nu.8.6 billion.



3.4 External Debt

Bhutan's **total outstanding external debt** increased to an equivalent of USD 1.7 billion as of June 2013. Of this, an equivalent of USD 579.3 million was outstanding on convertible currency loans and the remaining ₹ 67.2 billion were outstanding Rupee loans. Of the total Rupee debt, 75.8 percent were outstanding public debt on hydropower projects including the accrued interest on hydro debt while 22.9 percent represented debt taken to finance BOP transactions with India (the GOI line of credit and the RBI swap facility). Within the convertible currency loan portfolio, concessional public and publicly guaranteed debt accounted for 98.9 percent while the remaining 1.1 percent represented outstanding external debt of the private sector.

The Government of India remains Bhutan's largest creditor with 56.2 percent of overall external debt at Nu.54.4 billion or 80.9 percent of total Rupee outstanding debt. The GOI is followed by the ADB with USD 222.9 million, the World Bank with USD 172.2 million and the Government of Austria with USD 94.6 million. Bhutan's total debt outstanding including the accrued interest for hydro debt stood at 102.4 percent of GDP. Total external debt excluding accrued interest on hydropower stood at 95.7 percent of GDP for the year.

Overall debt servicing for FY 2012/13 amounted to USD 22.1 million on convertible currency debt and ₹ 83.6 billion on Rupee denominated debt (including the cumulative amount of ₹ 76.9 billion overdraft and the corresponding interest cost of ₹ 806.7 million paid during the year). A status report on Bhutan's external debt is included as **Annex VI**. When including the ₹ 76.9 billion overdraft availed at various points throughout the year and corresponding interest cost of ₹ 806.7, the external debt service ratio, a liquidity monitoring ratio, increased to 215.6 percent in 2012/13, from 127.1 percent in the previous year. However, the external debt service ratio excluding the overdraft increased to 18.2 percent from 12.9 percent.

Table 3.10 External Debt Indicators

Item	2008/09	2009/10	2010/11	2011/12	2012/13
Debt Outstanding (in millions of respective currency, end of period)					
Total (USD)	798.0	887.1	1,325.9	1,397.9	1,705.4
Convertible Currency (USD)	347.4	385.4	527.6	524.7	579.3
Indian Rupee	21,400.7	22,777.9	35,697.3	49,165.6	67,228.6
<i>Of which, GOI Line of Credit</i>	<i>3,000.0</i>	<i>3,000.0</i>	<i>3,000.0</i>	<i>6,000.0</i>	<i>10,000.0</i>
<i>SBI & PNB Overdraft</i>	<i>917.3</i>	<i>1,500.3</i>	<i>4,914.8</i>	<i>5,156.0</i>	-
Debt/GDP ratio (%)					
Total	69.4	66.6	81.8	91.6	102.4
Convertible Currency loan	30.3	29.4	32.5	34.4	34.8
Indian Rupee loan	39.1	37.2	49.2	57.2	67.6
External Debt per Capita (Nu.)	56,622.5	59,641.5	85,212.0	110,862.4	141,407.6
Debt service ratio (%)					
Total (including OD)	30.5	29.7	51.7	127.1	215.6
Convertible Currency loan	16.4	21.4	12.4	14.5	11.8
Indian Rupee loan	32.7	31.4	63.5	158.7	287.5
Total debt service ratio (excluding OD)	13.8	15.4	12.5	12.9	18.2
GDP (Nu. millions)	54,744.3	61,220.6	72,496.6	85,913.0	99,455.1

*Based on calendar year GDP at current prices. Example, the 2010 GDP figure is used to calculate the ratio for 2010/11.

**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.

***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.

Sources: DPA (Ministry of Finance), private sector enterprises & RMA.

3.5 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 international investment position** is the difference between a country's international financial assets and liabilities and is an indicator of a country's international liquidity and exposure.

The IIP time-series featured in this report now includes expanded coverage of previously missing components such as trade credits, while reserve assets exclude US Dollar deposits that were pledged on the Indian Rupee overdraft facility from the SBI and PNB by the amount of outstanding overdraft during as of the relevant reference period. The equivalent US Dollars of the outstanding overdraft was considered to be encumbered assets and reclassified under other investments. The improvements in data quality were carried out under various TA missions and workshops that were availed under the IMF-JSA project.

Bhutan's **external assets** increased from USD 854.6 million as of end-June 2012 to USD 1 billion as of end-June 2013 because of an increase in reserve assets. **External liabilities** also

increased from USD 1.6 billion to USD 2 billion as all major sub-components increased in the year. Bhutan's net external liabilities increased by USD 195.7 million to USD 934.2 million as of June 2013.

Table 3.11 International Investment Position

	<i>Millions of USD</i>				
	JUN 2009	JUN 2010	JUN 2011	JUN 2012	JUN 2013
	(r)	(r)	(r)	(r)	(p)
Net IIP	-101.2	-137.2	-511.1	-738.5	-934.2
Assets	792.4	892.0	1,006.8	854.6	1,021.9
Currency and deposits	81.0	94.5	172.7	154.9	64.0
Trade credits	35.9	39.4	37.9	27.8	41.1
Reserve assets ¹	675.5	758.2	796.2	671.9	916.9
Liabilities	893.6	1,029.2	1,517.9	1,593.2	1,956.1
Direct investment in Bhutan	27.8	53.7	67.8	83.3	130.0
o.w. Equity	25.4	51.3	54.2	58.4	104.1
o.w. Intercompany Debt	2.3	2.4	13.7	24.9	25.9
Currency and deposits	82.7	80.6	83.2	77.2	83.5
Loans	786.0	888.1	1,349.3	1,422.8	1,730.8
Trade credits	-2.8	-1.9	7.9	1.2	3.6
Special drawing rights	0.0	8.7	9.6	8.7	8.2
Exchange rate to USD	48.51	46.60	44.72	56.31	59.70

(r) = revised; (p) = provisional; ¹Excludes 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); *End of period exchange rates used.

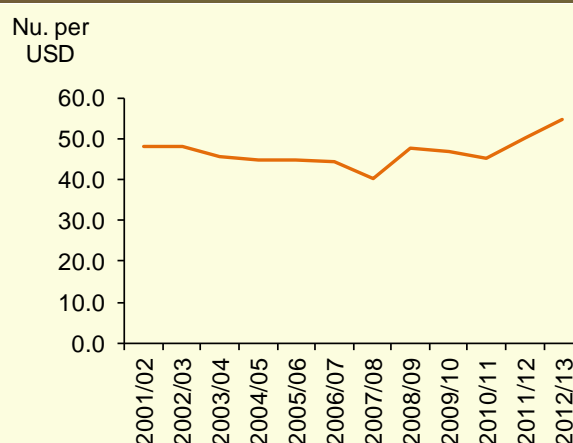
3.6 Exchange Rate Developments

The Ngultrum averaged Nu.54.9 per US Dollar in the fiscal year, depreciating by 8.4 percent from the previous fiscal year. In terms of June-to-June comparisons, the Ngultrum depreciated by 3.9 percent against the US Dollar between June 2012 and June 2013.

The Ngultrum is pegged at par to the Indian Rupee and as such, movements in the Ngultrum vis-à-vis major international currencies are a reflection of developments in India. Throughout the fiscal year, various factors were responsible for the slide in the Indian Rupee against the US Dollar

including weak portfolio flows, demand for Dollars by oil importing firms, widening current account deficit and apprehensions of the future of the Euro area.

Chart 3.19 Nu/USD: Fiscal Year Average



Among other major currencies, the Japanese Yen, depreciated against the US Dollar by 10.3 percent from an average exchange rate of 78.7 Yen per US Dollar in 2011/12 to 87.7 Yen in 2012/13. Meanwhile, the Euro continued to depreciate further against the US Dollar by 3.2 percent from an average of 0.75 Euro to 0.77 Euro per US Dollar in the same period.

Chart 3.20 Nu/USD: Monthly Movements FY 12/13

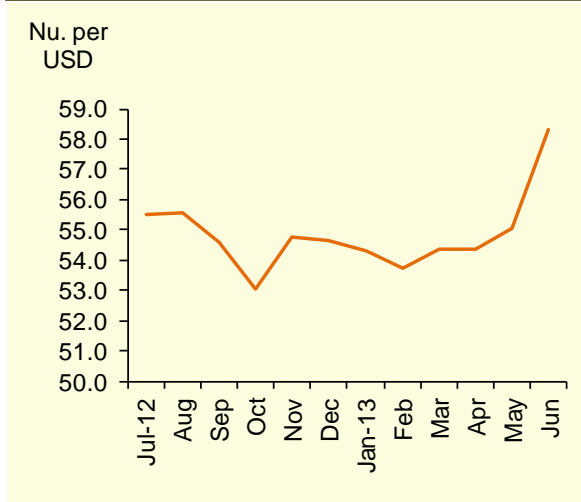
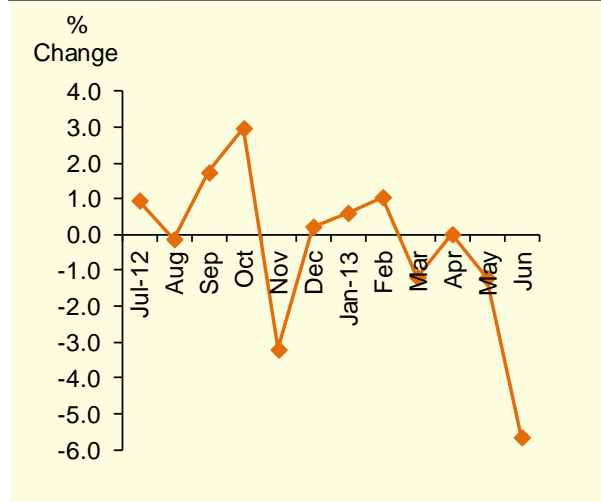


Chart 3.21 Nu/USD: Appreciation (+) /Depreciation (-), FY 11/12



4. GOVERNMENT FINANCE

FY 2012/13 marks the end of the 10th FYP. Despite immense pressures faced by the government soon after the second Parliamentary Election, towards greater fiscal prudence in the aftermath of Rupee and liquidity constraints, the government continued to stride forward to maintain fiscal spending within manageable levels in order to achieve core objectives of inclusive and balanced socio-economic development.

2012/13 Overall Budget Performance

As envisioned in the 10th Plan outlay, over 77 percent of the 2012/13 revised budget amounting to Nu.39.5 billion was earmarked for core economic and growth oriented sectors (see **Box 4.1**). According to the 2012/13 revised budget, the overall fiscal policy stance of the government continued to be a progressive one, with the total expenditure increasing by 14.6 percent (from Nu.33.7 billion for FY 2011/12 to Nu.38.6 billion) during the FY 2012/13. The increase was mainly attributed to a growth in the spending for both current and capital expenditures, which grew by 15.5 percent and 17.6 percent, respectively.

On the resource front, **total revenue** (including grants) increased by 15.3 percent in 2012/13, compared to 15.9 percent in 2011/12. However, in terms of percentage of GDP, total revenue decreased by 4.1 percentage points from 41.9 percent during 2011/12.

4.1 Revenue and Grants

Total revenue (including grants) during the FY 2012/13 amounted to Nu.37.6 billion, an increase of Nu.5 billion from 2011/12. In terms of percentage of GDP, total revenue and grants decreased from 41.9 percent in 2011/12 to 37.9 percent in 2012/13. As for annual growth, total revenue grew by 15.3 percent during the review year from 15.9 percent in 2011/12.

Growth in total revenue during 2012/13 was attributed to improved revenues from tax sources and other revenue receipts of the government. As in the past, tax revenue and donors' assistance (in the form of grants) continued to be a dominant source of revenue to meet the plan expenditure outlay of the government.

The FY 2013-14 budget was prepared in line with the draft 11th Plan and macro-fiscal projections for the medium-term. The budget accorded emphasis on growth stimulation, employment generation and addressing the Rupee situation, amongst others.

As part of expenditure rationalization measures, non-priority recurrent expenditure and non-development capital expenditure have been maintained at a bare minimum. The government continued to take action to identify areas for further expenditure control through identification and removal of non-productive expenditure items. In line with the provisions of the Public Finance Act 2007, the budget was formulated within the Budget Policy and Fiscal Framework Statement (BPFPS) prepared by the Macroeconomic Framework Coordination Committee (MFCC).

Source: National Budget Report (FY 2013/14), and Annual Financial Statements (FY 2011/12), Ministry of Finance

For analytical purposes, the 2012/13 budget (revised in June 2013) is being compared with the 2011/12 actual budget. This Report also highlights the budget outlook for FY 2013/14.

GDP figures used in this Report were sourced from the National Statistics Bureau and from the projections of the MFCTC, MoF.

Domestic revenue (excluding grants), financed 56.6 percent of the total outlay during the review year, decreasing by 3.2 percentage points over the previous year. Of the total domestic revenue, tax revenue and non-tax revenue constituted 73.5 percent and 26.5 percent, respectively, while the remaining was on account of other miscellaneous receipts.

The revenue collection trend has been increasing over the past four years at an average of 13.3 percent per annum, however, the recent setback in the economy due to adverse external sector

imbalances and the government restrictions on selected imports which came into effect from March 2012 have slightly affected the average growth rate of domestic revenue during FY 2012/13.

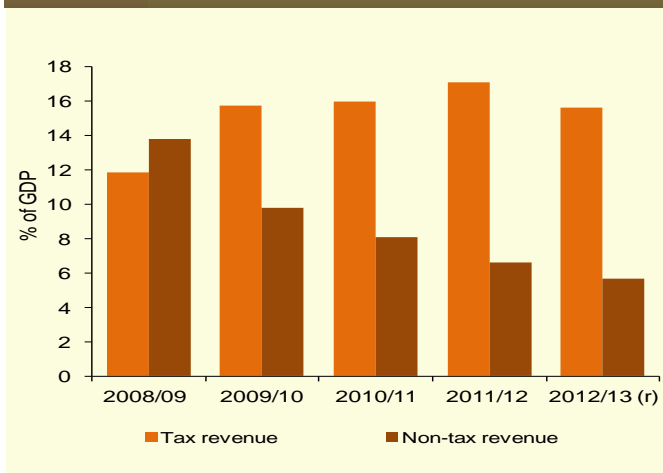
In terms of the major components of **tax revenue**, corporate income tax accounted for 34.4 percent (Nu.5.3 billion) of the total tax revenue, followed by excise duty at 23.2 percent (Nu.3.6 billion), and sales tax at 13 percent (Nu.2 billion). Business income tax from tour operators, contractors, and other miscellaneous business entities amounted to Nu.1.4 billion. Collection under personal income tax amounted to Nu.1 billion during the review year. The revision and rationalization of customs duty and sales tax, and revision of royalties of the tourism sector is expected to have contributed to the increase in the tax revenue base in 2012/13.

Non-tax revenue comprises of administrative fees and charges, capital revenue from the sale of government properties, revenue from government departments, dividend receipts from DHI and other companies, net surplus, interest receipts from corporations and other non-tax revenue. The collection from non-tax revenue for the year stood at Nu.5.6 billion, recording a decrease of 1 percent over the previous year. All sources under non-tax revenue have shown an increase in collection except for capital revenue and net surplus transfer. Non-tax revenue for the year accounted for 26.5 percent of total revenue.

Foreign grants remained a critical source of funding for a major portion of the capital expenditure outlay. During FY 2012/13, foreign grants (Nu.15.8 billion) alone financed 40.9 percent of the total budget outlay, an increase from 37.1 percent last year. In percent of GDP, receipts of foreign grants decreased marginally from 16.1 percent of GDP in 2011/12 to 15.9 percent of GDP in 2012/13. In terms of composition, foreign grants constituted 42 percent of total revenue in FY 2012/13, compared to 38.3 percent in the last fiscal year. Over 80 percent of total foreign grants were in the form of project tied grants and the remaining in the form of program grants.

The Government of India, as a major development partner, alone contributed 66.4 percent of total grants (Nu.10.5 billion) for various development activities. Of this total, 79.7 percent (Nu.12.6 billion) were in the form of project-tied grants and the remaining Nu.3.2 billion were in the form of program grants. Other donors contributed Nu.5.3 billion to the total grant

Chart 4.1 Composition of Domestic Revenue



pool, out of which 22.1 percent (Nu. 3.5 billion) were in the form of project-tied grants and the remaining Nu.1.8 billion towards program grants.

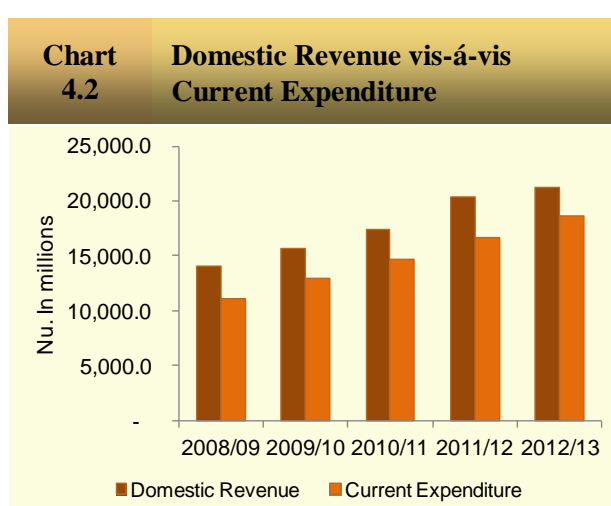
Table 4.1 Highlights of Budgetary Operations, 2008/09-2012/13					
	<i>In percent of GDP</i>				
	2008/09	2009/10	2010/11	2011/12	2012/13(r)
Total revenue (including grants)	42.8	50.6	38.9	38.0	37.9
Tax	11.8	15.8	16.0	17.1	15.6
Non-tax	13.8	9.8	8.1	6.6	5.7
Other receipts	5.1	6.9	0.3	-0.2	0.7
Grants ¹	12.0	18.2	14.5	14.6	15.9
Expenditure and net lending	40.8	48.8	41.2	39.2	38.8
Current expenditure	20.2	21.1	20.3	19.4	18.7
Capital expenditure ²	20.6	27.7	20.8	19.8	20.1
Overall balance	2.0	1.8	-2.3	-1.2	-1.0
Foreign financing (net)	-2.2	0.1	0.4	-1.2	0.7
Domestic financing (net)	0.2	-1.9	1.9	2.4	0.2
GDP at market prices³	54744.3	61220.6	72496.6	85913.0	99455.1

Source: Ministry of Finance.
 1/ Grants include both GOI grants and grants from other countries. 2/ Includes net lending.
 3/ GDP figures are on calendar year basis (eg., CY 2012 used for FY 2012/13) and sourced from the NSB.

4.2 Expenditure

Total expenditure during 2012/13 grew by 14.6 percent over the 2011/12 outlay to Nu.38.6 billion. As a percent of GDP, total expenditure decreased from 43.3 percent in 2011/12 to 38.8 percent as of 2012/13. The share of capital expenditure and current expenditure to total outlay were 51.6 percent and 48.3 percent, respectively.

During the year, total **current expenditure** was budgeted at Nu.18.6 billion, an increase of 11.5 percent over the previous year's current outlay. Despite the rapid growth in current expenditure due to increasing developmental activities and policy reforms, revenue was able to keep pace with the growth in current expenditure, thus meeting the Constitutional requirement of financing recurrent expenditures from its domestic revenue. Current expenditure for the year was Nu.18.6 billion and domestic revenue at Nu.21.1 billion.



Similarly, **capital expenditure** stood at Nu.20.7 billion, higher by Nu.3 billion from the previous year's capital outlay.

The government continued to prioritize its resources focused on core sectors of the economy during FY 2012/13. In the **sectoral budget allocation**, the share of expenditure on economic services (comprised of agriculture, mining and manufacturing industries, roads, housing and

community amenities, communications and energy sector) as a percent of total outlay was the highest, increasing from 27.3 percent during 2011/12 to 32.3 percent for the year 2012/13.

Similarly, the percentage share of the budget outlay allocated to social services (health and education) increased from 23.1 percent to 24.7 percent during the FY 2012/13.

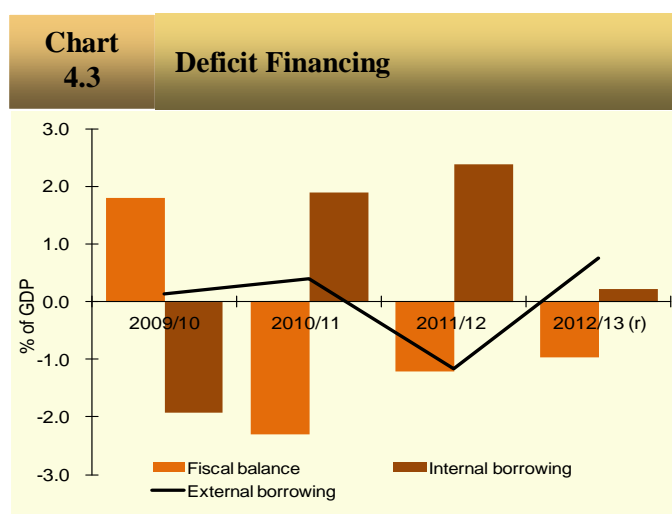
Sectoral expenditure	% of total expenditure				
	2008/09	2009/10	2010/11	2011/12	2012/13 (r)
Social services	20.0	28.5	25.6	23.1	24.7
Health	7.0	8.7	7.1	7.1	6.9
Education	13.0	19.7	18.5	16.1	17.8
Economic services	19.8	35.3	31.7	27.3	35.1
General services	19.3	15.4	13.0	12.5	13.7
National debt services	14.0	11.6	21.1	28.6	14.7
Others/1	6.9	9.2	8.7	8.5	11.9

Source: Ministry of Finance.
1/ Others include public order services and cultural services.

4.3 Financing the Deficit

Despite the government's expenditure cutting and revenue enhancing measures to maintain a minimal and sustainable level of deficit over the medium term, the revised budget of 2012/13 resulted in an overall **fiscal deficit** of Nu.0.9 billion. This represents around 0.9 percent of GDP compared to the deficit of 1.2 percent of GDP in 2011/12.

Of the total deficit, only 1.3 percent was financed through **external borrowings**, mainly from the World Bank (Nu.1,847.4 million) under the Development Policy Credit II and the SASEC Trade Facilitation Program from the ADB (Nu.167.3 million). Correspondingly, a major portion of the remaining resource gap is expected to have been financed from domestic sources.



4.4 2013/14 Budget Outlook

The Royal Government's budget for the FY 2013/14 marks the start of the second democratically elected Government's term and ushers in the first year of the 11th FYP. The 11th FYP fiscal sector outlook (with hydropower debt servicing) in comparison to the 10th FYP presents a more optimistic approach as illustrated in Table 4.3.

The **total budget outlay** for FY 2013/14 has been estimated at Nu.34.2 billion, a decrease of 11.4 percent over the 2012/13 revised budget, with prime focus on growth stimulation, employment generation and addressing the INR problem.

Box 4.1 Major Objectives of the 2013/14 Budget

A. Social sector

- Replacement of old and unserviceable ambulances;
- Develop human resources and health infrastructure;
- Improve accessibility to safe and reliable source of drinking water;
- Consolidation and expansion of education infrastructure;
- Provide scholarships to pursue higher education within and outside Bhutan.

B. Tourism sector

- Development of tourism infrastructure and road-side amenities;
- Improvement of trekking routes, campsites, promotion of unique festivals, hospitality industry and training, marketing and promotional programs.

C. Urban development, housing and public amenities

- Development and improvement of sustainable urban infrastructure;
- On-going capital works for Local Area Plans (LAPs) and infrastructure works.

D. Energy

- Accelerating hydropower development;
- Preparation of DPRs for hydroelectric projects: Kuri Gongri, Chamkharchhu-I, Wangchhu, Ammochhu and updating the DPR for Sankosh;
- Pre-feasibility studies of Chamkharchhu II & III, Dangchhu, and Kholongchhu.

E. Agriculture

- Improvement and construction of new farm roads;
- Procurement of agricultural machineries;
- Boost production of winter crops and farmers training.

F. Trade, industrial and private sector development

- Development of micro, small and medium enterprises (SMEs) and indigenous crafts ;
- Construction of solid waste disposal site at Pasakha industrial site;
- Development of Special Economic Zones (SEZs) at Motanga (Samdrup Jongkhar) and Jigmeling (Sarpang).

G. Communication and Transport

- Expansion of infrastructures at four airports: Paro, Yongphula, Bumthang and Gelephu;
- Improving access to ICT services in rural areas and strengthening of telecom infrastructures;
- Increasing the city bus fleet.

Source: National Budget Report, 2013/14, Ministry of Finance.

In the **2013/14 budget**, as part of expenditure rationalization measures and to curtail wasteful expenditure, **non-priority recurrent expenditure and non-development capital expenditure have been maintained at a bare minimum** with 49.5 percent (Nu.16.6 billion) of the total budget allocated towards **capital expenditure**, a decrease of Nu.4.9 billion (or

negative growth of 24.6 percent) from the capital outlay of the previous year. The remaining budget is being allocated to meet **current expenditure**, budgeted at Nu.19.2 billion. Given the commitment of the government towards socio-economic development and poverty alleviation, a major portion of the **sectoral budget** has been allocated to economic and social sectors during FY 2013/14. Keeping in line with the provisions of the Constitution and Public Finance Act, the budget for the FY 2013-14 has been framed within the following three broad budget policies:

1. Expenditure rationalization

- i. As the first year of the 11th FYP, priority has been accorded for preparatory works for capital investments including feasibility studies, survey, design and drawing, environment clearance, etc.;
- ii. Budget provided for new capital works are only with the completed preparatory works and those ready for implementation;
- iii. Operating expenditures such as travel, supplies and materials, entertainment budget, etc. are being maintained at the previous year's budget levels;
- iv. Minimum budget for non-development capital expenditure such as furniture, computer and office equipment is being provided except for new establishments and schools;
- v. Priority has been accorded towards completion of spillover works from the 10th FYP and provision of standard facilities for Gewogs;
- vi. No budget for vehicles except for ambulances and other critically required utility vehicles;
- vii. Ex-country travel budget to be provided only for mandatory meetings, conferences and seminars as per bilateral and multi-lateral agreements;
- viii. Subsidy to be provided to agencies with social mandate for capital works and to cover the revenue deficit.

Box 4.3 Austerity Measures

The following cost cutting measures were adopted by the government in line with austerity measures to curtail recurrent expenditure till the economic situation improves:

- i. **Pay scale and benefits:** The existing pay scale of Nu.78,000-1560-85,800 and benefits shall be applied for the Hon'ble Prime Minister, Cabinet Ministers and equivalent post holders with effect from 27th July 2013.
- ii. **Accommodation:** The Cabinet Ministers and equivalent post holders shall occupy the furnished official residences at Lhengye Densa to avoid the need for payment of house rent allowance.
- iii. **Transport/vehicle:** The Hon'ble Prime Minister will use the old vehicle (Toyota Prado) as his duty vehicle and the Cabinet Ministers will use one of the pool vehicles assigned by the respective Ministries. No new vehicles shall be procured by the Government. The Wagon R car provided for the secretarial duty of the Cabinet Ministers shall be used as pool vehicle in the respective Ministries.
- iv. **Domestic staff:** The practice of keeping domestic staff at the respective residences of the Lhengye Densa has been discontinued, and the Department of National Property's Maintenance Unit shall look after the flower gardens and the general cleaning of premises on a regular basis.

Source: Ministry of Finance (www.mof.gov.bt).

2. Sustainable fiscal balance

- i. Domestic revenue, besides covering recurrent expenditure fully, is expected to finance at least 15 percent of capital expenditure;
- ii. Contain fiscal deficit below 5 percent of GDP with a target to achieve an average of 3 percent of GDP during the Plan period.

3. Sustainable resource gap

- i. Avail external borrowings only for socially productive, economically gainful and commercially viable projects;
- ii. External borrowings not to be used for the purchase of vehicles, trainings, study visits, road shows, etc.;
- iii. Limit government domestic borrowings to avoid crowding out of private sector credit;
- iv. Implementation of externally financed projects to be commenced only upon receipt of funds from donors;
- v. To avoid past experience of cost over-runs, realistic estimation of project costs to be prepared and fund commitment and release to be obtained prior to implementation;
- vi. Changes in the scope of works to be permitted only after careful technical analysis and confirmation of resources and not based on ad-hoc decisions.

The economic sector, with a budget share of 32.3 percent, still continues to rank as the priority sector in the budget allocation for 2013/14, followed by the social sector (comprising of the health and education sub-sectors) with a 25.1 percent stake.

Within the economic sector, the agriculture sub-sector is to receive the highest budget share of 10 percent, followed by roads (9 percent), housing and community (6 percent), communication (3 percent), and energy and mining sub-sectors (2 percent each). Within the social sector, the education sub-sector shall receive the highest share of 17 percent, while the health sub-sector to receive 8 percent of the budget.

Total revenue including grants, is projected at Nu.30 billion. Of this amount, 51.1 percent is expected to be collected through **taxes**, mainly from corporate income tax (hydropower companies), business income tax, personal income tax, and sales tax and excise duties. Under **non-tax revenue** sources, dividends and interest from corporations are expected to contribute Nu.6.5 billion (21.8 percent) to the total revenue pool. Remaining revenue mobilization will be on account of aid and grants received from donors as well as from other miscellaneous government receipts.

As in the past, external grants shall continue to play a crucial role in financing major socio-economic development activities. In the 2013/14 budget, total grants are estimated at Nu.8.1 billion, which constitutes about 27 percent of the total revenue and covers 23.7 percent of the total expenditure.

As a result, **the overall fiscal deficit** for FY 2013/14 is estimated at Nu.4.2 billion (3.7 percent of GDP), lower by Nu 3.3 billion compared to the 2012/13 revised budget. To finance the revenue-expenditure mismatch, **external borrowings (net)** of Nu.83.8 million are projected. As in the past, the government continues to rely on external sources such as the World Bank and Asian Development Bank.

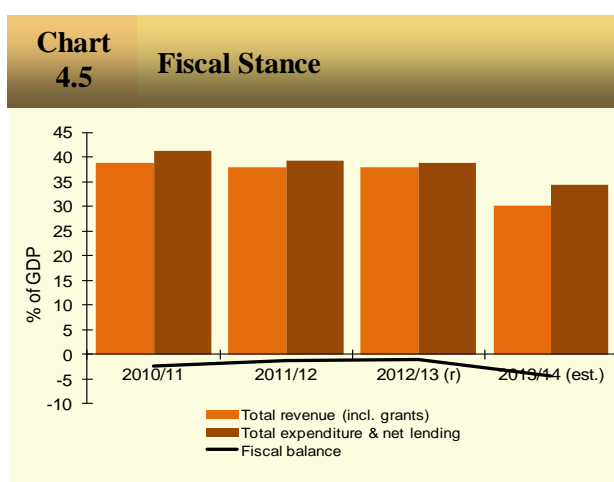


Table 4.3 Fiscal Projections (with Hydropower debt servicing) in Nu. Millions

Objective	10th Plan Outcome	11th Plan Projections	Variance (%)
	"In Pursuit of Equity and Justice"	"Self Reliance and inclusive Green Socio-economic Development"	
Resources	149,945.6	209,328.1	40
Domestic Revenue	89,990.3	150,689.4	67
Grants	51,960.1	58,638.7	13
Expenditure Outlay	152,657.6	209,440.3	37
Total Expenditure	148,652.4	224,164.6	51
Current	74,298.2	132,164.6	78
Capital	74,354.2	92,000.0	24
Net Lending	4,719.7	(14,724.3)	
Fiscal Balance	(2,712.0)	(112.2)	
As % of GDP	(0.5)	(0.2)	
Net Borrowing	(5,185.9)	1,895.1	
Borrowings	11,988.1	21,493.2	
Repayments	17,174.0	19,598.1	
Resource Gap	(7,897.9)	1,782.9	
As % of GDP	(1.8)	0.4	

Note: The sub components of the 10th Plan Resource total will not add up as the "Other Receipts" figure is not shown here. Similarly, the sub components of the expenditure outlay will not add up as "Other Payments" and "Advances/Suspense (Net)" are not shown.

5. WORLD ECONOMY

Global growth continued to expand at a subdued pace during the second half of 2013 due to enduring uncertainty and downside risks. During the first half of 2013, global growth averaged at an equivalent to the pace of the second half of 2012 at 2.5 percent; majority of the growth was contributed by the emerging market economies. Despite achieving some growth momentum by the advanced economies recently, emerging market economies witnessed a slow-down due to tight capacity constraints, stabilizing or falling commodity prices, less policy support, and slowing credit after a period of rapid financial deepening.

According to the World Economic Outlook (*October 2013 Issue*) projections, global growth is expected to remain at 2.9 percent in 2013 and 3.6 percent in 2014. The downward revision in the global growth prospects is due to the slowdown in emerging market economies and downward revisions in the growth in the US and the Euro area. Real GDP in advanced economies is projected to grow at 1.2 percent in 2013 and increasing marginally to 2 percent during 2014. Meanwhile, growth in emerging and developing economies is projected at 4.5 percent in 2013 and further to 5.1 percent in 2014. The impulse of the global growth projected originated from the advanced economies, where output is expected to expand at a pace of about 2 percent in 2014, 0.8 percentage points more than in 2013. Drivers of the projected uptick are a stronger U.S. economy, an appreciable reduction in fiscal tightening (except in Japan), and highly accommodative monetary conditions. Growth in the Euro area will be held back by the very weak economies in the periphery. Emerging market and developing economies are projected to expand by about 5 percent in 2014, as fiscal policy is forecast to stay broadly neutral and real interest rates to remain relatively low. Unemployment is likely to remain unacceptably high in many advanced economies as well as in various emerging market economies, notably those in the Middle East and North Africa.

In advanced economies, inflation is currently recorded below target, at about 1.5 percent on average. It is anticipated that the return to target will be slow given that output is expected to return to potential slowly. In the United States, the decline in the unemployment rate partly reflected reductions in labor force participation due to demographic trends as well as discouraged workers dropping out of the labor force. Discouraged workers are likely to return to the labor market as prospects improve, and thus wage growth will be sluggish for some time. In the Euro area, a weak economy and downward pressure on wages in the periphery are forecast to hold inflation to about 1.5 percent in the medium term. For Japan, the projection reflects a temporary surge in the price levels in response to the consumption tax hikes in 2014 and 2015; excluding the effect of the consumption tax hike, inflation is projected to move up only very gradually, reaching the 2 percent target sometime in 2016–17. Inflation is expected to move broadly sideways at around 5–6 percent in emerging market and developing economies. The drop in commodity prices and the downshift in growth will reduce price pressures, but capacity constraints and the pass-through from weakening exchange rates will offset this downward pressure to some degree. Another counter push to lower inflation will be strong domestic demand pressures in a few of these economies.

With the global activity expected to strengthen moderately, the overall macroeconomic risks remain unchanged. European recovery has been tepid, and growth in an increasing

number of emerging market economies is slowing. At the same time, the U.S. recovery is gaining ground, which is positive for global growth, but will have implications for emerging market economies that need to be considered for medium term prospects.

According to the *October 2013 Global Financial Stability Report*, beyond immediate risks, the prospect of reduced monetary accommodation in the United States may cause additional market adjustments and expose areas of financial excess and systemic vulnerability. Under such a scenario, emerging market economies may face exchange rate and financial market overshooting as they cope with weaker economic outlooks and rising domestic vulnerabilities; some could even face severe balance of payments disruptions. Over time, worryingly high public debt in all major advanced economies and persistent financial fragmentation in the Euro area could trigger new crises. Forestalling the plausible downside scenario or the advent of new crises requires further policy efforts, mainly in the advanced economies. Old challenges to be addressed include repairing financial systems and adopting a banking union in the Euro area and developing and implementing strong plans, supported by concrete measures, for medium-term fiscal adjustment and entitlement reform in Japan and the United States. A new challenge is for U.S. monetary policy to change tack carefully in response to changing growth, inflation, and financial stability prospects. Excessive tightening may be difficult to undo, and global growth may well fall short of, rather than exceed, medium-term growth and inflation projections. In the Euro area, risks continued to flow from the unfinished business of restoring bank health and credit transmission and from corporate debt overhang. Insufficient fiscal consolidation and structural reforms in Japan could trigger serious downside risks, especially of the fiscal variety. Emerging market and developing economies too are facing new policy challenges. The appropriate policy mix and the pace of adjustment differs across economies, in view of the differences in output gaps, inflation pressures, central bank credibility, room for fiscal policy maneuvering, and the nature of vulnerabilities.

Table 5.1 World Economic Outlook

Indicator	% change (year-on-year)			
	Actual		Projection	
	2011	2012	2013	2014
World Output¹				
World Output	3.9	3.2	2.9	3.6
Advanced Economies	1.7	1.5	1.2	2.0
Emerging Market and Developing Economies	6.2	4.9	4.5	5.1
<i>Memorandum Items</i>				
Developing Asia	7.8	6.4	6.3	6.5
<i>Bhutan</i>	8.5	9.2	5.8	8.0
<i>India</i>	6.3	3.2	3.8	5.1
Consumer Prices				
Advanced Economies	2.7	2.0	1.4	1.8
Emerging Market and Developing Economies	7.1	6.1	6.2	5.7
<i>Memorandum Items</i>				
Developing Asia	6.3	4.7	5.0	4.7
<i>Bhutan</i>	8.9	10.9	11.1	9.3
<i>India</i>	8.4	10.4	10.9	8.9

Source: World Economic Outlook, October 2013, International Monetary Fund.

1) Real GDP growth.

6. MACROECONOMIC INDICATORS FOR THE SAARC REGION¹

For the year under review, industrial activity declined in emerging Asia mainly contributed by the slow down in the pace of growth in China. Weaker exports and persistent decline in capital inflows as well as exchange rate depreciation has also contributed to the fall in growth within this region. According to the *South Asia Economic Focus* report, World Bank, South Asia was the second-fastest growing region in the world in the aftermath of the global crisis. However, in 2012, South Asia slowed to 5.1 percent from 6 percent in 2011, marking the second year of sluggish performance. A large part of the South Asian region continues to grow slowly, largely because of weaker demand. Policies need to strike a balance between supporting growth and guarding against inflation and financial stability risks. From the supply-side, continued structural reforms are crucial to help reduce vulnerabilities.

Since India represents 80 percent of regional GDP, the economic downdraft in the region during the period can be attributed to the uncertain investment situation in **India**, its persistent high inflation and tight monetary policy, coupled with weaker external demand. India also witnessed a slowing down in fixed capital formation and weak industrial activity.

Afghanistan witnessed positive growth entirely due to the strong performance of the agricultural sector, as weather improved from the drought in 2011. Its private consumption buoyed by international aid inflows remained its key source of growth along with a slight increase in private investment. **Bangladesh** witnessed slightly lower growth due to the fall in its agricultural sector performance by half on account of higher power fuel and fertilizer prices as well as reduced area for its monsoon rice crop; private consumption increased due to an expansion in workers' remittances. **Maldives** recorded declined growth due to its slowdown in tourism and related activities which accounts for 28 percent of GDP. The recession in Europe and slowdown in global economy combined with uncertainty created by domestic events to stymie the industry were some major factors for the slowdown. Meanwhile, **Nepal's** economy rebounded with 4.6 percent growth boosted by a favorable monsoon and robust services growth despite a slowdown in the industry sector. **Pakistan's** economic growth dropped to 3.6 percent during 2012/13 from 4.4 percent in the previous year. Its economic growth averaged 3 percent per annum over the past five years. Severe power shortages and security problems contributed to slower growth during the review period. **Sri Lanka's** economic growth slowed below 8 percent for the first time since the civil conflict ended, largely attributed to weak external demand, tight monetary conditions and bad weather. Its economic performance during the year is underpinned by strong industrial performance and double growth in the construction sector.

High average inflation in the region reflected expansive fiscal policies, upward adjustments in administered domestic fuel and electricity prices to contain large subsidies, currency depreciation and agricultural factors.

¹ Information in this section sourced from: the Asian Development Outlook 2013 Update and world Economic Outlook, IMF.

Table 6.1 contains selected macroeconomic indicators of SAARC member countries based on updates by respective country central banks and IMF country reports.

Table 6.1 Selected Macroeconomic Indicators for the SAARC Region						
Indicator *	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
I. Output and Prices						
Real GDP	annual % change					
\	13.7	3.6	21.0	8.4	7.3	11.9
Bangladesh	6.2	6.2	5.7	6.1	6.7	6.3
Bhutan	17.9	4.7	6.7	11.7	8.6	4.6
India	8.8	6.8	8.0	8.5	6.5	5.0
Maldives	10.6	12.2	-3.6	7.1	7.0	3.4
Nepal	5.3	5.8	3.9	4.3	3.8	4.6
Pakistan	3.7	3.7	2.6	3.7	4.4	3.6
Sri Lanka	6.8	6.0	3.5	8.0	8.2	6.4
Nominal GDP	in USD billions					
Afghanistan	8.7	10.5	12.5	15.9	18.3	19.9
Bangladesh	79.6	89.4	100.1	108.1	109.7	115.6
Bhutan	1.2	1.3	1.3	1.6	1.7	1.8
India	1138.5	1150.4	1293.5	1603.2	1698.0	1841.7
Maldives	1.5	1.9	1.9	2.1	2.0	2.2
Nepal	12.6	12.9	15.7	18.3	20.1	19.4
Pakistan	163.9	162.0	174.9	202.8	213.9	231.2
Sri Lanka	32.4	40.7	42.1	49.6	59.2	59.4
Consumer Prices	annual % change; period average					
Afghanistan (<i>for Kabul only</i>)	13.0	26.8	-12.2	7.7	9.1	6.1
Bangladesh	9.9	6.7	7.3	8.8	10.7	7.7
Bhutan	6.3	7.1	4.8	8.6	10.1	8.6
India (<i>Industrial workers</i>)	7.9	9.1	12.4	10.4	8.2	10.8
Maldives (<i>National</i>)	7.4	12.3	4.0	4.7	12.1	5.5
Nepal	7.7	12.6	9.6	9.5	8.3	9.9
Pakistan	12.0	20.8	11.7	14.1	11.0	7.4
Sri Lanka ⁽¹⁾	15.8	22.6	3.5	6.2	6.7	7.0
II. Public Finances						
Domestic Revenue and Grants	in % of GDP					
Afghanistan	19.9	17.5	20.5	22.0	20.3	25.4
Bangladesh	10.8	10.8	11.5	12.2	12.7	13.8
Bhutan	37.0	42.8	50.6	38.9	38.0	37.9
India (<i>Central govt only</i>)	11.0	9.9	9.2	9.2	8.9	8.7
Maldives	38.4	28.5	21.3	24.6	30.4	31.2
Nepal	15.3	16.6	18.0	18.5	18.4	18.1
Pakistan	14.6	14.5	14.0	14.3	14.0	13.2
Sri Lanka	16.6	15.6	15.0	14.9	14.5	13.2
Expenditures	in % of GDP					
Afghanistan	22.0	21.7	22.1	21.1	27.1	25.5
Bangladesh	15.9	14.5	14.6	15.9	18.2	17.7
Bhutan	36.2	40.9	48.8	47.2	43.3	39.6
India (<i>Central govt only</i>)	14.4	15.7	15.9	15.6	14.9	14.5
Maldives	42.0	42	44.1	40.7	40.6	40.4
Nepal	17.4	19.2	19.0	18.6	20.7	18.6
Pakistan	22.2	19.9	20.3	18.0	20.5	21.4
Sri Lanka	23.5	22.6	24.9	22.9	21.4	19.7

Indicator *	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Overall Balance	in % of GDP					
Afghanistan	-2.0	-4.1	-1.6	0.9	-0.6	-0.01
Bangladesh	-4.6	-3.7	-3.1	-3.7	-4.7	-1.2
Bhutan	0.8	2.0	1.8	-2.3	-1.2	-1.0
India (<i>Central govt only</i>)	-2.6	-6.0	-6.4	-5.1	-7.7	-5.8
Maldives	-3.7	-11.9	-23.4	-12.7	-10.2	-11.2
Nepal	-2.1	-2.6	-1.0	-1.8	-1.3	0.2
Pakistan	-7.6	-5.3	-6.3	-6.6	-4.0	-8.5
Sri Lanka	-6.9	-7.0	-9.9	-8.0	-6.9	-6.6
III. Monetary Sector						
Broad Money	annual % change; end of period					
Afghanistan	31.0	35.9	39.3	23.1	14.3	6.4
Bangladesh	17.6	19.2	22.4	21.4	16.3	16.7
Bhutan	2.3	24.6	30.1	21.2	-1.0	18.6
India	21.4	19.3	16.9	16.1	13.1	15.6
Maldives	24.1	21.8	12.4	16.5	20.0	14.4
Nepal	25.3	27.3	14.1	12.3	17.9	12.5
Pakistan	15.4	9.6	12.5	15.9	14.4	15.9
Sri Lanka	16.6	8.5	18.6	15.8	19.1	17.6
Reserve Money	annual % change; end of period					
Afghanistan	14.4	64.9	17.1	21.3	18.8	18.7
Bangladesh	20.6	31.9	18.1	21.0	9.0	15.0
Bhutan	-3.4	14.2	40.0	-4.1	-15.1	43.3
India	31.4	6.4	17.0	19.1	3.7	7.8
Maldives	27.8	23.1	14.1	-1.3	24.5	23.0
Nepal	21.2	35.3	11.7	7.2	36.4	12.3
Pakistan	22.3	1.9	11.4	17.1	11.4	15.9
Sri Lanka	10.2	1.5	13.1	18.8	21.9	10.2
Private Sector Credit	annual % change					
Afghanistan	78.3	29.8	39.7	19.3	-49.8	7.9
Bangladesh	25.5	15.5	24.2	25.8	18.5	11.0
Bhutan	37.4	31.1	40.7	29.4	30.1	7.1
India (excl RBI)	21.1	16.4	16.3	21.3	17.1	15.5
Maldives	52.6	29.1	-4.5	-2	6.0	-9.0
Nepal	24.3	29.0	14.2	13.9	11.3	13.0
Pakistan	16.5	0.6	3.9	4.0	6.4	-0.6
Sri Lanka	19.3	7.0	-5.8	24.9	34.5	17.6
Broad Money Velocity						
Afghanistan	4.0	3.3	2.7	2.6	2.8	2.8
Bangladesh	2.2	2.1	1.9	1.8	1.8	1.7
Bhutan	1.9	1.7	1.5	1.3	1.7	1.7
India (GDP/M3)	1.4	1.3	1.3	1.3	1.2	1.2(P)
Maldives	1.9	1.9	1.6	1.5	1.4	1.45(P)
Nepal	1.7	1.6	1.5	1.5	1.4	1.4
Pakistan	2.2	2.5	2.9	2.7	2.7	2.6
Sri Lanka	2.7	3.0	2.7	2.7	2.6	2.6
Broad Money Multiplier						
Afghanistan	1.9	1.5	1.8	1.8	1.8	1.8
Bangladesh	5.2	4.7	4.9	4.9	4.6	5.4
Bhutan	2.0	2.2	2.0	2.6	3.0	2.5
India (M3/M0)	4.6	4.8	5.2	5.0	5.2	5.5
Maldives	2.3	2.2	2.2	2.6	2.8	2.4
Nepal	3.4	3.2	3.3	4.8	-10.0	3.5
Pakistan	3.2	3.4	3.2	3.4	3.5	3.5
Sri Lanka (M2b/M0)	5.3	5.7	6.0	5.8	5.7	6.0

Indicator *	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
IV. External Sector						
Export of Goods	annual % change; USD values					
Afghanistan	1.8	33.0	2.1	12.3	2.5	0.7
Bangladesh	17.4	10.1	4.2	41.7	15.0	11.2
Bhutan	4.4	-14.9	3.0	26.8	-7.3	-3.9
India	28.9	12.2	-2.2	42.3	21.3	-2.6
Maldives	1.2	45.2	-49.0	16.8	75.4	-9.4
Nepal	-4.6	0.5	-6.1	13.2	5.0	6.9
Pakistan	12.2	-7.2	9.1	28.6	23.7	0.2
Sri Lanka	11.0	6.2	-12.6	21.8	22.4	-7.4
Import of Goods	annual % change; USD values					
Afghanistan	15.6	14.8	-0.8	4.5	0.4	7.5
Bangladesh	25.6	4.2	5.4	41.8	11.7	9.8
Bhutan	30.2	-9.5	36.1	41.7	-10.0	-6.5
India	35.4	18.8	-3.5	22.3	32.4	-1.6
Maldives	18.3	26.6	-30.3	13.3	34.3	6.1
Nepal	8.4	14.1	36.4	10.2	3.4	17.9
Pakistan	30.9	-12.9	-0.3	16.4	31.1	-1.6
Sri Lanka	10.2	24.7	-27.6	31.8	50.7	-5.4
Current Account Balance	in % of GDP					
Afghanistan	1.3	0.9	-2.8	1.7	-3.6	3.4
Bangladesh	0.9	2.8	3.7	0.9	-1.2	1.9
Bhutan	-9.1	-6.6	-24.3	-32.6	-23.0	-25.0
India	-1.3	-2.3	-2.8	-2.6	-4.2	-3.8
Maldives	-29.0	-36.2	-24.0	-24.2	-38.0	-27.9
Nepal	2.7	4.2	-2.4	-0.9	-1.0	3.4
Pakistan	-8.5	-5.7	-2.2	0.1	-1.0	-1.0
Sri Lanka	-4.3	-9.5	-0.5	-2.2	-7.8	-5.0
Foreign direct investment, net	in USD millions					
Afghanistan		300	303	329	315.0	321.0
Bangladesh	748	941	941	913	768.0	950.0
Bhutan	3.1	18.1	74.3	31.1	24.1	21.3
India	15893	22697	22461	14939	23473.0	18286.0
Maldives	126	175	154	217	775	1192
Nepal	4	24	38	90	112.5	101.4
Pakistan	5410	3720	2151	1635	812.6	1229(p)
Sri Lanka	548	691	384	435	896.0	813.0
External debt	in % of GDP					
Afghanistan (<i>after debt relief</i>)	23.0	19.7	9.3	8.2	7.0	6.6(P)
Bangladesh	26.6	25.7	22.3	22.7	23.1	21.9
Bhutan	66.9	69.4	66.6	80.9	93.3	103.9
India	19.2	20.5	18.0	17.3	19.7	20.4
Maldives	54.8	49.9	53.6	49.4	50.0	50.8(P)
Nepal	32.8	26.3	28.0	22.1	18.7	20.5(P)
Pakistan	29.9	32.6	31.5	28.2	23.3	26.5
Sri Lanka	51.0	43.7	49.7	50.1	48.8	49.5
External debt service	in percent of exports					
Afghanistan		1.2	1.9	0.8	1.0	1.8(P)
Bangladesh	4.9	4.5	4.5	5.5	4.0	7.1
Bhutan	18.3	30.9	30.7	51.7	127.1	215.6
India	4.7	4.4	5.8	4.3	6.0	5.9
Maldives	4.5	5.1	6.1	5.1	6.9	6.1(P)
Nepal (<i>in % of current receipts</i>)	3.0	3.1	3.2	3.0	2.4	3.7
Pakistan	12.4	19.7	21.5	13.0	16.0	20.6
Sri Lanka	13.1	15.1	19.0	15.9	12.6	13.4

Indicator *	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Gross international/official reserves	in USD millions					
Afghanistan	2784	3591	4209	5321	6345.0	6471.9
Bangladesh	6149	7444	10140	10140	10034.0	9110.0
Bhutan	589.1	704.4	759.4	796.2	674.3	938.4
India(as of Oct 2012 for 2012/13)	309723	251985	279057	304818	294398.0	294876.0
Maldives	308	241	261	350	334.9	304.6
Nepal	2473	2907	2844	3085	4307.0	4595.0
Pakistan	13436	13971	17921	20941	17697.0	6008.0
Sri Lanka (Central Bank + Government)	3508	2402	5357	7196	6748.0	6677.0
Import Cover of Reserves	gross reserves in months of imports					
Afghanistan	4.1	5.3	6.0	6.4	6.5	6.8
Bangladesh	3.1	3.6	3.3	3.2	2.6	2.1
Bhutan	11.2	13.9	11.5	8.4	9.0	12.6
India	14.4	8.4	11.1	9.5	7.1	7.0
Maldives	3.4	2.1	3.2	3.8	2.7	2.4
Nepal	7.0	6.0	5.4	5.8	6.8	6.6
Pakistan	4.0	4.8	6.2	6.2	4.0	1.4(P)
Sri Lanka (Central Bank + Government)	3.7	2.0	6.3	6.4	4.0	3.5
Exchange Rate per U.S. dollar	period average					
Afghanistan	50.0	50.3	50.2	46.5	46.8	50.9
Bangladesh	68.6	68.8	69.2	71.2	70.7	72(P)
Bhutan	40.4	47.8	46.7	45.3	50.3	54.9
India	40.2	45.9	47.4	45.6	47.9	54.4
Maldives	12.8	12.8	12.8	12.8	15.4	15.4
Nepal	65.0	76.9	74.5	72.4	80.2	-
Pakistan	-	25.8	7.6	2.2	4.1	8.7
Sri Lanka	110.6	108.3	114.9	113.1	110.6	127.6

* Data for Maldives and Sri Lanka are on a calendar year basis. For example, entry under 2006/07 is for CY 2006. GDP data for Bhutan is on a calendar year basis as well. (1) Sri Lanka: Rebased CPI(2006/07 =100) has replaced old CPI (2002=100) from June 2011

Sources:

Afghanistan:	IMF Country Report 12/245, August 2012.
Bangladesh:	Bangladesh Bank, Bangladesh Economic Update, August 2012.
Bhutan:	RMA, NSB, DRC and DPA, Ministry of Finance.
India:	Handbook of Statistics on the Indian Economy 2011-12, Reserve Bank of India.
Maldives:	Maldives Monetary Authority, Annual Economic Review 2011.
Nepal:	Staff Report for the 2011 Article IV Consultation, IMF.
Pakistan:	Ministry of Finance, State Bank of Pakistan.
Sri Lanka:	Annual Report 2011, Central Bank of Sri Lanka.

SECTION II

**GOVERNANCE &
ORGANIZATIONAL
DEVELOPMENT**

1. FUNCTIONS OF THE ROYAL MONETARY AUTHORITY OF BHUTAN

In accordance with the **Royal Monetary Authority Act of Bhutan 2010**¹, the functions of the RMA can be summarized as follows:

a) **Formulate and Implement Monetary Policy**

The primary objective of the RMA is to formulate and implement monetary policy with a view to achieving and maintaining price stability. In view of the close economic and financial ties between Bhutan and India, an *exchange rate target* was chosen, i.e., the one-to-one peg between the Ngultrum and the Indian Rupee. Monetary policy, which is aimed at achieving price stability, is confined to the support of the peg, which involves the provision of at least 100 percent reserve backing for all Ngultrum issued, the avoidance of a large Ngultrum liquidity build-up, together with additional confidence-building measures for the Ngultrum, implying, for example, credible RMA and government policies.

b) **Supervision and Regulation of the Financial Sector**

A secondary objective is to formulate and apply financial regulations and prudential guidelines to promote good governance and to ensure stability and integrity of the financial system against potential systemic risks. In general, this activity, which in quite a few countries is carried out by a separate institution, involves ensuring that deposit money banks and other financial institutions conduct their business on a sound prudential basis and according to the various laws and regulations in force. This also includes the licensing of financial institutions.

In the “small economy case” and/or countries at a relatively early stage of economic and institutional development, there is a very good case for making the central bank responsible for financial institutions’ supervision (including all financial institutions) on account of economies of scale and the central bank’s financial sector expertise.

c) **Promotion of Financial Sector Stability and Development**

This refers to the establishment and promotion of an effective financial system, comparable to international best practice, ensuring that financial transactions necessary for the smooth functioning of the economy can be carried out with a minimum amount of cost and time involved. In this connection, the RMA has to be a facilitator of advanced clearing and transfer systems, promoting, supervising and if necessary, operating national and international payments and settlement systems including the electronic transfer of funds by financial institutions, other entities and individuals. Of importance are also the establishment of a deposit insurance system, the availability of certain specialized institutions, which could be represented, for example, by an industrial development bank, an agricultural development bank, and micro-finance institutions, and the facilitation of a money market, primary and secondary markets for securities, a foreign exchange market, and a capital market.

¹ *The RMA Act of Bhutan 2010 supersedes the RMA Act, 1982.*

All of this shall in turn be carried out to promote macro-economic stability and economic growth in Bhutan.

d) The Bank of Issue²

The RMA has the sole right to issue notes and coins for the purpose of directly influencing the amount of currency in circulation outside banks, thereby providing the economy with sufficient, if possible, non-inflationary liquidity.

e) The Bankers' Bank

This function includes the acceptance of deposits as prudential reserves for banks (e.g., minimum reserves), the willingness to discount commercial and government papers, and the commitment to act as the “lender of last resort” to banks in the case of short-term liquidity shortages. It also involves the provision of central clearance facilities for inter-bank transactions.

f) The Government's Bank

The RMA is the banker and the fiscal agent for the government, and may be the depository of the government. The central bank also may make temporary advances to the government.

g) The Advisor to the Government

The RMA may advise the government on any matter relating to its functions, powers, and duties. The RMA may also be requested to advise the government on any matter related to its functions, powers, and duties, the credit conditions in the country, or any proposal, measures, and transactions relating thereto.

h) The Guardian of the Country's External Reserves

The RMA is the depository of the official external assets of the country, including gold and foreign currency reserves. Guarding international reserves usually also implies the responsibility for the exchange rate policy (in Bhutan, the external value of the Ngultrum is declared by the government on recommendation of the RMA's Board, while the RMA has to implement and support it), and reserve management, with a view to the prudential management of the funds, with due regard to *safety, liquidity and profitability*, in that order. In Bhutan, as in various other developing countries (e.g., in India), reserve management also includes the formulation, implementation, monitoring, and enforcement of foreign exchange regulations.

All functions are carried out under the general supervision of the Board of Directors by the RMA's executive management team with the close support of its departments. The Internal Audit Department and Management Secretariat along with the Executive Committee report directly to the Governor while the other departments report to their respective Deputy Governors. The *Executive Committee* was formed in accordance with Chapter IV, Sections

² Bhutan's currency notes are printed by the UK-based firm De La Rue Currency and the German firm Giesecke & Devrient. Since 2002, minting of the 1 Ngultrum coin has been replaced by the reintroduction of the Nu.1 denomination currency note, although some coins remain in circulation.

29, 31 and 56 of the RMA Act, 2010 and comprises the two Deputy Governors and four Directors of the RMA. The Executive Committee assists the Governor in the implementation of the Board's policy decisions as well as any other matters pertaining to the RMA. For a comprehensive outline of the organization structure, please see the *RMA organization chart* in the first section of the report.

The key responsibilities of the *nine departments*, the *Financial Intelligence Unit* and the *Management Secretariat* can be summarized as follows:

- * *The Management Secretariat* extends administrative and policy-related assistance to the Governor. It interfaces between the Governor's Office and other Departments within the RMA, as well as with other government and non-government Bhutanese and international organizations. The Management Secretariat also attends to the RMA's communication policy.
- * *The Internal Audit Department* examines the risks that the RMA faces, reviewing the adequacy of the controls in place to protect it from those risks, and verifies that the controls are working as intended.
- * *The Banking Department* maintains the main accounts of the Government, the financial institutions' accounts, the foreign exchange accounts and the central accounts.
- * *The Foreign Exchange and Reserve Management Department* drafts, implements, monitors, and enforces the foreign exchange regulations with the objective of facilitating external trade and promoting orderly foreign exchange payments. The Department also manages Bhutan's foreign reserves with regard to safety, liquidity and profitability, in that order and provides information on exchange rates as well.
- * *The Information Technology Department* is responsible for developing and maintaining the RMA's IT system and providing IT support services within the organization, e.g., IT planning and monitoring, hardware management and support, and applications systems and database development, management and support.
- * *The Research and Statistics Department* is the primary compiler of Bhutan's monetary and financial statistics and the balance of payments and international investment position statistics. The Department is responsible for the production of the RMA's major publications – the Annual Report, Selected Economic Indicators, Monthly Statistical Bulletin and the RMA's annual Monetary Policy Statement. The Department also engages in policy-oriented research on emerging macroeconomic issues for the RMA management and policy makers.
- * *The Administration and Finance Department* is responsible for administrative and budgetary matters, including work related to inventory and stores, maintenance of personnel records, leave management, maintenance of the administrative accounts and preparation and review of the RMA's annual budget. The Department is also responsible for the RMA's human resource management and development, bridging present and future human resource gaps by matching RMA officials with training opportunities in-country and abroad.

- * ***The Currency Management Department*** is responsible for the printing of notes and minting of coins, the supply of notes and coins, and the exchange or destruction of currency notes and coins that are not fit for circulation in order to ensure the provision of adequate and quality supplies of currency notes and coins to the public.
- * ***The Financial Regulation and Supervision Department*** issues and monitors regulations to ensure the efficient functioning of the country's banking and financial system and licenses new financial institutions. The Department regularly supervises all financial institutions by means of on-site and off-site inspections on the basis of internationally accepted financial sector practices.
- * ***The Financial Intelligence Unit (FIU)*** was formally established with the enactment of the Financial Services Act (FSA), 2011. Although the FIU operated as part of the FRSD since October, 2010, it was officially instituted as a separate unit from the FRSD on May 16, 2013. Section 141 to 149 of the FSA provides the basis for the operation of the FIU and it also provides for detailed regulation which is to be issued to deal with specific elements of the Anti-Money Laundering (AML) and the Combating the Financing of Terrorism (CFT) regulation.

The Financial Intelligence Unit (FIU)

During the 83rd RMA Board meeting which was held on 28th September, 2012 the *Anti-Money Laundering and Combating the Financing of Terrorism Regulation 2012* was approved. AML/CFT regulation covers a wide range of provision and sanctions relating to AML/CFT activities in Bhutan, and provides detailed requirements for reporting entities and the framework for the work of the FIU.

Bhutan became a member to the Asia Pacific Group (APG) on Money Laundering on July 2011 as its 41st member. The Asia/ Pacific Group on money laundering was established in 1997 with 13 founding members and now consists of 41 active members making it the largest FATF regional body in the world.

Bhutan has obligations under international law (*Financial Action Task Force* recommendations) and as a global citizen to respond to the threat of money laundering and the terrorism financing. The FIU aims to ensure that the Kingdom is protected from the misuse of its financial system and from the movement of criminal proceeds or funds destined for terrorist organisations.

To ensure that the national response to money laundering and terrorism financing is coordinated effectively and fully implemented, a National Coordinating Committee and Working Committee have been put in place. Members consist of the FIU, RMA, and senior and mid-level officials from Anti-Corruption Commission, Royal Bhutan Police, Department of Revenue and Customs, Office of the Attorney General, Bhutan Narcotic Control Agency, Ministry of Home and Cultural Affairs (Bureau of Law and Order), and the Ministry of Foreign Affairs.

- * *The Payment and Settlement Systems Department* is responsible for the development, regulation, oversight and efficiency of the payment and settlement systems in the country which currently includes the Cheque Truncation System, National Electronic Clearing System Credit, National Electronic Clearing System Debit, National Electronic Funds Transfer and the Bhutan Financial Switch. The Department is also responsible for monitoring the operations under SWIFT as well as coordinating SAARC and Asian Clearing Union payments.

2. OVERVIEW OF ORGANIZATIONAL DEVELOPMENTS 2012/13

GOVERNANCE

Nine meetings of the Board of Directors of the RMA were held during FY 2012/13 mainly addressing Rupee related issues, and other policy and administrative matters. The introduction and implementation of the Base Rate system, INR currency SWAP facility, and reserve positions were some of the key issues and areas discussed. The Board agreed to the formation of policy committees such as the Financial Policy Committee, the Credit Policy Committee and the Monetary Policy Operations Committee. Various regulations were discussed, revised and approved, including the *Foreign Exchange Regulations, 2013*, *Anti-Money Laundering and Combating the Financing of Terrorism (AMT/CFT) Regulations*, *Credit Information Bureau (CIB) Regulations*, *Loss Adjuster Regulations*, *Fund Management Regulations*, and *Staff Regulations*. Other administrative and operational matters of the RMA were also part of the agenda for the Board meetings during the year.

RECENT ACTIVITIES AND DEVELOPMENTS

- **Financial Sector Reform and Regulation**

Financial Policy Committee

The RMA formed a new **Financial Policy Committee** in March 2013 following the 86th RMA Board meeting (committee of the RMA Board, consisting of five Directors from the RMA Board, and including the Directors of Foreign Exchange Department, Research and Statistics Department, and Financial Regulation and Supervision Department as invitees). The FPC is responsible for **discussing and recommending policies relating to macro-prudential framework to mitigate systemic risks** from affecting the Bhutanese financial sector.

Amendments to Prudential Regulations on Risk Weights

The Financial Policy Committee of the RMA Board of Directors made amendments to the *RMA Prudential Regulations on Risk Weights* effective June 1, 2013, identifying sector portfolios with increasing loan exposure trends and risks. Soon after, in collaboration with the financial institutions, further amendments were made in August, 2013 to be in effect from December 1, 2013. Unlike in the past wherein 100 percent risk weight was assigned to all loans, different risk weights were assigned to different sectors varying with the degree of risk associated with each sector. Details and breakdowns of amendments to the risk weights are outlined in *Annex I, Chronology of Major Financial Sector Developments*, of this report.

Central Registry

The **Central Registry** for movable properties was established in September 2013, in order to facilitate secured credit transactions and provide secured creditors' rights as provided under the Movable and Immovable Property Act (MIPA), 1999. Besides enabling creditors to register movable assets, which will facilitate smooth credit appraisal process to the foreclosure of bad loans, it will also enable public and entities to enquire any lien by any creditor on all kinds of movable assets with which they intend to transact.

Restructuring of the RMA Financial Regulation and Supervision Department

On May 2013, the Financial Regulation and Supervision Department of the RMA was divided into three separate units: i) **Banking and Micro-Finance**; ii) **Insurance and Pension**; and iii) **Securities and Fund Management**, for more effective implementation and enforcement of new regulations pertaining to the different sectors as well as to ensure efficient surveillance and regulation over Bhutan's banking, insurance and securities markets.

- **Foreign Exchange Management**

Foreign Exchange Regulations 2013

The RMA's Board of Directors approved the **Foreign Exchange Regulations 2013** on March 30, 2013 superseding the Foreign Exchange Regulations 1997. In comparison, the revised Foreign Exchange Regulations 2013 contains comprehensive provisions related to foreign exchange transactions within and outside Bhutan, including current international transactions with India. The Foreign Exchange Department is currently working on synchronizing the various circulars, guidelines and other provisions that are inconsistent with the new Regulation.

Revision in Foreign Exchange Provisions

Following from the March 8, 2012 RMA *Circular on Foreign Currency*, in March 2013, the RMA (i) lowered the international credit card limit from **USD 3,000 p.a. to USD 1,000 p.a.**, and (ii) lowered the transaction limit on point-of-sale (POS) machines in India (through debit cards) from **INR 1 lakh per month to INR 15,000**, to ease pressures on Rupee reserves since INR outflows from these channels were escalating.

- **Developments in Currency Management**

The RMA issued new Ngultrum banknotes, in denominations of Nu.1, Nu.10, Nu.20 and Nu.50, to the general public in early 2013. As before, the Nu.20 and Nu.50 bank notes were printed on cotton substrate while the Nu.1 and Nu.10 were printed on hybrid substrate (a composite of core cotton banknote laminated with 2 thin transparent polymer sheets for enhanced durability and anti-soiling property). According to the printing company, Giesecke & Devrient, Bhutan is the first country in Asia to issue hybrid banknotes. Nu.1 banknote accounts for about 45 percent of the total volume in circulation, making it the highest circulating banknote in Bhutan, followed by the Nu.5 banknote at around 21 percent. Value-wise, Nu.1000 banknotes account for about 43 percent and the Nu.500 banknotes at around 38 percent of the total value in circulation.

- **SAARCFINANCE SWAP Arrangement**

Following from the May 2012 announcement by RBI Governor, Dr. D. Subbarao, on the introduction of the Swap Arrangement to be made available by the RBI to all SAARC member countries, on March 8, 2013, the RMA in collaboration with the Royal Government of Bhutan entered in a **Rupee Currency SWAP Agreement** with the RBI for a total of **INR 5.4 billion at 5.5 percent p.a.** for the duration of 6 months (3 month-period with an additional 3 months rollover). This facility provided short-term relief to meet INR

pressures and financing of BOP transactions and was liquidated at the end of September 2013.

- **SAARC Payments Council Meeting**

The RMA hosted the 13th SAARC Payments Council (SPC) Meeting on July 29, 2013 in Thimphu. The primary objective of the SPC is to promote cooperation among SAARC countries to assist each other, reform national payment and settlement systems individually as well as regional payment systems collectively. The vision of the SPC is to converge to internationally recognized benchmarks for efficient and safe electronic payment and settlement system infrastructure to cater to the emerging needs of the region. SPC's mission is aimed at collaborating and assisting in implementing enhanced and cost effective use of electronic banking and payment systems. The SPC has been particularly instrumental in obtaining much-needed technical assistance for the development of Bhutan's payments and settlement systems. As a result, Bhutanese have become increasingly aware of the uses and benefits of electronic payment and its systems. In addition to the NEFT, NECS, BFS and POS systems, the RMA with technical assistance from RBI, is currently working towards introducing the *Interbank Mobile Payment Services (IMPS)*, which will enable individuals to make interbank transactions and payments for purchases through their mobile phones.

KNOWLEDGE MANAGEMENT

During the FY 2012/13, to further enhance human resource capacity and strengthen the operations and administration of the various departments in the RMA, 124 officers attended trainings, programs, seminars, and workshops ex-country related to:

- *Supervisory Experience in Implementing Global Banking Reform;*
- *Basel III and Supervision of Systematically Important Banks;*
- *Regulation and Supervision of Microfinance Institutions in the SAARC Region;*
- *Asset-Liability Management;*
- *Strategic Analysis;*
- *Macro-forecasting;*
- *Access to Financial Service of the Micro, Small, Medium Enterprise Sector (MSME);*
- *Revised FATF standards;*
- *Financial Inclusion;*
- *NECS Credit and Debit;*
- *Financial Statement Analysis;*
- *Financial Markets;*
- *Principles for Financial Market Infrastructure;*
- *Improvement of External Sector Statistics;*
- *Sovereign Asset Management: Framework for Strategic Asset Allocation.*

Officials also attended courses related to the compilation of *balance of payments* and *international investment position statistics* and *monetary and financial statistics*. In addition, officials of the RMA attended study visits and various meetings including the 12th SAARC Payment Council Meeting, the 6th Meeting of SAARC Inter-Governmental Expert Group (IGEG) on Financial Issues, the 5th Meeting of BIMSTEC Sub Group on Combating the Financing of Terrorism (CFT), the Meeting on the Improvement of SAARCFINANCE e-

Newsletter & Development of SAARCFINANCE Scholarship Scheme, the 16th and the 17th SAARCFINANCE Coordinators Meeting, and the ACU Standing Technical Committee Meeting.

In-country, the RMA continued to be actively involved in the following national consultations, trainings and workshops organized by various agencies in the country:

- *Workshop on Budget Policy and Fiscal Framework Statement (BPFSS);*
- *Bhutanese Accounting Standards/IFRS training;*
- *Stakeholders' Consultative Meeting on Draft Debarment Rule 2012 & Amended Gift Rules 2009;*
- *International Seminar on Cooperatives: Empowering Communities Towards Gross National Happiness;*
- *Working Group and Key Stakeholders Consultative Workshop on the Companies Bill;*
- *Macroeconomic Framework Coordination and Technical Committee Workshop;*
- *Seminar on Agriculture Trade;*
- *Consultative Workshop on the Draft Statistics Bill;*
- *Workshop on Bhutan Living Standards Survey and Poverty Analysis;*
- *Seminar on Macroeconomic Accounts and Analysis;*
- *Workshop on Current Legal Issues.*

STATUS OF STAFF

As of June 2013, the RMA's staff strength totaled 171, consisting of 3 Executives, 79 Officers (46 percent of the total) and 89 Assistants (52 percent). Of the total, 163 employees were stationed at the Head Office, while 8 employees were at the Regional Clearing Houses located in Phuentsholing, Gelephu and Mongar Dzongkhags.

3. RMA ANNUAL AUDITED ACCOUNTS, FY 2012/13

In accordance with Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the annual audit of the Authority's accounts for the period ending June 30, 2013 was carried out by M/S V. Sankar Aiyar & Co. a chartered accountancy firm from New Delhi, India, from July 30 to August 14, 2013.

In this overview of the RMA Annual Audited Accounts, FY 2011/12 is referred to as 2012 and FY 2012/13 as 2013. Factors that influenced the RMA's annual accounts for the year 2013 are summarized below.

BALANCE SHEET

The total assets and liabilities of the Authority grew by 32 percent from Nu.45.90 billion in 2012 to Nu.60.69 billion in 2013.

LIABILITIES

Total Liabilities of the RMA are made up of three major components: *Capital and Reserves*, *Foreign liabilities*, and *Domestic liabilities*.

Capital and Reserves, the first component of total liabilities, includes mainly *Paid-up Capital*, *General Reserves*, *Revaluation Reserves*, and *Special Reserves*. This category of liabilities increased by 25 percent in the current year mainly due to an increase in *Revaluation Reserves* from Nu.8.16 billion to Nu.11.30 billion, as the Ngultrum depreciated against the USD from Nu.56.3 per USD in 2012 to Nu.59.3 per USD in 2013. The RMA experienced an overall deficit of Nu.0.32 billion in 2013 which was adjusted against the *General Reserves*, and hence the balance in the *General Reserves* decreased from Nu.1.97 billion to Nu.1.65 billion.

Special Reserves is the accumulated earnings on the USD 60 million deposit placed by Kuwait Central Bank with the RMA since December 2006. This fund is maintained by the RGOB with the RMA. The balance in this account now totaled Nu.0.25 billion after transferring Nu.17.45 million as its share of earnings in the current year.

Other Reserves which comprises of the Capital Reserves Grant and Clearing House Reserves, decreased from Nu.6.82 million to Nu.0.24 million mainly due to adjustments to the Credit Information Bureau's reserve upon its delinking from the RMA in January 2013.

*Foreign Liabilities*³, the second component of total liabilities grew by 28 percent from Nu.15.67 billion in 2012 to Nu.20.08 billion in 2013. This was mainly due to the increase in the GOI Stand-by Credit Facility from Nu.6 billion to Nu.10 billion and the fresh RBI SWAP borrowings of Nu.5.4 billion towards the last quarter of the financial year. The increase in liabilities to international institutions and banks was mainly due to the RBI SWAP and the depreciation of the Ngultrum against the USD.

³ Consists of dues to the IMF, government and government agencies' foreign currency accounts, deposits of other foreign financial institutions such as the World Bank, ADB, ARC and Kuwait Central Bank, GOI Stand-by credit facility and RBI SWAP agreement.

Domestic Liabilities⁴, the final component of total liabilities increased by 40 percent mainly on account of an increase in the commercial banks' current account balances, CRR deposits, sundry deposits, and a sizeable depreciation on tangible assets. Currency in circulation remained constant at Nu.7.38 billion in 2013 from Nu.7.34 billion in 2012.

ASSETS

The **total assets** of the RMA comprises of *Foreign Assets*, *Domestic Assets*, and *Non-Financial Assets*.

Foreign Assets, the first component of total assets, grew by 27 percent from Nu.44.28 billion in 2012 to Nu.56.05 billion in 2013 as indicated by the growth in balances with banks in India and abroad.

Domestic Assets, the second component of total assets, increased from Nu.1.16 billion to Nu.4.14 billion in 2013 mainly due to Ways and Means Advances extended to the government during the year and also premature redemption of Treasury Bills deposited into RMA's current account, pending settlement the next day.

Meanwhile, **Non-Financial Assets**, including gross fixed assets, inventories and other assets, grew by 11 percent from Nu.0.45 billion in 2012 to Nu.0.50 billion in 2013, largely attributed to an increase in the unamortized cost for the printing of Ngultrum currency notes of Nu.1, Nu.10, Nu.20 and Nu.50.

INCOME AND EXPENDITURE

In 2013, RMA's total operating income grew by 27 percent from Nu.0.92 billion to Nu.1.17 billion. Interest earnings, which form 88 percent of total operating income, grew by 27 percent from Nu.0.81 billion to Nu.1.03 billion due to marginal improvement in average interest earnings on foreign deposits from 1.88 percent in 2012 to 1.89 percent this year. Other income grew mainly on account of a substantial gain from the sale of foreign currencies during the year and through earnings on the Ways and Means Advances to the government.

On the expenditure side, total operating expenses saw a marginal increase of 4 percent from Nu.0.24 billion in 2012 to Nu.0.25 billion in 2013. In the current year, the highest share of expenditure was incurred on security printing and minting which grew by 56 percent (security printing and minting accounted for 27.7 percent of total operating expenses during the year). During the year, the interest payments on foreign deposits/borrowings declined by 4 percent due to favorable exchange rates at the time of payment. Growth-wise, expenses on security printing and minting increased from Nu.44 million to Nu.69 million mainly on account of the printing of Nu.1, Nu.10, and Nu.20 and Nu.50 denominated notes, coupled with the depreciation of the Ngultrum during the period, while other expenses remained more or less the same.

⁴ Consists of notes and coins in circulation, due to banks, due to government (MoF Refundable deposit & MoF revaluation reserve), gratuity fund and other miscellaneous liabilities.

As a result of sizeable income growth coupled with the decline in the interest expenditure growth, RMA's surplus grew by 35 percent in 2013 from Nu.0.68 billion to Nu.0.92 billion. Nu.17 million of the surplus was allocated to the Special Reserves Account under the accumulated earnings on Kuwait Central Bank's deposit, and the remaining surplus was used to fund the cost of monetary policy which amounted to Nu.1.22 billion. Consequently, there was a net deficit of Nu.0.32 billion which was adjusted against the accumulated General Reserves.

Costs on Monetary Policy Instruments

In tandem with large external imbalances, particularly with India, in order to safeguard developmental activities and ensure timely payments for essential BOP transactions, the RMA resorted to the RBI SWAP arrangement besides increasing recourse to the GOI standby credit facility and the INR overdraft facility (GOI/SBI/PNB); these debt levels have been somewhat reduced towards the end of the financial year through the sale of USD 200 million in June 2013. Consequently however, during the year, the total *cost of monetary policy*⁵ increased by 79 percent from Nu.0.68 billion to Nu.1.22 billion, exceeding the entire surplus. Therefore, although growth in the operating surplus was observed during the current year, the cost incurred on monetary policy instruments eliminated the surplus, retaining a net deficit and reducing General Reserves.

⁵ *Debt service payments incurred on the GOI Standby Credit Facility, Overdraft Facility from State Bank of India and Punjab National Bank and the RBI SWAP arrangement.*



SECTION III

**STATISTICAL
TABLES**

TABLE 1. GROSS DOMESTIC PRODUCT AT CURRENT PRICES

Millions of Ngultrum

Sector	Year										Share of GDP in 2012 (%)
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
1. Agriculture, livestock and forestry	7066	7635	8066	8707	9234	10078	11159	12178	13868	16894	17.0
1.1 Crops	3192	3481	3685	3926	4377	5061	5668	6530	7665	9926	10.0
1.2 Livestock	1828	1991	2261	2467	2531	2625	2895	3110	3473	3994	4.0
1.3 Forestry and logging	2047	2163	2120	2315	2326	2393	2596	2538	2730	2974	3.0
2. Mining and quarrying *	581	440	550	878	890	1252	1392	1617	1942	1962	2.0
3. Manufacturing	2084	2296	2571	3098	4033	4593	5017	6324	7045	8934	9.0
4. Electricity and water	3357	3085	3635	5340	10082	11552	11813	12764	11912	12303	12.4
5. Construction	5021	5741	6219	6020	6781	6251	7470	10309	13917	15888	16.0
6. Wholesale and retail trade	1447	1726	2089	2317	2497	2695	2935	3753	4642	6236	6.3
7. Hotels and restaurants	135	169	212	301	368	569	538	608	949	1379	1.4
8. Transport, storage and communication	2626	3295	3891	4095	4469	5366	5990	6943	9489	10346	10.4
9. Financing, insurance and real estate	1949	2280	2918	3473	4105	4577	4962	5546	7008	7712	7.8
9.1 Finance	1027	1279	1810	2294	2802	3174	3466	3988	5137	5709	5.7
9.2 Real estate	922	1001	1109	1179	1297	1374	1460	1508	1815	1947	2.0
9.3 Business services					6	28	36	51	56	56	0.1
10. Community, social and personal services	3664	3823	4472	4895	5312	5930	7963	9262	10882	11249	11.3
10.1 Public Administration	2609	2637	3120	3221	3370	3763	4728	5517	6478	6776	6.8
10.2 Education and health	1055	1186	1352	1674	1942	2168	3235	3745	4404	4473	4.5
11. Private social, personal and recreational services	124	144	172	213	242	268	276	298	338	390	0.4
12. Plus indirect taxes less subsidies	920	1211	1318	1338	1443	1613	1705	2895	3922	6163	6.2
Gross Domestic Product	28974	31846	36112	40674	49457	54744	61221	72497	85913	99455	100.0
Real GDP Growth Rate (%)	11.0	9.9	13.4	12.6	21.6	10.7	11.8	18.4	18.5	15.8	

Source: National Accounts Statistics, 2013, National Statistics Bureau. Discrepancies in the figures are due to rounding.

* Kindly note that from the 2012 series published for the first time in the RMA AR 2012/13, the NSB has revised past GDP figures based on new information which may explain differences in GDP data featured in other RMA publications.

TABLE 2. GROSS DOMESTIC PRODUCT IN 2000 PRICES

Millions of Ngultrum

Sector	Year										Growth: 2011 to 2012 (%)
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
1. Agriculture, livestock and forestry	5854	5980	6043	6196	6246	6291	6458	6513	6670	6900	3.4
1.1 Crops	2766	2824	2861	2898	2942	2997	3064	3100	3191	3322	4.1
1.2 Livestock	1642	1647	1728	1765	1812	1821	1864	1919	1941	1963	1.1
1.3 Forestry and logging	1446	1509	1455	1533	1492	1472	1529	1494	1538	1614	5.0
2. Mining and quarrying*	402	381	447	531	650	780	726	788	979	957	-2.2
3. Manufacturing	1967	2055	2214	2469	3087	3349	3580	4302	4616	5029	8.9
4. Electricity and water	3215	2982	3262	4316	8071	9146	8904	9389	8872	8822	-0.6
5. Construction	4449	4820	4701	4248	4466	4010	4672	5635	6464	6734	4.2
6. Wholesale and retail trade	1378	1633	1878	1901	1976	1993	2116	2540	3028	3760	24.2
7. Hotels and restaurants	129	157	186	246	264	384	335	348	491	628	27.8
8. Transport, storage and communication	2007	2448	2661	2856	3083	3247	3547	3941	4790	4842	1.1
9. Financing, insurance and real estate	1771	1991	2554	3005	3282	3447	3661	3973	4841	4702	-2.9
9.1 Finance	1080	1292	1846	2285	2505	2645	2824	3109	3912	3750	-4.1
9.2 Real estate	691	699	708	720	772	783	814	832	894	923	3.3
9.3 Business services					5	20	24	32	35	29	-17.5
10. Community, social and personal services	3386	3379	3753	3912	4037	4161	5350	6047	6254	5852	-6.4
10.1 Public administration	2412	2330	2618	2574	2561	2640	3179	3602	3723	3525	-5.3
10.2 Education and health	975	1048	1134	1338	1476	1521	2171	2445	2531	2327	-8.1
11. Private social, personal and recreational services	114	127	144	166	178	187	191	195	200	205	2.7
12. Plus indirect taxes less subsidies	787	1010	1039	1014	1059	1128	1121	1760	2113	3166	49.9
Gross Domestic Product	25460	26962	28882	30861	36400	38124	40662	45432	49318	51597	4.6
Real GDP Growth Rate (%)	7.7	5.9	7.1	6.9	17.9	4.7	6.7	11.7	8.6	4.6	

Source: National Accounts Statistics, 2013, National Statistics Bureau. Discrepancies in the figures are due to rounding.

* Kindly note that from the 2012 series published for the first time in the RMA AR 2012/13, the NSB has revised past GDP figures based on new information which may explain differences in GDP data featured in other RMA publications.

TABLE 3. SALES OF MAJOR INDUSTRIES

Millions of Ngultrum

Industry	Period											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
											I	II
(1) Army Welfare Project	190.4	233.8	240.0	279.4	315.1	302.1	327.8	573.8	712.4	805.8	215.2	170.9
Exports to India	28.8	20.8	13.7	25.8	37.9	18.3	10.6	26.4	11.6	7.1	0.4	4.3
Exports to Countries other than India	-	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	161.6	213.1	226.3	253.6	277.2	283.7	317.2	547.4	700.7	798.7	214.8	166.6
(2) Bhutan Board Products Limited	491.5	546.2	394.6	381.7	400.0	397.8	413.7	298.9	320.4	296.4	21.8	74.3
Exports to India	-	418.7	332.7	297.3	328.8	301.1	305.2	123.3	258.3	236.8	0.0	57.5
Exports to Countries other than India	-	0.0	1.1	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	-	26.2	60.9	84.4	71.1	96.6	108.5	175.6	62.1	59.5	21.84	16.86
(3) Bhutan Carbide & Chemicals Ltd.	703.4	731.6	760.2	765.3	1366.2	1877.3	1083.8	1404.1	1632.5	1270.4	400.5	414.3
Exports to India	687.0	714.7	712.8	759.5	1392.5	1652.9	1023.1	1338.4	1557.2	1235.5	400.5	414.3
Exports to Countries other than India	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	16.4	16.9	47.4	5.8	-3.4	224.4	60.7	65.7	75.4	34.9	0.0	0.0
(4) Bhutan Fruit Products Limited	122.4	174.1	69.4	134.7	148.5	560.8	201.2	169.8	205.8	1753.3	37.8	42.4
Exports to India	98.9	145.0	54.9	108.3	120.6	426.3	169.0	137.1	173.3	1078.6	29.8	29.6
Exports to Countries other than India	4.9	8.5	2.8	4.0	3.2	2.0	5.0	3.5	4.0	21.7	0.0	2.4
Sales within Bhutan	18.6	20.5	11.7	22.3	24.7	132.6	27.2	29.2	28.6	477.4	8.1	10.4
(5) Bhutan Polythene Company Ltd	28.8	59.2	56.5	66.7	79.9	39.2	72.7	95.2	120.5	134.4	26.9	18.7
Exports to India	10.1	5.3	0.7	9.9	3.7	1.4	4.3	5.0	3.3	3.3	0.0	0.0
Exports to Countries other than India(*)	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	18.6	53.8	56.4	56.8	76.2	37.8	68.4	90.2	117.2	131.1	26.9	18.7
(6) Penden Cement Authority Ltd.	896.1	851.8	807.0	1359.1	1663.6	1327.5	1784.6	1936.6	1840.6	1982.9	497.5	537.5
Exports to India	254.7	265.1	278.5	781.6	840.4	912.6	1106.9	856.3	567.8	783.5	277.7	241.5
Exports to Countries other than India	-	0.0	0.0	0.0	237.2	1.9	18.7	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	641.4	586.7	528.5	577.5	586.0	413.0	659.0	1080.3	1272.8	1199.4	219.8	296.0

TABLE 3. SALES OF MAJOR INDUSTRIES, CONTINUED

Millions of Ngultrum

Industry	Period											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
											I	II
(7) Bhutan Ferro Alloys Limited	658.1	748.3	651.2	678.3	1886.4	1898.8	1711.8	1920.0	1815.5	2084.0	561.7	519.1
Exports to India	658.1	712.9	643.0	658.3	1825.4	1813.2	1707.9	1780.5	1668.4	1972.6	560.7	493.6
Exports to Countries other than India	-	24.2	5.0	15.0	57.7	83.2	3.2	126.9	126.4	103.8	0.0	23.7
Sales within Bhutan	-	11.2	3.3	5.0	3.4	2.4	0.7	12.5	20.7	7.7	1.0	1.9
(8) Bhutan Agro Industries Limited	26.1	34.9	34.6	45.2	50.5	57.6	71.4	77.9	83.0	118.8	25.0	34.9
Exports to India	6.9	11.4	7.6	10.9	8.4	8.9	6.8	10.3	6.6	12.6	3.0	2.4
Exports to Countries other than India	0.7	2.8	0.5	0.2	0.5	0.3	0.8	0.1	0.0	0.0	0.0	0.0
Sales within Bhutan	18.5	20.6	26.6	34.0	41.6	48.4	63.8	67.5	76.5	106.2	22.0	32.5
(9) S.D. Eastern Bhutan Coal Company Ltd.	110.7	26.0	180.0	203.0	222.5	337.7	197.3	243.6	441.8	473.3	99.7	214.0
Exports to India	18.5	8.5	38.7	76.0	105.0	167.3	47.9	198.8	237.1	132.8	0.0	0.0
Exports to Countries other than India	14.5	0.0	47.2	39.8	33.7	18.7	39.1	6.7	25.3	50.2	0.0	8.0
Sales within Bhutan	77.6	17.6	94.1	87.2	83.7	151.7	110.3	165.5	179.5	290.4	99.7	206.0
(10) Druk Satair Corporation Limited	118.4	140.4	172.9	258.4	242.6	338.5	468.8	473.6	527.5	494.6	155.8	181.2
Exports to India	94.7	112.3	130.5	223.9	194.6	285.7	399.6	407.8	437.3	415.0	122.6	149.4
Exports to Countries other than India	2.6	2.1	8.2	6.1	12.1	11.3	23.6	23.4	48.1	41.2	21.2	17.2
Sales within Bhutan	21.1	26.0	34.2	28.4	35.9	41.5	45.6	42.3	42.1	38.5	12.0	14.5
(11) Druk Plaster & Chemicals Limited		31.3	40.5	49.2	44.5	42.4	51.9	64.4	58.3	50.1	6.5	9.5
Exports to India		31.3	40.2	49.0	43.5	40.9	51.7	63.8	57.6	18.0	0.0	9.5
Exports to Countries other than India		0.0	0.1	0.0	0.5	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan		0.0	0.2	0.2	0.5	0.5	0.2	0.6	0.7	32.0	6.5	0.0
TOTAL	2854.2	3476.3	3407.4	4220.8	6442.4	7179.8	6384.9	7385.0	7758.3	9869.7	2262.8	2379.1
Exports to India	1857.7	2445.9	2253.1	3000.7	4900.7	5628.7	4832.9	4947.7	4978.4	6477.1	1609.1	1564.3
Exports to Countries other than India	22.7	37.7	64.8	65.1	344.8	118.4	90.4	160.6	203.8	216.8	21.2	51.4
Sales within Bhutan	973.8	992.6	1089.6	1155.1	1196.8	1432.7	1461.5	2276.7	2576.1	3175.8	632.5	763.4

Source : Respective Industry. (1) Alcoholic beverages. -(2) Particle boards. -(3) Calcium carbide. -(4) Processed vegetables and fruits. -(5) High Density Polythene (HDPE) Pipe. (*) Deemed export.-(6)Cement.-(7) Ferro Silicon.-(8) Processed vegetables and fruits -(9) Coal . -(10) Gypsum dust & Gypsum boulders.

TABLE 4. SALES OF HYDROPOWER PLANTS

Millions of Ngultrum

Period	Total Sales					Exports ⁽¹⁾				Domestic Sales ⁽²⁾				
	Total	Basochu	Chukha	Kurichhu	Tala	Total	Chukha	Kurichhu	Tala	Total	Basochu	Chukha	Kurichhu	Tala
2000	2,307.4	-	2,307.4	-	-	2,189.6	2,189.6	-	-	117.8	-	117.8	-	-
2001	2,237.9	-	2,175.1	62.8	-	2,097.4	2,034.9	62.5	-	140.5	-	140.2	0.3	-
2002	2,594.1	91.1	2,132.6	370.5	-	2,347.4	1,983.1	364.3	-	246.8	91.1	149.5	6.2	-
2003	2,875.0	107.3	2,337.3	430.4	-	2,603.5	2,186.0	417.5	-	271.5	107.3	151.3	12.8	-
2004	3,077.4	192.2	2,361.8	523.5	-	2,711.7	2,203.3	508.4	-	365.7	192.2	158.4	15.1	-
2005	3,780.5	325.4	2,908.2	546.9	-	3,194.0	2,665.0	529.0	-	586.5	325.4	243.1	18.0	-
2006	5,581.8	388.7	3,592.9	537.5	1,062.6	4,978.8	3,459.5	518.0	1,001.3	603.0	388.7	133.4	19.6	61.3
2007	10,994.4	372.9	3,807.9	523.3	6,290.4	10,034.3	3,749.1	392.1	5,893.1	960.0	372.9	58.7	131.1	397.3
2008	11,885.5	398.2	3,795.9	526.7	7,164.8	11,032.6	3,724.5	349.0	6,959.2	852.9	398.2	71.4	177.7	205.6
2009	10,991.7	381.6	3,748.4	476.7	6,385.0	10,072.5	3,666.6	307.9	6,098.0	919.2	381.6	81.8	168.8	287.0
2010	11,321.0	390.7	3,761.4	517.5	6,651.4	10,411.5	3,687.4	327.4	6,396.7	909.6	390.7	74.1	190.1	254.7
2011	10,584.8	382.1	3,466.7	452.9	6,283.1	9,825.0	3,419.2	267.9	6,137.9	759.8	382.1	47.5	185.0	145.2
2012	10,477.8	356.5	3,269.5	471.0	6,380.8	9,714.5	3,215.3	274.3	6,224.9	763.3	356.5	54.3	196.7	155.9
2013										-	-			
Q1	359.0	41.7	167.9	11.7	137.7	220.4	152.7	(28.4)	96.0	138.6	41.7	15.1	40.1	41.6
Jan	106.4	15.2	39.6	1.9	49.7	58.0	33.9	(11.6)	35.6	48.4	15.2	5.7	13.5	14.0
Feb	99.1	12.0	48.0	4.1	34.9	58.3	43.1	(6.9)	22.1	40.8	12.0	4.9	11.1	12.8
Mar	153.5	14.5	80.2	5.7	53.1	104.2	75.7	(9.9)	38.3	49.3	14.5	4.5	15.6	14.8
Q2	2,908.6	81.5	846.9	148.8	1,831.4	2,694.8	805.0	99.1	1,790.7	213.8	81.5	41.9	49.7	40.7
Apr	420.1	14.5	158.8	24.0	222.9	367.8	154.4	3.9	209.4	52.4	14.5	4.3	20.1	13.4
May	780.5	22.2	180.7	58.4	519.2	696.4	147.2	44.0	505.2	84.1	22.2	33.5	14.4	14.0
Jun	1,707.9	44.8	507.5	66.4	1,089.2	1,630.6	503.4	51.2	1,076.0	77.3	44.8	4.1	15.2	13.2

Source: Respective hydropower plants. (1) Power tariff for export to India: Nu.2 per unit for CHP (revised from Nu.1.5 per unit from Jan. 2005); Nu.1.8 per unit for KHP (revised from Nu.1.75 per unit from Jan. 2008) & THP (2) Power tariff for domestic sales: Nu.0.13 per unit for royalty energy (15% of total to government; revised from Nu.0.3 per unit from August 2010) and Nu.1.20 for the rest (industrial use mainly from KHP). BHP sales are to CHP at Nu.1.2 per unit. Domestic sales are exclusive of demand charges. Note: Export sales reflected here are net of any payments for the import of power from India in each month.

TABLE 5. TOURIST ARRIVALS AND REVENUES (*)

Number of Tourists and Revenues in Millions of US Dollars

Period	2007		2008		2009		2010		2011		2012		2013		% Change in 2013	
	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue
Q1	3794	5.2	5355	7.1	3662	4.7	5719	7.2	6259	7.4	7653	10.0	8956	11.8	17.0	17.8
Jan	441	0.5	532	0.6	667	0.7	552	0.5	786	0.7	1496	1.3	1042	0.9	-30.3	-30.0
Feb	814	1.0	1311	1.5	811	0.9	1358	1.4	1602	1.7	1810	2.0	2649	2.8	46.4	38.6
Mar	2539	3.7	3512	5.1	2184	3.0	3809	5.3	3871	5.0	4347	6.7	5265	8.1	21.1	20.9
Q2	4291	6.1	5904	7.9	6770	8.9	5559	7.2	7780	9.6	10903	15.1	10203	14.3	-6.4	-5.3
Apr	2666	4.1	3173	4.4	4263	5.8	3059	4.4	4104	5.5	5871	9.2	5268	8.4	-10.3	-8.4
May	1045	1.4	1862	2.4	1743	2.1	1747	2.1	2399	2.9	2697	3.6	2647	3.5	-1.9	-1.5
Jun	580	0.7	869	1.1	764	0.9	753	0.7	1277	1.2	2335	2.3	2288	2.3	-2.0	1.1
Q3	4673	5.8	4899	6.5	5098	6.9	5288	5.7	7836	9.2	9229	12.4				
Jul	588	0.5	1085	1.0	858	0.8	862	0.8	1601	1.6	1583	1.5				
Aug	1133	1.0	1386	1.4	1220	1.3	1300	1.4	2443	2.4	2670	2.5				
Sep	2952	4.3	2428	4.1	3020	4.7	3126	3.5	3792	5.2	4976	8.3				
Q4	8336	12.7	11478	17.3	7950	11.5	10372	14.9	15614	21.5	16144	25.3				
Oct	4512	7.3	6162	9.8	4326	6.7	5888	8.9	8163	11.9	8359	14.5				
Nov	2733	4.0	4126	6.0	2607	3.5	3265	4.6	5059	7.1	5013	7.9				
Dec	1091	1.4	1190	1.5	1017	1.2	1219	1.4	2392	2.5	2772	2.8				
Total	21094	29.9	27636	38.8	23480	31.9	26938	35.0	37489	47.7	43929	62.7	19159	26.1		

Source : Tourism Council of Bhutan. (*) Convertible currency paying tourists. Gross revenues are inclusive of tour operators' revenue and tax.

TABLE 6. MONETARY SURVEY

Millions of Ngultrums

End of Period	Assets							
	Total	Foreign Assets(Net)			Domestic Credit			
		Total	Rupee	Convertible Foreign Currency	Total	Public Sector		Private Sector**
						Claims on Govt. (net)	Other Public Sector*	
2004	24,874.8	17,327.3	5,446.6	11,880.8	7,547.5	1,470.2	917.5	5,159.8
2005	29,072.3	21,369.0	4,779.5	16,589.5	7,703.2	161.8	810.6	6,730.8
2006	33,537.5	24,425.4	3,786.0	20,639.4	9,112.1	-918.7	884.6	9,146.2
2007	38,802.2	27,711.9	4,059.5	23,652.4	11,090.3	-2,001.8	1,045.2	12,047.0
2008	46,647.3	35,822.9	3,471.1	32,351.8	10,824.4	-6,890.9	892.9	16,822.4
2009	59,058.9	38,721.5	2,532.9	36,188.7	20,337.4	-724.9	706.6	20,355.7
2010	71,193.3	42,030.8	3,069.1	38,961.7	29,162.5	-2,060.4	414.4	30,808.4
2011								
Jan	64,625.2	38,000.5	-1,686.5	39,686.9	26,624.8	-3,566.5	5,736.5	24,454.8
Feb	63,792.0	36,299.4	-3,398.3	39,697.7	27,492.6	-3,769.2	617.7	30,644.1
Mar	66,397.3	35,910.6	-5,194.7	41,105.2	30,486.7	-2,332.7	238.1	32,581.2
Apr	64,957.7	35,113.4	-5,487.9	40,601.3	29,844.3	-3,626.0	243.4	33,226.9
May	65,761.7	36,418.4	-6,667.2	43,085.7	29,343.3	-4,960.2	248.1	34,055.4
Jun	66,237.7	35,532.0	-7,113.4	42,645.4	30,705.7	-3,955.3	1,035.9	33,625.2
Jul	69,531.2	35,096.6	-7,484.3	42,581.0	34,434.6	-1,055.6	974.9	34,515.3
Aug	72,141.9	36,106.6	-7,378.0	43,484.6	36,035.3	-547.9	1,042.2	35,541.0
Sep	74,142.7	37,452.4	-9,701.1	47,153.5	36,690.4	-1,249.5	998.9	36,941.0
Oct	77,054.9	37,911.4	-9,360.2	47,271.6	39,143.5	123.7	1,075.8	37,944.0
Nov	82,342.2	41,393.1	-8,984.2	50,377.3	40,949.1	767.1	1,250.9	38,931.1
Dec	79,600.9	39,290.7	-1,902.3	41,192.9	40,310.2	-1,198.9	1,246.6	40,262.5
2012								
Jan	81,475.3	37,177.0	-1,745.8	38,922.7	44,298.3	1,346.5	1,256.8	41,695.0
Feb	79,693.2	34,523.1	-4,516.6	39,039.7	45,170.1	1,428.1	1,269.8	42,472.2
Mar	79,999.9	33,007.9	-7,740.9	40,748.8	46,992.0	2,769.7	1,254.6	42,967.8
Apr	77,195.3	32,075.2	-9,712.7	41,787.9	45,120.2	100.9	1,468.1	43,551.2
May	81,784.3	33,727.7	-10,968.8	44,696.5	48,056.6	2,831.6	1,628.1	43,596.9
Jun	81,998.2	35,532.1	-9,550.8	45,082.9	46,466.1	1,245.8	1,485.7	43,734.6
Jul	79,813.0	32,376.1	-11,806.3	44,182.4	47,436.9	1,810.4	1,473.2	44,153.3
Aug	83,139.3	34,023.7	-10,285.4	44,309.1	49,115.6	3,037.7	1,474.6	44,603.3
Sep	82,349.3	34,718.6	-9,841.0	44,559.6	47,630.7	1,370.9	1,461.2	44,798.6
Oct	85,059.2	33,699.0	-11,715.3	45,414.3	51,360.1	4,687.5	1,802.4	44,870.2
Nov	87,300.7	34,453.3	-12,912.1	47,365.4	52,847.4	6,052.3	1,667.6	45,127.5
Dec	87,180.9	36,209.3	-14,920.2	51,129.6	50,971.5	4,167.4	1,645.4	45,158.8
2013								
Jan	85,242.3	33,053.9	-15,723.3	48,777.2	52,188.4	5,170.5	1,653.2	45,364.7
Feb	85,187.2	32,387.0	-17,886.6	50,273.6	52,800.3	5,296.0	1,843.0	45,661.3
Mar	95,549.8	42,710.2	-10,493.0	53,203.2	52,839.6	4,952.1	1,836.9	46,050.6
Apr	89,332.3	37,816.9	-15,176.1	52,993.0	51,515.4	3,359.2	1,606.2	46,550.1
May	92,252.7	39,562.2	-15,842.9	55,405.2	52,690.5	4,175.3	1,830.1	46,685.2
Jun	100,998.6	48,566.4	1,492.9	47,073.5	52,432.3	3,323.1	2,284.6	46,824.6

*) Other Public Sector includes claims on Govt. Corporations and Other Public Corporations.

**) Private Sector includes Claims on NBFIs.

Note: The monetary survey data is not directly comparable with the past data as there has been reclassification in the Government Deposits with banks and foreign borrowing of the BDBL:

(i) Due to the problem of mis-classification of government accounts held by the commercial banks, adjustments have been made to make the public sector accounts more realistic.

(ii) Due to changes in the classification of foreign liabilities (others), the external borrowing of the BDBL has been reclassified as the domestic borrowing as this borrowing was lent by the Government to the BDBL.

TABLE 6. CONTINUED
Monetary Survey

Millions of Ngultrums

End of Period	Liabilities							
	Total	Broad Money (M2)						Other Items Net *
		Total	Money (M1, Narrow Money)				Other Deposits**	
			Total	Currency Outside Banks	Transferable Deposits**	NBFI Deposits		
2004	24,874.8	18,378.9	8,842.9	2,070.7	6,772.2	0.0	9,536.0	6,495.9
2005	29,072.3	20,869.3	10,235.0	2,404.4	7,830.6	0.0	10,634.3	8,203.0
2006	33,537.5	24,671.8	12,553.4	2,762.5	9,790.9	0.0	12,118.4	8,865.7
2007	38,802.2	27,686.9	17,491.8	3,246.0	14,245.8	0.0	10,195.1	11,115.3
2008	46,647.3	31,387.4	16,236.5	3,842.2	12,394.3	0.0	15,151.0	15,259.9
2009	59,058.9	43,862.8	22,622.8	4,980.1	17,642.7	0.0	21,240.0	15,196.2
2010	71,193.3	51,112.1	29,042.9	5,608.5	23,434.4	0.0	22,069.1	20,081.2
2011								
Jan	64,625.2	48,392.6	25,632.0	5,727.1	19,904.9	0.0	22,760.6	16,232.6
Feb	63,792.0	49,940.0	27,226.0	5,767.9	21,458.0	0.0	22,714.1	13,851.9
Mar	66,397.3	50,209.4	27,901.5	5,812.3	22,089.2	0.0	22,307.9	16,187.9
Apr	64,957.7	49,439.8	28,056.2	5,933.1	22,123.1	0.0	21,383.5	15,517.9
May	65,761.7	50,366.2	28,923.9	6,172.8	22,751.0	0.0	21,442.4	15,395.5
Jun	66,237.7	50,639.8	30,270.3	6,893.7	23,376.6	0.0	20,369.5	15,597.9
Jul	69,531.2	49,825.8	28,443.6	6,243.3	22,200.3	0.0	21,382.3	19,705.4
Aug	72,141.9	50,592.5	30,296.7	6,389.6	23,907.1	0.0	20,295.8	21,549.4
Sep	74,142.7	53,175.0	32,186.7	6,496.5	25,690.2	0.0	20,988.4	20,967.7
Oct	77,054.9	54,549.8	32,133.7	6,659.2	25,474.5	0.0	22,416.1	22,505.1
Nov	82,342.2	58,284.8	34,869.7	6,637.3	28,232.5	0.0	23,415.0	24,057.4
Dec	79,600.9	53,228.6	33,199.6	6,910.6	26,289.0	0.0	20,029.0	26,372.3
2012								
Jan	81,475.3	55,179.0	33,503.9	6,703.8	26,800.1	0.0	21,675.1	26,296.3
Feb	79,693.2	53,620.2	31,515.3	6,616.9	24,898.4	0.0	22,104.9	26,073.0
Mar	79,999.9	53,144.5	33,269.6	6,597.8	26,671.8	0.0	19,874.9	26,855.4
Apr	77,195.3	49,280.9	29,012.4	6,078.2	22,934.2	0.0	20,268.5	27,914.5
May	81,784.3	52,145.8	33,735.9	5,932.5	27,803.4	0.0	18,409.9	29,638.4
Jun	81,998.2	50,122.9	31,960.2	6,390.7	25,569.5	0.0	18,162.7	31,875.3
Jul	79,813.0	49,666.1	30,935.8	5,973.1	24,962.8	0.0	18,730.3	30,146.9
Aug	83,139.3	52,720.5	33,021.1	6,094.8	26,926.2	0.0	19,699.5	30,418.7
Sep	82,349.3	53,814.1	32,414.3	5,776.6	26,637.7	0.0	21,399.8	28,535.2
Oct	85,059.2	55,631.9	32,478.5	6,022.6	26,455.9	0.0	23,153.4	29,427.3
Nov	87,300.7	57,576.5	32,912.3	5,358.5	27,553.9	0.0	24,664.2	29,724.1
Dec	87,180.9	56,222.9	33,229.7	5,254.4	27,975.2	0.0	22,993.2	30,958.0
2013								
Jan	85,242.3	53,306.1	29,744.7	5,343.1	24,401.6	0.0	23,561.4	31,936.2
Feb	85,187.2	52,068.6	28,636.6	5,234.7	23,401.9	0.0	23,432.1	33,118.6
Mar	95,549.8	55,576.0	32,895.6	5,180.0	27,715.6	0.0	22,680.3	39,973.8
Apr	89,332.3	51,196.8	30,185.4	5,217.3	24,968.0	0.0	21,011.4	38,135.5
May	92,252.7	52,238.2	31,557.0	5,118.2	26,438.8	0.0	20,681.2	40,014.5
Jun	100,998.6	59,451.2	37,794.1	5,681.2	32,112.9	0.0	21,657.1	41,547.4

*) Other Items Net includes Money Market Instruments (RMA Bills/RGOB T-Bills).

***) The terms Demand Deposits and Quasi Money are replaced by Transferable Deposits and Other Deposits.

TABLE 7. ROYAL MONETARY AUTHORITY OF BHUTAN - MONETARY AND FINANCIAL STATISTICS

Millions of Ngultrums

End of Period	Assets								
	Total	Foreign Assets			Claims on DMBs	Claims on Govt.	Claims on Private Sector	Claims on NBFIs	Govt. Securities
		Total	Rupee	Convertible Foreign Currency					
2004	13,933.6	13,000.5	2,709.6	10,290.9	895.4	37.0	0.7	0.0	0.0
2005	18,220.4	17,351.6	2,539.7	14,811.9	768.3	100.0	0.5	0.0	0.0
2006	18,510.7	18,397.7	200.8	18,197.0	103.1	0.0	9.9	0.0	0.0
2007	25,812.7	24,483.3	2,588.8	21,894.5	160.4	0.0	11.5	0.0	1,157.5
2008	33,509.3	33,377.9	2,291.9	31,086.0	114.6	0.0	16.8	0.0	0.0
2009	39,114.7	38,928.1	3,830.4	35,097.7	170.8	0.0	15.8	0.0	0.0
2010	42,963.3	42,711.5	4,919.3	37,792.2	232.0	0.0	19.7	0.0	0.0
2011									
Jan	39,462.0	38,644.4	371.5	38,272.8	797.8	0.0	19.9	0.0	0.0
Feb	39,104.8	38,224.4	150.5	38,073.9	860.3	0.0	20.1	0.0	0.0
Mar	38,652.4	38,252.8	172.6	38,080.2	380.4	0.0	19.3	0.0	0.0
Apr	40,183.6	38,591.7	220.2	38,371.4	1,572.7	0.0	19.3	0.0	0.0
May	41,124.8	40,738.3	102.1	40,636.2	367.1	0.0	19.4	0.0	0.0
Jun	40,681.9	40,550.2	91.2	40,459.1	112.7	0.0	19.0	0.0	0.0
Jul	40,696.9	40,135.0	174.7	39,960.3	542.4	0.0	19.5	0.0	0.0
Aug	41,959.0	41,672.7	185.5	41,487.2	266.4	0.0	19.9	0.0	0.0
Sep	46,552.8	45,445.2	149.3	45,295.9	1,087.6	0.0	19.9	0.0	0.0
Oct	46,114.9	45,743.1	198.7	45,544.4	352.8	0.0	19.0	0.0	0.0
Nov	50,402.6	48,905.2	193.6	48,711.6	1,320.5	157.4	19.5	0.0	0.0
Dec	40,782.1	40,047.4	273.8	39,773.6	715.3	0.0	19.4	0.0	0.0
2012									
Jan	39,052.5	37,562.7	154.0	37,408.7	913.7	556.8	19.2	0.0	0.0
Feb	39,594.6	37,171.8	122.6	37,049.1	1,088.4	1,315.7	18.8	0.0	0.0
Mar	41,166.1	38,781.1	253.8	38,527.3	1,237.1	1,129.2	18.7	0.0	0.0
Apr	41,098.7	40,298.4	264.4	40,034.0	782.0	0.0	18.3	0.0	0.0
May	46,830.7	43,534.4	347.2	43,187.2	1,851.0	1,425.7	19.5	0.0	0.0
Jun	45,053.9	43,896.3	229.9	43,666.4	182.2	956.5	18.8	0.0	0.0
Jul	44,578.5	43,102.9	314.5	42,788.3	1,350.8	105.6	19.2	0.0	0.0
Aug	43,875.0	43,143.0	188.1	42,954.9	285.5	427.2	19.3	0.0	0.0
Sep	44,848.9	42,582.9	231.4	42,351.4	2,247.5	0.0	18.6	0.0	0.0
Oct	46,919.3	43,489.0	182.3	43,306.7	1,669.8	1,742.4	18.1	0.0	0.0
Nov	49,517.3	45,854.8	165.3	45,689.5	1,744.6	1,900.0	17.9	0.0	0.0
Dec	53,286.2	47,910.9	137.3	47,773.6	3,457.9	1,900.0	17.4	0.0	0.0
2013									
Jan	48,847.2	46,538.0	163.3	46,374.7	1,425.9	866.2	17.0	0.0	0.0
Feb	49,027.8	47,274.8	149.9	47,124.9	317.6	1,418.8	16.5	0.0	0.0
Mar	51,183.7	49,836.2	174.5	49,661.6	1,021.0	310.3	16.2	0.0	0.0
Apr	50,743.8	50,562.0	121.5	50,440.5	166.1	0.0	15.7	0.0	0.0
May	53,061.0	52,447.1	221.9	52,225.2	472.9	126.4	14.6	0.0	0.0
Jun	59,822.6	55,665.5	10,706.4	44,959.0	2,243.6	1,900.0	13.5	0.0	0.0

TABLE 7. CONTINUED
Royal Monetary Authority of Bhutan

Millions of Ngultrums

End of Period	Liabilities									
	Total	Reserve Money		Foreign Liabilities			Govt. Deposits	RMA Bills Outstanding	Capital Account	Other Items (Net)
		Total	Of which: Currency Outside Banks	Total	Rupee	Others				
2004	13,933.6	9,222.6	2,070.7	0.0	0.0	0.0	1,087.6	200.0	205.8	3,217.6
2005	18,220.4	12,732.9	2,404.4	0.0	0.0	0.0	835.2	100.0	1,058.2	3,494.1
2006	18,510.7	12,284.8	2,762.5	0.0	0.0	0.0	1,495.7	100.0	1,039.9	3,590.3
2007	25,812.6	14,933.3	3,246.0	0.0	0.0	0.0	2,578.8	2,000.0	1,072.8	5,227.7
2008	33,509.3	15,528.4	3,842.2	0.0	0.0	0.0	7,477.2	1,019.9	1,076.2	8,407.6
2009	39,114.7	21,741.2	4,980.1	3,000.0	3,000.0	0.0	3,239.3	2,022.3	1,006.5	8,105.4
2010	42,963.3	27,248.6	5,608.5	3,000.0	3,000.0	0.0	4,110.8	1,021.4	3,183.1	4,399.4
2011										
Jan	39,462.0	23,562.9	5,727.1	3,000.0	3,000.0	0.0	4,708.2	21.4	3,297.7	4,871.7
Feb	39,104.8	21,990.0	5,767.9	4,227.8	4,227.8	0.0	4,828.3	21.4	3,337.1	4,700.3
Mar	38,652.4	20,795.9	5,812.3	6,385.9	6,385.9	0.0	3,886.0	21.4	3,363.6	4,199.6
Apr	40,183.6	20,798.7	5,933.1	6,828.5	6,828.5	0.0	5,179.4	21.4	3,334.0	4,021.6
May	41,124.8	19,010.2	6,172.8	7,442.8	7,442.8	0.0	6,513.6	21.4	3,373.9	4,762.9
Jun	40,681.9	19,727.6	6,893.7	7,914.8	7,914.8	0.0	5,074.4	20.7	3,256.0	4,688.4
Jul	40,696.9	23,062.9	6,243.3	8,081.9	8,081.9	0.0	2,163.5	20.7	3,300.3	4,067.6
Aug	41,959.0	22,533.1	6,389.6	8,458.5	8,458.5	0.0	2,145.6	20.7	3,294.1	5,507.0
Sep	46,552.8	22,198.5	6,496.5	10,017.1	10,017.1	0.0	2,846.1	28.3	3,097.0	8,365.9
Oct	46,114.9	23,393.2	6,659.2	10,527.1	10,527.1	0.0	1,469.0	28.3	3,034.2	7,663.2
Nov	50,402.6	25,128.0	6,637.3	10,818.5	10,818.5	0.0	980.3	28.3	2,974.7	10,472.7
Dec	40,782.1	21,173.4	6,910.6	3,000.0	3,000.0	0.0	2,782.8	44.0	3,096.4	10,685.5
2012										
Jan	39,052.5	23,854.2	6,703.8	2,761.8	2,761.8	0.0	792.5	0.0	3,194.9	8,449.1
Feb	39,594.6	20,490.9	6,616.9	5,048.1	5,048.1	0.0	2,674.1	4.2	3,191.4	8,186.1
Mar	41,166.1	18,161.4	6,597.8	8,892.3	8,892.3	0.0	1,411.7	7.7	3,223.2	9,469.7
Apr	41,098.7	14,675.7	6,078.2	10,809.3	10,809.3	0.0	1,750.0	11.9	3,184.9	10,666.8
May	46,830.7	17,614.5	5,932.5	12,693.6	12,693.6	0.0	454.3	16.3	3,273.6	12,778.3
Jun	45,053.9	16,743.1	6,390.7	11,173.3	11,173.3	0.0	783.7	26.0	3,014.2	13,313.5
Jul	44,578.5	13,709.3	5,973.1	14,192.0	14,192.0	0.0	1,107.3	26.0	3,036.3	12,507.5
Aug	43,875.0	16,657.5	6,094.8	11,444.4	11,444.4	0.0	200.0	29.9	3,086.6	12,456.5
Sep	44,848.9	17,091.2	5,776.6	12,303.8	12,303.8	0.0	695.6	29.9	3,101.6	11,626.8
Oct	46,919.3	19,066.2	6,022.6	13,221.4	13,221.4	0.0	212.0	29.9	2,967.1	11,422.6
Nov	49,517.3	19,621.7	5,358.5	13,853.2	13,853.2	0.0	288.0	29.9	2,940.0	12,784.4
Dec	53,286.2	19,148.4	5,254.4	16,363.5	16,363.5	0.0	2,322.4	29.9	2,878.7	12,543.4
2013										
Jan	48,847.2	16,548.6	5,343.1	17,264.0	17,264.0	0.0	337.8	0.0	3,045.9	11,650.9
Feb	49,027.8	14,346.7	5,234.7	18,940.4	18,940.4	0.0	412.4	0.0	3,084.4	12,243.9
Mar	51,183.7	17,043.0	5,180.0	12,786.7	12,786.7	0.0	882.2	0.0	3,032.4	17,439.4
Apr	50,743.8	12,494.3	5,217.3	16,018.0	16,018.0	0.0	2,161.1	0.0	2,881.2	17,189.2
May	53,061.0	14,132.6	5,118.2	16,776.8	16,776.8	0.0	730.8	0.0	2,755.5	18,665.3
Jun	59,822.6	23,997.4	5,681.2	10,032.0	10,032.0	0.0	736.9	0.0	2,726.4	22,330.0

TABLE 8. DEPOSIT MONEY BANKS - MONETARY AND FINANCIAL STATISTICS

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector *	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2004	19,532.3	6,608.1	4,326.8	2,737.0	1,589.8	2,520.8	781.8	135.8	4,962.7	196.3
2005	21,879.2	9,423.8	4,017.4	2,239.9	1,777.5	897.0	701.3	109.3	6,461.2	269.2
2006	26,484.0	9,858.4	6,027.7	3,585.3	2,442.4	577.0	741.8	142.8	8,648.4	487.9
2007	28,621.0	11,734.7	3,228.6	1,470.7	1,757.9	577.0	661.8	383.4	11,517.5	518.0
2008	35,349.4	14,619.6	2,445.0	1,179.2	1,265.8	586.3	527.0	365.9	16,250.4	555.2
2009	45,506.8	19,152.5	2,793.5	1,702.5	1,091.0	2,514.4	657.0	49.6	19,753.1	586.7
2010	58,638.7	23,065.9	2,319.3	1,149.7	1,169.5	2,050.4	363.9	50.5	29,968.2	820.4
2011										
Jan	52,103.5	18,434.3	2,356.1	942.0	1,414.1	1,141.7	389.4	5,347.1	23,641.3	793.6
Feb	53,657.9	19,054.5	2,302.7	678.9	1,623.8	1,059.1	74.0	543.7	29,805.6	818.4
Mar	54,135.2	15,738.1	4,043.7	1,018.7	3,025.0	1,553.4	89.4	148.8	31,709.1	852.9
Apr	54,471.1	16,116.5	3,350.2	1,120.4	2,229.8	1,553.4	94.7	148.8	32,435.2	772.4
May	53,528.2	14,567.8	3,122.9	673.5	2,449.4	1,553.4	99.4	148.8	33,242.8	793.2
Jun	54,058.6	15,401.0	2,896.5	710.2	2,186.3	1,119.1	555.3	480.5	33,215.7	390.5
Jul	55,830.9	16,208.7	3,043.6	422.9	2,620.6	1,107.9	402.4	572.4	34,308.2	187.7
Aug	55,187.2	14,133.8	2,892.3	894.9	1,997.4	1,597.8	406.7	635.6	35,129.1	391.9
Sep	57,914.6	16,373.9	2,024.2	166.6	1,857.6	1,596.6	399.7	599.2	36,527.3	393.7
Oct	59,772.5	16,483.7	2,695.3	968.1	1,727.2	1,592.7	402.9	672.9	37,530.7	394.3
Nov	63,691.2	18,632.3	3,306.4	1,640.7	1,665.7	1,590.0	497.5	753.5	38,516.7	394.9
Dec	59,808.9	14,492.0	2,243.3	824.0	1,419.3	1,583.9	489.5	757.1	39,678.3	564.7
2012										
Jan	61,522.1	14,631.3	2,376.1	862.0	1,514.1	1,582.1	493.0	763.8	40,946.3	729.5
Feb	64,281.4	15,372.4	2,399.4	408.8	1,990.5	2,786.5	500.3	769.5	41,899.9	553.5
Mar	61,443.8	11,068.8	3,119.1	897.5	2,221.6	3,052.2	491.1	763.5	42,628.1	320.9
Apr	58,756.0	9,318.0	2,586.1	832.2	1,753.9	1,850.9	718.1	750.0	43,212.0	320.9
May	62,477.2	12,524.7	2,886.8	1,377.5	1,509.3	1,860.3	860.3	767.8	43,019.9	557.4
Jun	59,623.5	10,540.0	2,809.1	1,392.6	1,416.5	1,073.0	717.8	767.9	43,158.5	557.3
Jul	59,843.5	7,958.8	3,465.3	2,071.2	1,394.1	2,812.1	724.3	748.9	43,558.6	575.5
Aug	61,911.8	10,717.6	2,325.1	970.9	1,354.2	2,810.5	728.9	745.7	44,008.4	575.6
Sep	63,502.7	10,755.5	4,439.5	2,231.4	2,208.1	2,066.4	730.4	730.8	44,204.6	575.5
Oct	64,918.3	11,675.2	3,431.5	1,323.8	2,107.7	3,157.2	952.8	849.6	44,326.8	525.3
Nov	67,557.1	13,887.9	2,451.7	775.8	1,676.0	4,440.3	945.9	721.7	44,584.4	525.2
Dec	68,535.1	12,496.6	4,662.0	1,306.0	3,356.0	4,589.8	935.5	709.9	44,407.4	734.0
2013										
Jan	66,763.4	11,340.6	3,779.9	1,377.4	2,402.5	4,642.0	943.2	710.0	44,613.7	734.0
Feb	65,679.5	9,849.6	4,052.5	903.9	3,148.6	4,289.6	949.0	894.0	44,870.6	774.1
Mar	69,624.2	10,568.1	5,660.7	2,119.1	3,541.6	5,524.0	946.8	890.0	45,472.6	561.8
Apr	63,607.1	6,673.4	3,272.9	720.4	2,552.5	5,520.3	1,400.3	205.9	45,985.1	549.3
May	65,709.7	8,537.5	3,892.0	712.0	3,180.0	4,779.6	1,624.2	205.9	46,134.1	536.5
Jun	71,596.5	17,408.1	2,932.9	818.4	2,114.5	2,159.9	2,080.5	204.1	46,117.8	693.3

* With effect from 1st January 2011, claims on joint corporations were reclassified as claims on public sector as per new reporting by the Financial Regulation and Supervision Department of the RMA.

TABLE 8. CONTINUED
Deposit Money Banks

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2004	19,532.3	6,772.2	8,947.3	588.7	0.0	0.0	0.0	0.0	0.0	1,823.7	1,400.4
2005	21,879.2	7,830.6	10,131.5	502.8	0.0	0.0	0.0	0.0	0.0	2,029.4	1,384.9
2006	26,484.0	9,790.9	11,386.5	731.9	0.0	0.0	0.0	0.0	0.0	2,272.7	2,302.1
2007	28,621.0	14,245.8	9,243.7	951.4	0.0	0.0	0.0	0.0	0.0	2,581.1	1,598.9
2008	35,349.4	12,394.3	14,081.4	1,069.5	0.0	0.0	0.0	0.0	0.0	3,326.4	4,477.8
2009	45,506.8	17,642.7	20,262.4	977.6	0.0	0.0	0.0	0.0	0.0	3,783.4	2,840.8
2010	58,638.7	23,434.4	20,814.1	1,255.0	0.0	0.0	0.0	0.0	1,417.9	6,149.6	5,567.6
2011											
Jan	52,103.5	19,904.9	21,453.5	1,307.1	0.0	0.0	0.0	0.0	1,417.0	5,983.8	2,037.1
Feb	53,657.9	21,458.0	21,387.8	1,326.3	0.0	0.0	0.0	0.0	1,411.1	6,030.2	2,044.5
Mar	54,135.2	22,089.2	19,119.3	3,188.6	0.0	0.0	0.0	0.0	1,511.1	6,169.3	2,057.8
Apr	54,471.1	22,123.1	18,861.2	2,522.3	0.0	0.0	0.0	0.0	1,411.3	6,409.8	3,143.3
May	53,528.2	22,751.0	18,324.3	3,118.1	0.0	0.0	0.0	0.0	1,547.7	6,563.2	1,223.9
Jun	54,058.6	23,376.6	17,410.9	2,958.6	0.0	0.0	0.0	0.0	1,547.9	6,382.3	2,382.3
Jul	55,830.9	22,200.3	18,134.7	3,247.5	0.0	0.0	0.0	0.0	1,470.5	6,666.0	4,112.0
Aug	55,187.2	23,907.1	17,584.1	2,711.7	0.0	0.0	0.0	0.0	1,390.6	6,877.7	2,716.1
Sep	57,914.6	25,690.2	19,310.9	1,677.5	0.0	0.0	0.0	0.0	1,390.6	7,027.4	2,818.1
Oct	59,772.5	25,474.5	20,695.0	1,721.0	0.0	0.0	0.0	0.0	1,390.6	7,508.4	2,982.9
Nov	63,691.2	28,232.5	21,947.7	1,467.3	0.0	0.0	0.0	0.0	1,385.5	7,465.2	3,193.0
Dec	59,808.9	26,289.0	18,468.5	1,560.5	0.0	0.0	0.0	0.0	1,330.5	9,451.2	2,709.1
2012											
Jan	61,522.1	26,800.1	20,064.9	1,610.2	0.0	0.0	0.0	0.0	1,329.6	9,317.6	2,399.7
Feb	64,281.4	24,898.4	20,582.9	1,522.0	0.0	0.0	0.0	0.0	1,323.6	9,128.4	6,826.0
Mar	61,443.8	26,671.8	18,301.7	1,573.3	0.0	0.0	0.0	0.0	1,603.9	9,172.2	4,120.9
Apr	58,756.0	22,934.2	18,693.3	1,575.1	0.0	0.0	0.0	0.0	1,531.9	9,662.7	4,358.7
May	62,477.2	27,803.4	16,760.6	1,649.4	0.0	0.0	0.0	0.0	1,871.4	10,055.9	4,336.5
Jun	59,623.5	25,569.5	16,641.8	1,520.9	0.0	0.0	0.0	0.0	1,263.6	10,263.0	4,364.7
Jul	59,843.5	24,962.8	17,352.0	1,378.3	0.0	0.0	0.0	0.0	1,262.6	9,836.2	5,051.5
Aug	61,911.8	26,926.2	18,462.7	1,236.8	0.0	0.0	0.0	0.0	1,256.7	10,115.0	3,914.4
Sep	63,502.7	26,637.7	20,026.1	1,373.7	0.0	0.0	0.0	0.0	1,256.7	10,335.2	3,873.4
Oct	64,918.3	26,455.9	21,794.4	1,359.0	0.0	0.0	0.0	0.0	1,256.7	10,409.8	3,642.5
Nov	67,557.1	27,553.9	23,370.2	1,294.0	0.0	0.0	0.0	0.0	1,333.7	10,434.1	3,571.3
Dec	68,535.1	27,975.2	21,644.0	1,349.2	0.0	0.0	0.0	0.0	1,278.7	12,442.2	3,845.8
2013											
Jan	66,763.4	24,401.6	22,099.0	1,462.4	0.0	0.0	0.0	0.0	1,277.7	12,651.2	4,871.4
Feb	65,679.5	23,401.9	22,023.4	1,408.7	0.0	0.0	0.0	0.0	1,271.8	12,454.8	5,119.0
Mar	69,624.2	27,715.6	21,177.4	1,503.0	0.0	0.0	0.0	0.0	1,271.8	12,441.4	5,515.0
Apr	63,607.1	24,968.0	19,438.1	1,573.3	0.0	0.0	0.0	0.0	1,271.8	12,678.8	3,677.1
May	65,709.7	26,438.8	19,153.1	1,528.1	0.0	0.0	0.0	0.0	1,430.5	12,389.5	4,769.7
Jun	71,596.5	32,112.9	20,373.6	1,283.5	0.0	0.0	0.0	0.0	1,374.6	13,011.1	3,440.8

(1) Demand Deposits includes Saving Deposits. (*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately.

TABLE 9. BANK OF BHUTAN LIMITED - MONETARY AND FINANCIAL STATISTICS

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector *	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2004	13,013.2	5,386.2	3,552.9	2,196.5	1,356.4	1,079.4	718.1	128.2	1,996.0	152.5
2005	14,404.5	7,565.9	3,009.8	1,869.8	1,140.0	200.0	652.2	101.8	2,642.5	232.4
2006	16,930.9	7,647.5	4,320.0	3,136.3	1,183.7	0.0	633.5	135.3	3,660.4	534.2
2007	18,431.2	10,139.2	2,437.7	1,205.6	1,232.1	0.0	580.3	375.8	4,333.9	564.3
2008	19,645.0	9,387.2	1,690.5	888.3	802.2	0.0	527.0	358.3	7,130.5	551.5
2009	24,905.4	13,306.6	1,640.9	1,235.0	405.9	0.0	605.7	42.1	8,727.1	583.0
2010	27,908.6	15,373.8	815.9	446.6	369.3	527.0	124.6	42.1	10,358.9	666.3
2011										
Jan	22,184.1	11,296.0	710.4	408.1	302.3	527.0	68.2	42.1	8,936.8	603.7
Feb	22,636.5	11,326.1	702.4	292.2	410.2	527.0	74.0	42.1	9,336.3	628.5
Mar	22,392.6	8,530.0	2,627.6	560.7	2,066.9	527.0	84.6	42.1	9,918.3	663.0
Apr	23,531.3	9,742.7	2,235.6	685.5	1,550.1	527.0	85.8	42.1	10,214.8	683.4
May	22,474.6	9,121.0	1,494.3	250.2	1,244.1	527.0	85.6	42.1	10,500.5	704.2
Jun	23,108.4	9,283.7	1,947.0	341.7	1,605.3	592.1	405.0	-29.7	10,608.9	301.4
Jul	24,220.5	9,918.1	1,899.6	315.3	1,584.3	580.9	395.9	73.2	11,251.6	101.1
Aug	22,330.5	7,676.1	1,355.4	394.1	961.3	573.2	399.9	72.7	11,950.3	302.9
Sep	24,949.6	9,606.3	1,347.7	252.6	1,095.1	572.0	392.8	71.3	12,657.8	301.7
Oct	25,883.8	10,294.3	1,454.0	459.9	994.0	41.2	396.3	151.6	13,244.2	302.3
Nov	27,858.1	10,778.0	1,758.3	1,067.1	691.1	564.9	491.0	133.7	13,829.5	302.8
Dec	24,766.0	7,824.1	1,188.9	589.6	599.3	558.7	482.9	144.7	14,265.0	301.7
2012										
Jan	25,078.9	7,689.1	1,172.4	392.9	779.5	557.0	486.8	144.2	14,727.2	302.3
Feb	27,202.5	9,531.9	1,072.6	252.9	819.7	555.0	490.7	149.6	15,101.2	301.6
Mar	24,107.7	5,661.5	1,546.0	604.8	941.2	545.5	481.6	133.6	15,438.0	301.7
Apr	23,111.6	4,228.0	1,530.3	628.3	902.0	543.8	711.8	128.0	15,668.1	301.6
May	25,381.9	6,887.3	1,208.4	565.6	642.8	546.4	718.5	134.1	15,585.6	301.7
Jun	25,904.1	7,210.0	1,437.9	909.4	528.5	546.0	711.1	130.4	15,567.2	301.6
Jul	25,770.5	6,148.1	2,383.2	1,722.6	660.6	543.4	716.7	119.4	15,540.0	319.7
Aug	27,640.9	9,068.3	1,065.1	545.3	519.7	541.9	722.6	112.3	15,811.1	319.7
Sep	27,530.3	8,149.0	1,914.1	1,132.1	782.0	541.3	717.2	93.6	15,795.5	319.6
Oct	28,417.6	9,134.3	1,898.9	970.8	928.1	535.0	716.5	83.4	15,729.8	319.7
Nov	29,795.6	9,543.6	1,602.2	530.5	1,071.7	1,818.4	723.1	89.2	15,699.5	319.6
Dec	27,571.8	8,237.8	1,579.7	614.2	965.5	970.8	722.5	82.2	15,450.4	528.4
2013										
Jan	26,248.3	6,905.7	1,931.4	697.1	1,234.2	527.0	728.6	78.4	15,548.8	528.4
Feb	25,299.8	5,656.1	2,223.0	681.2	1,541.9	527.0	733.1	78.8	15,562.1	519.6
Mar	28,469.3	7,544.8	3,383.6	1,399.8	1,983.8	527.0	728.4	69.4	15,708.8	507.3
Apr	25,395.5	5,734.6	1,968.7	415.4	1,553.3	527.0	733.2	58.9	15,878.3	494.8
May	26,748.9	6,991.3	1,946.2	452.0	1,494.1	527.0	739.6	59.0	16,003.6	482.3
Jun	33,291.7	12,793.0	1,614.7	299.9	1,314.8	1,632.9	795.2	54.8	15,947.3	453.8

* With effect from 1st January, 2011 claims on Joint Corporations has been reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 9. CONTINUED
Bank of Bhutan Limited

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2004	13,013.2	4,974.7	4,226.1	507.6	0.0	0.0	0.0	988.7	0.0	1,081.1	1,234.9
2005	14,404.5	5,505.0	4,934.6	348.6	0.0	0.0	0.0	1,348.8	0.0	1,192.5	1,075.0
2006	16,930.9	7,671.3	5,366.3	411.4	0.0	0.0	0.0	0.0	0.0	1,353.6	2,128.3
2007	18,431.2	11,718.0	4,736.7	600.0	0.0	0.0	0.0	0.0	0.0	1,456.0	-79.5
2008	19,645.0	9,271.4	4,218.5	810.1	0.0	0.0	0.0	0.0	0.0	1,808.2	3,536.7
2009	24,905.4	13,774.4	4,352.3	654.7	0.0	0.0	0.0	0.0	0.0	2,172.8	3,951.2
2010	27,908.6	14,092.6	4,325.6	695.9	0.0	0.0	0.0	0.0	0.0	2,596.5	6,198.1
2011											
Jan	22,184.1	13,501.1	3,933.1	488.8	0.0	0.0	0.0	0.0	0.0	2,475.3	1,785.9
Feb	22,636.5	14,594.5	3,874.1	538.1	0.0	0.0	0.0	0.0	0.0	2,517.1	1,112.8
Mar	22,392.6	13,382.1	3,380.4	2,228.0	0.0	0.0	0.0	0.0	0.0	2,568.0	834.1
Apr	23,531.3	14,544.1	3,360.2	2,094.5	0.0	0.0	0.0	0.0	0.0	2,657.3	875.2
May	22,474.6	15,710.3	3,363.3	2,103.6	0.0	0.0	0.0	0.0	0.0	2,710.9	-1,413.5
Jun	23,108.4	16,519.7	3,166.8	2,509.0	0.0	0.0	0.0	0.0	0.0	2,803.2	-1,890.2
Jul	24,220.5	15,473.2	3,135.6	2,447.6	0.0	0.0	0.0	0.0	0.0	2,864.0	300.0
Aug	22,330.5	14,366.4	3,152.4	2,240.1	0.0	0.0	0.0	0.0	0.0	2,887.2	-315.7
Sep	24,949.6	16,618.1	3,347.9	1,211.3	0.0	0.0	0.0	0.0	0.0	2,995.4	777.0
Oct	25,883.8	16,691.4	3,343.8	1,288.9	0.0	0.0	0.0	0.0	0.0	3,058.7	1,501.0
Nov	27,858.1	18,272.3	3,343.2	1,027.9	0.0	0.0	0.0	0.0	0.0	3,189.3	2,025.4
Dec	24,766.0	16,635.6	3,363.2	1,016.5	0.0	0.0	0.0	0.0	0.0	3,046.2	704.4
2012											
Jan	25,078.9	17,435.8	3,357.2	997.5	0.0	0.0	0.0	0.0	0.0	3,086.6	201.8
Feb	27,202.5	15,953.9	3,352.1	805.0	0.0	0.0	0.0	0.0	0.0	2,924.9	4,166.5
Mar	24,107.7	15,424.5	3,241.4	777.9	0.0	0.0	0.0	0.0	0.0	3,174.2	1,489.7
Apr	23,111.6	14,653.2	3,193.8	749.2	0.0	0.0	0.0	0.0	0.0	3,303.6	1,211.9
May	25,381.9	17,483.7	3,173.1	597.7	0.0	0.0	0.0	0.0	0.0	3,339.0	788.3
Jun	25,904.1	16,973.8	3,233.7	594.0	0.0	0.0	0.0	0.0	0.0	3,406.0	1,696.8
Jul	25,770.5	16,293.2	3,276.0	609.5	0.0	0.0	0.0	0.0	0.0	3,053.6	2,538.1
Aug	27,640.9	18,391.2	3,275.9	561.2	0.0	0.0	0.0	0.0	0.0	3,103.7	2,308.8
Sep	27,530.3	17,322.4	3,834.0	675.0	0.0	0.0	0.0	0.0	0.0	3,450.6	2,248.3
Oct	28,417.6	16,967.6	3,871.7	724.2	0.0	0.0	0.0	0.0	0.0	3,497.7	3,356.5
Nov	29,795.6	18,287.0	3,887.7	677.7	0.0	0.0	0.0	0.0	0.0	3,291.5	3,651.6
Dec	27,571.8	17,776.5	3,971.8	657.7	0.0	0.0	0.0	0.0	0.0	3,451.4	1,714.4
2013											
Jan	26,248.3	15,427.7	4,078.3	750.9	0.0	0.0	0.0	0.0	0.0	3,687.1	2,304.4
Feb	25,299.8	13,868.7	4,112.4	684.9	0.0	0.0	0.0	0.0	0.0	3,567.6	3,066.2
Mar	28,469.3	16,812.2	3,939.3	838.0	0.0	0.0	0.0	0.0	0.0	3,716.1	3,163.6
Apr	25,395.5	14,956.1	3,821.1	877.3	0.0	0.0	0.0	0.0	0.0	3,754.1	1,986.9
May	26,748.9	15,753.8	3,844.7	849.5	0.0	0.0	0.0	0.0	0.0	3,670.8	2,630.1
Jun	33,291.7	22,129.8	3,894.9	789.4	0.0	0.0	0.0	0.0	0.0	3,783.6	2,694.0

(*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately.

TABLE 10. BHUTAN NATIONAL BANK LIMITED - MONETARY AND FINANCIAL STATISTICS

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector *	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2004	6,519.1	1,221.9	773.9	540.4	233.4	1,391.4	63.7	7.6	2,966.8	93.8
2005	7,474.7	1,857.9	1,007.6	370.1	637.5	647.0	49.1	7.6	3,818.6	86.9
2006	9,553.1	2,210.9	1,707.6	448.9	1,258.7	527.0	108.2	7.6	4,988.0	3.7
2007	10,189.8	1,595.5	790.8	265.1	525.8	527.0	81.5	7.6	7,183.6	3.7
2008	15,704.4	5,232.4	754.5	290.9	463.6	586.3	0.0	7.6	9,119.9	3.7
2009	20,601.4	7,833.2	1,152.6	467.5	685.1	527.0	51.3	7.6	11,026.0	3.7
2010	20,896.1	6,127.7	734.2	172.8	561.4	527.0	234.3	7.6	13,261.7	3.7
2011										
Jan	20,297.6	5,192.0	921.7	196.2	725.5	527.0	5.1	5,303.6	8,344.5	3.7
Feb	20,800.2	5,340.5	1,042.6	125.8	916.8	532.1	0.0	495.4	13,385.9	3.7
Mar	20,866.7	5,158.0	893.6	191.4	702.2	527.0	0.0	105.3	14,179.1	3.7
Apr	20,170.6	4,498.4	680.3	61.9	618.4	527.0	4.2	105.3	14,351.7	3.7
May	19,882.7	4,103.2	655.9	130.4	525.5	527.0	8.7	105.3	14,478.9	3.7
Jun	20,190.2	4,142.7	587.4	108.8	478.6	527.0	145.4	508.9	14,275.1	3.7
Jul	20,308.2	3,984.9	733.8	27.3	706.5	527.0	0.4	497.8	14,563.2	1.2
Aug	21,163.9	4,517.7	1,048.6	80.9	967.7	527.0	0.4	501.0	14,565.6	3.7
Sep	21,543.9	4,852.9	579.3	-150.1	729.4	527.0	0.4	504.3	15,076.4	3.7
Oct	21,994.0	4,840.5	822.3	173.0	649.4	527.0	0.4	497.8	15,302.2	3.7
Nov	23,356.4	5,632.1	998.4	90.4	908.0	527.0	0.4	593.0	15,601.8	3.7
Dec	22,551.6	4,394.6	929.4	130.6	798.8	527.0	0.4	585.9	15,892.4	221.9
2012										
Jan	22,988.0	4,360.4	770.9	142.1	628.8	527.0	0.4	590.0	16,315.2	424.2
Feb	23,631.0	4,675.6	983.5	61.7	921.8	527.0	0.4	593.3	16,602.3	248.9
Mar	24,495.9	5,349.0	1,305.3	143.5	1,161.8	527.0	0.4	597.4	16,697.7	19.2
Apr	22,553.6	3,683.9	900.8	148.1	752.6	527.0	0.4	589.4	16,832.9	19.2
May	22,968.7	4,211.0	702.1	68.9	633.2	527.0	0.4	601.1	16,907.9	19.2
Jun	21,102.7	2,114.3	1,053.8	222.8	831.1	527.0	0.4	604.9	16,783.0	19.2
Jul	21,036.5	2,101.7	792.5	167.2	625.3	527.0	0.0	596.9	16,999.2	19.2
Aug	21,056.0	1,954.2	864.6	142.3	722.3	527.0	0.0	600.9	17,090.1	19.2
Sep	22,306.9	2,517.8	1,556.8	233.6	1,323.2	527.0	7.0	604.7	17,074.3	19.2
Oct	22,814.8	3,318.9	1,197.7	113.3	1,084.4	527.0	7.1	596.6	17,148.3	19.2
Nov	23,920.9	4,922.1	636.5	126.9	509.5	527.0	7.0	600.4	17,208.7	19.2
Dec	25,489.9	4,644.0	2,446.5	134.4	2,312.1	527.0	0.0	592.3	17,260.9	19.2
2013										
Jan	25,593.3	6,030.0	1,209.9	119.3	1,090.7	527.0	0.0	596.2	17,211.0	19.2
Feb	25,959.4	5,907.1	1,427.5	66.6	1,360.9	527.0	0.0	779.8	17,298.7	19.2
Mar	26,165.3	6,104.6	1,493.3	65.2	1,428.1	527.0	0.0	785.3	17,235.9	19.2
Apr	22,985.4	3,539.7	1,057.5	183.7	873.8	527.0	667.1	111.7	17,063.3	19.2
May	22,400.7	3,265.1	770.4	29.2	741.2	527.0	672.7	111.6	17,034.7	19.2
Jun	21,768.1	2,209.4	801.0	144.5	656.5	527.0	1,285.3	114.0	16,812.1	19.2

* With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 10. CONTINUED
Bhutan National Bank Limited

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domesti Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
2004	6,519.1	1,293.0	4,236.9	81.1	0.0	0.0	0.0	0.0	0.0	742.6	165.5
2005	7,474.7	1,456.7	4,716.7	154.2	0.0	0.0	0.0	0.0	0.0	836.9	310.1
2006	9,553.1	2,119.6	6,020.2	320.5	0.0	0.0	0.0	0.0	0.0	919.1	173.7
2007	10,189.8	2,528.0	4,507.1	351.4	0.0	0.0	0.0	0.0	0.0	1,125.1	1,678.2
2008	15,704.4	3,125.8	9,862.9	259.4	0.0	0.0	0.0	0.0	0.0	1,518.1	938.2
2009	20,601.4	3,866.8	15,910.1	322.9	0.0	0.0	0.0	0.0	0.0	1,610.6	-1,108.9
2010	20,896.1	7,370.5	14,288.8	320.3	0.0	0.0	0.0	0.0	0.0	1,794.1	-2,877.5
2011											
Jan	20,297.6	4,494.5	15,181.6	436.7	0.0	0.0	0.0	0.0	0.0	1,790.7	-1,605.8
Feb	20,800.2	4,929.6	14,977.7	510.0	0.0	0.0	0.0	0.0	0.0	1,793.0	-1,410.1
Mar	20,866.7	6,040.0	13,625.9	587.3	0.0	0.0	0.0	0.0	0.0	1,821.0	-1,207.6
Apr	20,170.6	4,892.7	13,430.0	357.2	0.0	0.0	0.0	0.0	0.0	1,932.6	-441.8
May	19,882.7	4,748.5	11,954.7	356.6	0.0	0.0	0.0	0.0	0.0	1,984.5	838.5
Jun	20,190.2	4,495.7	11,862.6	413.5	0.0	0.0	0.0	0.0	0.0	1,694.7	1,723.7
Jul	20,308.2	4,264.8	12,332.8	479.2	0.0	0.0	0.0	0.0	0.0	1,861.4	1,370.0
Aug	21,163.9	5,496.6	12,057.5	450.9	0.0	0.0	0.0	0.0	0.0	1,864.9	1,294.0
Sep	21,543.9	6,030.3	12,462.4	447.6	0.0	0.0	0.0	0.0	0.0	1,912.5	691.1
Oct	21,994.0	5,941.4	13,602.3	409.8	0.0	0.0	0.0	0.0	0.0	2,236.1	-195.7
Nov	23,356.4	6,372.1	14,793.8	421.3	0.0	0.0	0.0	0.0	0.0	2,016.5	-247.4
Dec	22,551.6	6,479.3	11,240.3	525.9	0.0	0.0	0.0	0.0	0.0	4,078.0	228.2
2012											
Jan	22,988.0	5,189.9	12,853.4	526.3	0.0	0.0	0.0	0.0	0.0	3,936.0	482.5
Feb	23,631.0	5,355.1	13,006.2	630.6	0.0	0.0	0.0	0.0	0.0	3,950.3	688.9
Mar	24,495.9	7,934.9	10,355.5	775.1	0.0	0.0	0.0	0.0	0.0	3,749.8	1,680.6
Apr	22,553.6	5,363.1	10,817.5	805.9	0.0	0.0	0.0	0.0	0.0	3,995.3	1,571.8
May	22,968.7	5,465.4	8,936.9	859.0	0.0	0.0	0.0	0.0	0.0	4,274.7	3,432.6
Jun	21,102.7	5,463.3	8,866.0	897.4	0.0	0.0	0.0	0.0	0.0	4,345.9	1,530.1
Jul	21,036.5	4,930.1	9,019.7	722.2	0.0	0.0	0.0	0.0	0.0	4,289.3	2,075.2
Aug	21,056.0	5,024.2	9,431.6	631.9	0.0	0.0	0.0	0.0	0.0	4,458.1	1,510.1
Sep	22,306.9	5,254.0	10,465.6	636.5	0.0	0.0	0.0	0.0	0.0	4,330.6	1,620.2
Oct	22,814.8	5,858.7	11,849.2	634.1	0.0	0.0	0.0	0.0	0.0	4,290.6	182.1
Nov	23,920.9	5,582.0	13,366.1	615.4	0.0	0.0	0.0	0.0	0.0	4,350.4	6.9
Dec	25,489.9	5,309.4	11,715.9	690.7	0.0	0.0	0.0	0.0	0.0	6,088.0	1,686.0
2013											
Jan	25,593.3	5,540.0	11,844.7	710.7	0.0	0.0	0.0	0.0	0.0	5,998.3	1,499.5
Feb	25,959.4	5,661.1	11,846.1	723.0	0.0	0.0	0.0	0.0	0.0	5,992.1	1,737.0
Mar	26,165.3	6,573.0	11,648.6	664.2	0.0	0.0	0.0	0.0	0.0	5,780.1	1,499.5
Apr	22,985.4	6,041.0	9,769.7	695.2	0.0	0.0	0.0	0.0	0.0	5,978.6	501.0
May	22,400.7	5,901.7	9,469.1	677.8	0.0	0.0	0.0	0.0	0.0	5,786.1	566.0
Jun	21,768.1	5,849.1	9,691.3	494.1	0.0	0.0	0.0	0.0	0.0	6,097.7	-364.1

(1) Demand Deposits include Saving Deposits. -In January 1997, the Unit Trust of Bhutan was converted to Bhutan National Bank (the second commercial bank in the country).

**TABLE 11. BHUTAN DEVELOPMENT BANK LIMITED (*)
MONETARY AND FINANCIAL STATISTICS**

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector **	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2010										
Mar	3,045.2	19.0	0.0	0.0	0.0	0.0	0.0	0.9	3,025.3	0.0
Apr	3,127.3	34.9	0.0	0.0	0.0	0.0	0.0	0.9	3,091.5	0.0
May	3,235.0	34.6	0.0	0.0	0.0	0.0	0.0	0.9	3,199.6	0.0
Jun	3,352.0	73.4	0.0	0.0	0.0	0.0	0.0	0.9	3,277.8	0.0
Jul	3,089.3	47.8	0.0	0.0	0.0	0.0	0.0	0.0	3,041.5	0.0
Aug	3,454.0	71.4	0.0	0.0	0.0	0.0	0.0	0.0	3,382.6	0.0
Sep	3,532.7	42.6	0.0	0.0	0.0	0.0	0.0	0.9	3,489.2	0.0
Oct	3,636.2	57.3	0.0	0.0	0.0	0.0	4.2	0.9	3,573.8	0.0
Nov	3,883.9	289.3	0.0	0.0	0.0	0.0	5.1	0.9	3,588.6	0.0
Dec	3,937.2	295.5	0.0	0.0	0.0	0.0	5.0	0.9	3,635.9	0.0
2011										
Jan	4,035.3	303.7	0.0	0.0	0.0	87.7	316.1	1.4	3,326.5	0.0
Feb	4,175.8	313.3	0.0	0.0	0.0	0.0	0.0	6.3	3,856.3	0.0
Mar	4,523.3	418.6	0.0	0.0	0.0	0.0	4.8	1.4	4,098.5	0.0
Apr	4,672.6	435.5	0.0	0.0	0.0	0.0	4.7	1.4	4,231.0	0.0
May	4,701.8	373.5	0.0	0.0	0.0	0.0	5.0	1.4	4,321.9	0.0
Jun	4,715.9	426.5	0.0	0.0	0.0	0.0	5.0	1.4	4,283.0	0.0
Jul	4,745.2	402.4	0.0	0.0	0.0	0.0	6.2	1.4	4,335.3	0.0
Aug	4,808.2	403.7	0.0	0.0	0.0	0.0	6.4	1.4	4,396.7	0.0
Sep	5,027.3	587.6	0.0	0.0	0.0	0.0	6.5	1.4	4,431.8	0.0
Oct	4,997.0	471.5	0.0	0.0	0.0	0.0	6.2	1.4	4,518.0	0.0
Nov	5,065.2	483.2	0.0	0.0	0.0	0.0	6.1	1.4	4,574.6	0.0
Dec	5,046.9	489.3	0.0	0.0	0.0	0.0	6.2	1.4	4,547.0	3.0
2012										
Jan	5,094.5	473.0	0.0	0.0	0.0	0.0	5.9	4.4	4,611.3	0.0
Feb	5,435.4	567.1	0.0	0.0	0.0	100.0	9.3	1.4	4,754.7	3.0
Mar	5,592.6	639.0	0.0	0.0	0.0	0.0	9.2	4.4	4,940.1	0.0
Apr	5,881.8	754.9	0.0	0.0	0.0	0.0	6.0	4.4	5,116.6	0.0
May	6,243.7	642.1	326.6	326.6	0.0	0.0	6.0	4.4	5,264.6	0.0
Jun	5,784.2	428.7	0.0	0.0	0.0	0.0	6.3	4.4	5,344.7	0.0
Jul	5,944.2	478.3	0.0	0.0	0.0	0.0	7.7	4.4	5,453.9	0.0
Aug	5,930.9	424.0	0.0	0.0	0.0	0.0	6.3	4.4	5,496.2	0.0
Sep	6,172.8	464.9	0.0	0.0	0.0	0.0	6.2	4.4	5,697.4	0.0
Oct	6,488.4	371.7	0.0	0.0	0.0	0.0	211.2	4.4	5,901.2	0.0
Nov	6,620.2	385.4	0.0	0.0	0.0	0.0	215.8	4.4	6,014.6	0.0
Dec	6,678.8	409.1	14.8	14.8	0.0	0.0	213.0	7.4	6,034.4	0.0
2013										
Jan	6,805.7	378.9	14.4	14.4	0.0	0.0	214.6	7.4	6,190.5	0.0
Feb	7,021.0	393.8	13.7	13.7	0.0	0.0	215.9	7.4	6,390.2	0.0
Mar	7,609.9	737.1	13.1	13.1	0.0	0.0	218.5	7.4	6,633.8	0.0
Apr	7,841.6	684.2	12.3	12.3	0.0	0.0	0.0	7.4	7,137.7	0.0
May	8,360.6	959.8	11.9	11.9	0.0	0.0	212.0	7.4	7,169.6	0.0
Jun	8,284.3	621.1	11.0	11.0	0.0	0.0	0.0	7.4	7,644.7	0.0

(*) BDBL received its licence to operate as a specialized deposit-taking commercial bank on March 1, 2010.

** With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 11. CONTINUED
Bhutan Development Bank Limited

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others*				
2010											
Mar	3,045.2	186.3	448.3	0.0	0.0	0.0	0.0	0.0	1,504.6	1,176.4	-270.3
Apr	3,127.3	192.3	453.8	0.0	0.0	0.0	0.0	0.0	1,504.6	1,163.9	-187.4
May	3,235.0	216.0	454.8	0.0	0.0	0.0	0.0	0.0	1,500.2	1,160.8	-96.7
Jun	3,352.0	246.9	459.3	0.0	0.0	0.0	0.0	0.0	1,495.2	1,134.4	16.2
Jul	3,089.3	260.9	116.3	0.0	0.0	0.0	0.0	0.0	1,414.3	1,191.1	106.6
Aug	3,454.0	293.7	273.2	0.0	0.0	0.0	0.0	0.0	1,408.4	1,174.7	304.1
Sep	3,532.7	319.1	933.2	0.0	0.0	0.0	0.0	0.0	1,408.4	1,164.4	-292.4
Oct	3,636.2	326.7	136.5	0.0	0.0	0.0	0.0	0.0	1,428.0	1,257.1	487.8
Nov	3,883.9	357.7	142.6	0.0	0.0	0.0	0.0	0.0	1,422.9	1,265.8	694.8
Dec	3,937.2	338.4	147.0	0.0	0.0	0.0	0.0	0.0	1,417.9	1,342.6	691.2
2011											
Jan	4,035.3	339.4	151.0	0.0	0.0	0.0	0.0	0.0	1,417.0	1,274.6	853.4
Feb	4,175.8	344.7	156.7	0.0	0.0	0.0	0.0	0.0	1,411.1	1,268.2	995.1
Mar	4,523.3	386.6	169.1	0.0	0.0	0.0	0.0	0.0	1,511.1	1,242.6	1,214.0
Apr	4,672.6	485.9	215.1	0.0	0.0	0.0	0.0	0.0	1,411.3	1,252.4	1,307.8
May	4,701.8	464.6	1,031.2	0.0	0.0	0.0	0.0	0.0	1,547.7	1,298.5	359.8
Jun	4,715.9	463.3	264.1	0.0	0.0	0.0	0.0	0.0	1,547.9	1,323.9	1,116.7
Jul	4,745.2	494.9	270.2	0.0	0.0	0.0	0.0	0.0	1,470.5	1,360.0	1,149.6
Aug	4,808.2	531.3	273.2	0.0	0.0	0.0	0.0	0.0	1,390.6	1,396.2	1,216.9
Sep	5,027.3	906.7	676.3	0.0	0.0	0.0	0.0	0.0	1,390.6	1,380.5	673.2
Oct	4,997.0	592.0	679.0	0.0	0.0	0.0	0.0	0.0	1,390.6	1,470.9	864.6
Nov	5,065.2	618.6	683.3	0.0	0.0	0.0	0.0	0.0	1,385.5	1,513.3	864.5
Dec	5,046.9	692.8	728.8	0.0	0.0	0.0	0.0	0.0	1,330.5	1,555.9	738.9
2012											
Jan	5,094.5	607.3	781.8	0.0	0.0	0.0	0.0	0.0	1,329.6	1,562.8	813.0
Feb	5,435.4	603.7	1,151.5	0.0	0.0	0.0	0.0	0.0	1,323.6	1,527.8	828.7
Mar	5,592.6	646.4	1,567.8	0.0	0.0	0.0	0.0	0.0	1,323.6	1,516.0	538.7
Apr	5,881.8	675.1	1,693.9	0.0	0.0	0.0	0.0	0.0	1,323.6	1,469.5	719.7
May	6,243.7	719.9	1,871.3	0.0	0.0	0.0	0.0	0.0	1,318.6	1,512.7	821.3
Jun	5,784.2	771.0	1,875.7	0.0	0.0	0.0	0.0	0.0	1,263.6	1,544.9	328.9
Jul	5,944.2	1,045.8	2,273.1	0.0	0.0	0.0	0.0	0.0	1,262.6	1,514.4	-151.6
Aug	5,930.9	901.1	2,484.5	0.0	0.0	0.0	0.0	0.0	1,256.7	1,529.4	-240.8
Sep	6,172.8	925.1	2,528.6	0.0	0.0	0.0	0.0	0.0	1,256.7	1,481.3	-18.8
Oct	6,488.4	955.0	2,659.5	0.0	0.0	0.0	0.0	0.0	1,256.7	1,564.1	53.1
Nov	6,620.2	1,033.0	2,777.9	0.0	0.0	0.0	0.0	0.0	1,333.7	1,744.9	-269.2
Dec	6,678.8	945.6	2,691.4	0.0	0.0	0.0	0.0	0.0	1,278.7	1,816.1	-53.1
2013											
Jan	6,805.7	1,008.2	2,849.6	0.0	0.0	0.0	0.0	0.0	1,277.7	1,884.4	-214.2
Feb	7,021.0	1,017.3	2,935.4	0.0	0.0	0.0	0.0	0.0	1,271.8	1,816.1	-19.6
Mar	7,609.9	1,063.3	2,837.1	0.0	0.0	0.0	0.0	0.0	1,271.8	1,772.5	665.1
Apr	7,841.6	1,155.3	2,883.4	0.0	0.0	0.0	0.0	0.0	1,271.8	1,783.1	747.9
May	8,360.6	1,192.0	2,802.4	0.0	0.0	0.0	0.0	0.0	1,430.5	1,786.8	1,148.9
Jun	8,284.3	1,196.8	2,946.6	0.0	0.0	0.0	0.0	0.0	1,374.6	1,930.3	836.0

*)Due to changes in the classification of foreign liabilities (others), the external borrowing of the BDBL has been reclassified as the domestic borrowing as this borrowing was lent by the Government to the BDBL.

TABLE 12. DRUK PNB BANK LIMITED - MONETARY AND FINANCIAL STATISTICS (*)

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector **	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2010										
Apr	1,058.6	489.6	113.2	108.9	4.3	0.0	0.0	0.0	455.8	0.0
May	1,227.5	512.5	83.2	80.6	2.6	0.0	0.0	0.0	631.7	0.0
Jun	1,290.1	384.7	82.1	73.1	9.0	0.0	0.0	0.0	622.7	200.5
Jul	1,578.0	379.5	72.0	64.7	7.3	0.0	99.3	0.0	826.1	201.2
Aug	6,142.0	696.5	4,311.5	4,305.2	6.3	0.0	99.3	0.0	933.8	100.9
Sep	2,960.8	1,403.7	314.2	260.1	54.1	0.0	99.3	0.0	1,043.4	100.2
Oct	3,751.2	1,721.3	756.2	240.6	515.6	0.0	0.0	0.0	1,273.7	0.0
Nov	5,153.4	2,831.0	809.0	615.8	193.2	0.0	0.0	0.0	1,412.5	100.9
Dec	4,228.7	1,835.9	673.9	440.1	233.8	0.0	0.0	0.0	1,568.5	150.4
2011										
Jan	3,873.5	1,248.1	653.3	272.8	380.6	0.0	0.0	0.0	1,785.9	186.2
Feb	4,099.7	1,536.9	512.3	216.6	295.7	0.0	0.0	0.0	1,864.4	186.2
Mar	4,193.5	1,687.4	463.7	216.0	247.7	0.0	0.0	0.0	1,856.2	186.2
Apr	3,915.3	1,457.1	396.9	344.7	52.3	0.0	0.0	0.0	1,975.9	85.3
May	4,035.5	962.2	920.4	258.3	662.2	0.0	0.0	0.0	2,067.6	85.3
Jun	3,496.7	1,007.9	306.9	217.8	89.1	0.0	0.0	0.0	2,096.6	85.3
Jul	3,967.0	1,358.1	351.8	37.5	314.4	0.0	0.0	0.0	2,171.7	85.3
Aug	4,219.2	1,206.0	455.5	395.0	60.5	199.0	0.0	0.0	2,273.5	85.3
Sep	3,632.5	1,004.1	38.5	11.7	26.8	199.0	0.0	0.0	2,305.5	85.3
Oct	4,152.3	1,301.2	384.5	307.4	77.0	0.0	0.0	0.0	2,381.3	85.3
Nov	4,650.5	1,629.3	527.3	463.3	64.0	0.0	0.0	0.0	2,408.6	85.3
Dec	4,548.7	1,694.0	38.2	19.8	18.4	0.0	0.0	0.0	2,781.4	35.1
2012										
Jan	5,411.4	2,005.6	363.5	281.5	82.0	0.0	0.0	0.0	3,042.3	0.0
Feb	4,937.2	1,534.2	276.2	46.8	229.4	0.0	0.0	0.0	3,126.8	0.0
Mar	4,381.0	953.0	206.9	105.1	101.8	0.0	0.0	0.0	3,221.0	0.0
Apr	4,215.6	855.4	90.2	2.9	87.3	0.0	0.0	0.0	3,269.9	0.0
May	4,727.5	878.7	538.8	312.3	226.5	0.0	135.5	0.0	2,938.0	236.5
Jun	4,175.7	557.3	250.8	204.1	46.7	0.0	0.0	0.0	3,131.1	236.5
Jul	4,366.4	695.8	186.5	95.8	90.6	0.0	0.0	0.0	3,247.5	236.6
Aug	4,351.8	492.2	326.2	233.8	92.4	0.0	0.0	0.0	3,296.8	236.6
Sep	4,839.2	394.0	871.2	786.7	84.5	0.0	0.0	0.0	3,337.5	236.6
Oct	4,524.2	567.8	226.7	146.0	80.7	149.8	18.1	137.2	3,238.3	186.3
Nov	4,573.3	885.2	115.6	28.2	87.5	0.0	0.0	0.0	3,386.2	186.3
Dec	5,534.9	1,317.9	550.7	477.5	73.1	90.6	0.0	0.0	3,389.4	186.3
2013										
Jan	5,387.7	1,215.4	552.0	478.1	73.9	47.4	0.0	0.0	3,386.5	186.3
Feb	4,729.2	746.9	339.2	100.8	238.4	47.4	0.0	0.0	3,360.4	235.3
Mar	4,717.2	321.6	733.8	611.9	122.0	0.0	0.0	0.0	3,626.5	35.3
Apr	4,547.1	710.7	162.3	45.0	117.4	0.0	0.0	0.0	3,638.8	35.3
May	5,502.5	694.7	1,095.2	158.7	936.5	0.0	0.0	0.0	3,677.6	35.0
Jun	5,479.0	1,406.5	379.6	245.9	133.7	0.0	0.0	0.0	3,472.6	220.3

(*) Reports on the two new deposit-taking commercial banks (Druk PNB Bank Ltd. and T Bank Ltd.) are available from April 2010.

** With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 12. CONTINUED
Druk PNB Bank Limited

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
2010											
Apr	1,058.6	385.6	557.2	0.0	0.0	0.0	0.0	0.0	0.0	192.4	-76.6
May	1,227.5	533.3	569.3	0.0	0.0	0.0	0.0	0.0	0.0	192.0	-67.1
Jun	1,290.1	714.2	584.0	0.7	0.0	0.0	0.0	0.0	0.0	202.0	-210.9
Jul	1,578.0	697.0	614.8	0.8	0.0	0.0	0.0	0.0	0.0	277.4	-11.9
Aug	6,142.0	5,226.4	644.4	0.9	0.0	0.0	0.0	0.0	0.0	294.9	-24.6
Sep	2,960.8	1,602.5	658.3	283.1	0.0	0.0	0.0	0.0	0.0	298.7	118.2
Oct	3,751.2	1,541.8	1,903.2	11.5	0.0	0.0	0.0	0.0	0.0	301.5	-6.7
Nov	5,153.4	2,579.7	1,866.0	385.1	0.0	0.0	0.0	0.0	0.0	306.5	16.1
Dec	4,228.7	1,451.7	1,599.1	238.8	0.0	0.0	0.0	0.0	0.0	296.8	642.3
2011											
Jan	3,873.5	1,416.6	1,713.6	381.6	0.0	0.0	0.0	0.0	0.0	305.7	56.0
Feb	4,099.7	1,404.4	1,884.8	278.2	0.0	0.0	0.0	0.0	0.0	309.7	222.7
Mar	4,193.5	2,045.2	1,421.0	373.3	0.0	0.0	0.0	0.0	0.0	322.6	31.5
Apr	3,915.3	1,906.3	1,373.6	70.6	0.0	0.0	0.0	0.0	0.0	329.0	235.8
May	4,035.5	1,591.6	1,396.6	657.9	0.0	0.0	0.0	0.0	0.0	335.1	54.3
Jun	3,496.7	1,631.9	1,431.6	36.1	0.0	0.0	0.0	0.0	0.0	334.9	62.3
Jul	3,967.0	1,687.2	1,620.8	320.7	0.0	0.0	0.0	0.0	0.0	343.9	-5.6
Aug	4,219.2	3,092.3	1,294.8	20.6	0.0	0.0	0.0	0.0	0.0	493.2	-681.7
Sep	3,632.5	1,782.5	1,812.4	18.6	0.0	0.0	0.0	0.0	0.0	496.5	-477.6
Oct	4,152.3	1,864.3	1,833.5	22.3	0.0	0.0	0.0	0.0	0.0	497.8	-65.5
Nov	4,650.5	2,572.5	1,893.7	18.1	0.0	0.0	0.0	0.0	0.0	493.9	-327.6
Dec	4,548.7	2,031.2	1,817.4	18.1	0.0	0.0	0.0	0.0	0.0	496.7	185.2
2012											
Jan	5,411.4	3,151.2	1,740.6	86.4	0.0	0.0	0.0	0.0	0.0	489.6	-56.5
Feb	4,937.2	2,662.1	1,742.2	86.4	0.0	0.0	0.0	0.0	0.0	479.0	-32.5
Mar	4,381.0	2,273.1	1,785.8	20.3	0.0	0.0	0.0	0.0	0.0	469.4	-167.6
Apr	4,215.6	1,839.5	1,645.8	20.0	0.0	0.0	0.0	0.0	0.0	624.8	85.4
May	4,727.5	3,751.9	1,671.0	192.6	0.0	0.0	0.0	0.0	0.0	662.8	-1,550.9
Jun	4,175.7	1,858.2	1,663.6	29.5	0.0	0.0	0.0	0.0	0.0	676.7	-52.3
Jul	4,366.4	1,931.6	1,702.9	46.5	0.0	0.0	0.0	0.0	0.0	678.7	6.7
Aug	4,351.8	1,941.9	1,910.3	43.6	0.0	0.0	0.0	0.0	0.0	718.2	-262.4
Sep	4,839.2	2,461.9	1,776.0	62.1	0.0	0.0	0.0	0.0	0.0	748.1	-208.9
Oct	4,524.2	1,997.7	1,899.2	0.8	0.0	0.0	0.0	0.0	0.0	751.3	-124.8
Nov	4,573.3	2,028.9	1,819.0	0.8	0.0	0.0	0.0	0.0	0.0	762.0	-37.3
Dec	5,534.9	3,177.0	1,731.7	0.8	0.0	0.0	0.0	0.0	0.0	767.8	-142.4
2013											
Jan	5,387.7	1,701.4	1,790.6	0.8	0.0	0.0	0.0	0.0	0.0	779.2	1,115.7
Feb	4,729.2	2,217.9	1,705.8	0.8	0.0	0.0	0.0	0.0	0.0	769.8	34.9
Mar	4,717.2	2,599.9	1,466.0	0.8	0.0	0.0	0.0	0.0	0.0	801.2	-150.6
Apr	4,547.1	2,363.8	1,678.1	0.8	0.0	0.0	0.0	0.0	0.0	807.9	-303.4
May	5,502.5	3,173.0	1,729.6	0.8	0.0	0.0	0.0	0.0	0.0	816.7	-217.6
Jun	5,479.0	2,405.2	2,382.4	0.0	0.0	0.0	0.0	0.0	0.0	829.2	-137.8

TABLE 13. T BANK LIMITED - MONETARY AND FINANCIAL STATISTICS (*)

Millions of Ngultrums

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector**	Claims on Private Sector	Claims on NBFIs
			Total	Rupee	Others					
2010										
Apr	328.1	87.8	2.0	2.0	0.1	0.0	0.0	0.0	238.3	0.0
May	526.3	168.8	3.5	2.8	0.7	0.0	0.0	0.0	354.0	0.0
Jun	718.1	163.8	53.5	52.6	0.9	0.0	0.0	0.0	500.8	0.0
Jul	927.9	240.8	66.2	64.6	1.6	0.0	0.0	0.0	620.8	0.0
Aug	971.2	186.3	50.3	48.0	2.3	0.0	0.0	0.0	734.6	0.0
Sep	1,207.3	316.1	68.8	66.6	2.2	0.0	0.0	0.0	822.4	0.0
Oct	1,322.9	279.8	90.5	87.9	2.6	0.0	0.0	0.0	952.7	0.0
Nov	1,455.9	347.2	72.6	69.1	3.4	0.0	0.0	0.0	1,036.1	0.0
Dec	1,668.0	429.5	95.2	90.3	5.0	0.0	0.0	0.0	1,143.3	0.0
2011										
Jan	1,712.8	394.5	70.7	65.0	5.7	0.0	0.0	0.0	1,247.6	0.0
Feb	1,945.7	537.6	45.4	44.4	1.0	0.0	0.0	0.0	1,362.7	0.0
Mar	2,159.1	443.4	58.8	50.6	8.2	0.0	0.0	0.0	1,657.0	0.0
Apr	2,181.3	482.0	37.3	28.3	9.0	0.0	0.0	0.0	1,661.9	0.0
May	2,433.5	507.2	52.3	34.6	17.7	0.0	0.0	0.0	1,874.0	0.0
Jun	2,547.4	540.1	55.1	41.8	13.3	0.0	0.0	0.0	1,952.2	0.0
Jul	2,590.0	545.2	58.4	42.9	15.5	0.0	0.0	0.0	1,986.4	0.0
Aug	2,665.4	628.9	32.9	25.0	7.9	0.0	0.0	60.5	1,943.0	0.0
Sep	2,761.3	621.4	58.7	52.5	6.2	0.0	0.0	22.3	2,055.9	3.0
Oct	2,745.3	600.7	34.5	27.8	6.8	0.0	0.0	22.2	2,084.9	3.0
Nov	2,761.0	607.8	22.4	19.9	2.5	0.0	0.0	25.4	2,102.4	3.0
Dec	2,895.6	588.1	86.8	84.1	2.7	0.0	0.0	25.2	2,192.5	3.0
2012										
Jan	2,949.3	601.4	69.3	45.5	23.8	0.0	0.0	25.2	2,250.4	3.0
Feb	3,075.2	668.1	67.0	47.4	19.6	0.0	0.0	25.2	2,314.9	0.0
Mar	2,866.5	446.1	60.9	44.2	16.7	0.0	0.0	28.2	2,331.3	0.0
Apr	2,993.4	575.9	64.8	52.9	12.0	0.0	0.0	28.2	2,324.5	0.0
May	3,155.4	692.6	110.9	104.1	6.8	0.0	0.0	28.2	2,323.8	0.0
Jun	2,656.9	229.6	66.6	56.3	10.3	0.0	0.0	28.2	2,332.4	0.0
Jul	2,725.9	276.6	103.1	85.6	17.5	0.0	0.0	28.2	2,318.0	0.0
Aug	2,932.3	520.5	69.4	49.5	19.8	0.0	0.0	28.2	2,314.3	0.0
Sep	2,653.5	227.9	97.4	79.0	18.4	0.0	0.0	28.2	2,300.0	0.0
Oct	2,673.4	228.0	108.2	93.7	14.5	0.0	0.0	28.0	2,309.3	0.0
Nov	2,647.1	246.6	97.4	90.1	7.3	0.0	0.0	27.8	2,275.4	0.0
Dec	3,259.7	889.2	70.3	65.0	5.2	0.0	0.0	28.0	2,272.2	0.0
2013										
Jan	2,728.3	351.3	72.2	68.5	3.7	0.0	0.0	28.0	2,276.8	0.0
Feb	2,670.1	333.9	49.1	41.6	7.4	0.0	0.0	28.0	2,259.1	0.0
Mar	2,662.5	330.1	36.8	29.1	7.7	0.0	0.0	28.0	2,267.6	0.0
Apr	2,837.5	470.5	72.0	64.0	8.0	0.0	0.0	28.0	2,267.0	0.0
May	2,697.0	352.2	68.4	60.3	8.1	0.0	0.0	27.9	2,248.5	0.0
Jun	2,773.5	378.0	126.4	117.1	9.4	0.0	0.0	28.0	2,241.0	0.0

(*) Reports on the two new deposit-taking commercial banks (Druk PNB Ltd. and T Bank Ltd.) are available from April 2010.

** With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 13. CONTINUED
T Bank Limited

Millions of Ngultrums

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domesti Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
2010											
Apr	328.1	100.1	88.0	0.0	0.0	0.0	0.0	0.0	0.0	129.9	10.1
May	526.3	92.6	86.4	0.0	0.0	0.0	0.0	0.0	0.0	130.1	217.1
Jun	718.1	117.2	96.8	0.0	0.0	0.0	0.0	0.0	0.0	131.5	372.6
Jul	927.9	91.9	198.7	0.0	0.0	0.0	0.0	0.0	0.0	133.9	503.4
Aug	971.2	115.0	251.0	0.0	0.0	0.0	0.0	0.0	0.0	137.4	467.8
Sep	1,207.3	135.3	260.4	0.0	0.0	0.0	0.0	0.0	0.0	138.1	673.5
Oct	1,322.9	167.8	268.1	0.0	0.0	0.0	0.0	0.0	0.0	142.8	744.3
Nov	1,455.9	169.2	333.8	0.0	0.0	0.0	0.0	0.0	0.0	144.3	808.7
Dec	1,668.0	180.9	453.7	0.0	0.0	0.0	0.0	0.3	0.0	119.7	913.4
2011											
Jan	1,712.8	153.4	474.3	0.0	0.0	0.0	0.0	0.0	0.0	137.5	947.6
Feb	1,945.7	184.8	494.6	0.0	0.0	0.0	0.0	0.0	0.0	142.2	1,124.0
Mar	2,159.1	235.3	523.0	0.0	0.0	0.0	0.0	0.0	0.0	215.1	1,185.8
Apr	2,181.3	294.1	482.2	0.0	0.0	0.0	0.0	0.0	0.0	238.6	1,166.3
May	2,433.5	236.1	578.3	0.0	0.0	0.0	0.0	0.0	0.0	234.2	1,384.9
Jun	2,547.4	266.0	685.8	0.0	0.0	0.0	0.0	0.0	0.0	225.6	1,369.9
Jul	2,590.0	280.1	775.2	0.0	0.0	0.0	0.0	0.0	0.0	236.7	1,298.0
Aug	2,665.4	420.5	806.2	0.0	0.0	0.0	0.0	0.0	0.0	236.1	1,202.5
Sep	2,761.3	352.5	1,011.9	0.0	0.0	0.0	0.0	0.0	0.0	242.5	1,154.3
Oct	2,745.3	385.4	1,236.4	0.0	0.0	0.0	0.0	0.0	0.0	244.9	878.6
Nov	2,761.0	397.0	1,233.8	0.0	0.0	0.0	0.0	0.0	0.0	252.2	878.1
Dec	2,895.6	450.1	1,318.9	0.0	0.0	0.0	0.0	0.0	0.0	274.3	852.3
2012											
Jan	2,949.3	416.0	1,331.9	0.0	0.0	0.0	0.0	0.0	0.0	242.6	958.9
Feb	3,075.2	323.6	1,330.9	0.0	0.0	0.0	0.0	0.0	0.0	246.4	1,174.4
Mar	2,866.5	392.9	1,351.0	0.0	0.0	0.0	0.0	0.0	280.3	262.8	579.5
Apr	2,993.4	403.4	1,342.3	0.0	0.0	0.0	0.0	0.0	208.3	269.6	769.9
May	3,155.4	382.4	1,108.2	0.0	0.0	0.0	0.0	0.0	552.9	266.8	845.1
Jun	2,656.9	503.2	1,002.9	0.0	0.0	0.0	0.0	0.0	0.0	289.5	861.3
Jul	2,725.9	762.1	1,080.3	0.0	0.0	0.0	0.0	0.0	0.0	300.2	583.3
Aug	2,932.3	667.7	1,360.4	0.0	0.0	0.0	0.0	0.0	0.0	305.6	598.6
Sep	2,653.5	674.4	1,422.0	0.0	0.0	0.0	0.0	0.0	0.0	324.5	232.6
Oct	2,673.4	677.0	1,514.7	0.0	0.0	0.0	0.0	0.0	0.0	306.1	175.6
Nov	2,647.1	623.0	1,519.5	0.0	0.0	0.0	0.0	0.0	0.0	285.3	219.3
Dec	3,259.7	766.7	1,533.2	0.0	0.0	0.0	0.0	0.0	0.0	318.8	640.9
2013											
Jan	2,728.3	724.3	1,535.8	0.0	0.0	0.0	0.0	0.0	0.0	302.3	165.9
Feb	2,670.1	636.9	1,423.6	0.0	0.0	0.0	0.0	0.0	0.0	309.2	300.5
Mar	2,662.5	667.2	1,286.4	0.0	0.0	0.0	0.0	0.0	0.0	371.5	337.4
Apr	2,837.5	451.9	1,285.8	0.0	0.0	0.0	0.0	0.0	0.0	355.1	744.7
May	2,697.0	418.2	1,307.3	0.0	0.0	0.0	0.0	0.0	0.0	329.0	642.4
Jun	2,773.5	531.9	1,458.4	0.0	0.0	0.0	0.0	0.0	0.0	370.4	412.7

TABLE 14. ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED - FINANCIAL STATISTICS

Millions of Ngultrums

End of Period	Assets										
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector *	Claims on Private Sector	Claims on DMBs	Claims On NBFIs
			Total	Rupee	Others						
2004	1,428.4	47.6	3.6	0.1	3.5	0.0	0.0	20.8	1,345.2	8.1	3.0
2005	1,657.6	47.1	9.6	0.1	9.5	0.0	0.0	14.9	1,574.9	8.1	3.0
2006	1,773.0	71.0	10.7	0.0	10.6	0.0	0.0	18.2	1,611.9	58.1	3.0
2007	2,030.7	98.6	7.5	0.0	7.5	0.0	0.0	37.3	1,876.3	8.1	3.0
2008	2,600.7	332.9	31.1	0.0	31.1	0.0	0.0	46.1	2,178.1	9.4	3.0
2009	3,328.9	313.7	30.0	0.0	30.0	0.3	0.0	43.7	2,928.8	9.4	3.0
2010	5,584.1	330.1	1.8	0.0	1.7	62.1	0.2	69.1	4,708.5	409.4	3.0
2011											
Jan	5,584.6	197.9	1.8	0.0	1.7	0.0	0.0	69.5	4,903.0	409.4	3.0
Feb	5,856.9	230.6	1.3	0.0	1.3	0.2	0.0	15.0	5,122.5	484.4	3.0
Mar	5,942.3	242.3	1.3	0.0	1.3	0.0	0.0	14.0	5,232.4	449.4	3.0
Apr	5,961.4	181.9	1.3	0.0	1.3	42.7	0.0	14.0	5,269.2	449.4	3.0
May	6,017.5	178.9	1.3	0.0	1.3	0.0	0.0	14.0	5,365.9	454.4	3.0
Jun	6,095.4	280.9	1.3	0.0	1.3	0.0	0.0	14.0	5,336.8	459.4	3.0
Jul	6,192.2	188.6	1.2	0.0	1.2	0.0	0.0	14.0	5,421.0	564.4	3.0
Aug	6,102.8	100.7	1.2	0.0	1.2	0.0	0.0	14.0	5,449.5	534.4	3.0
Sep	6,221.5	76.0	1.2	0.0	1.1	0.0	0.0	14.0	5,443.0	684.4	3.0
Oct	6,357.6	99.9	1.2	0.0	1.1	0.0	0.0	14.0	5,515.1	724.4	3.0
Nov	6,401.5	132.7	1.1	0.0	1.1	0.0	0.0	14.0	5,516.3	734.4	3.0
Dec	6,446.5	223.1	1.4	0.0	1.3	0.0	0.0	14.0	5,406.9	798.1	3.0
2012											
Jan	6,458.9	164.4	1.4	0.0	1.3	0.0	0.0	14.0	5,478.0	798.1	3.0
Feb	6,522.6	211.0	1.4	0.0	1.3	0.0	0.0	14.0	5,495.1	798.1	3.0
Mar	6,661.6	326.3	1.4	0.0	1.3	0.0	0.0	47.7	5,528.9	754.4	3.0
Apr	6,710.1	304.1	1.4	0.0	1.3	0.0	0.0	14.0	5,599.5	788.1	3.0
May	6,662.2	253.6	1.4	0.0	1.3	0.0	0.0	14.0	5,607.1	783.1	3.0
Jun	6,783.3	415.6	3.5	0.0	3.5	0.0	0.0	14.0	5,549.1	798.1	3.0
Jul	6,748.9	337.3	3.5	0.0	3.5	0.0	0.0	14.0	5,573.0	818.1	3.0
Aug	6,845.5	350.2	2.3	0.0	2.3	0.0	0.0	14.0	5,607.9	868.1	3.0
Sep	6,756.5	198.1	2.3	0.0	2.3	0.0	0.0	14.0	5,650.9	888.1	3.0
Oct	7,048.0	167.4	2.3	0.0	2.3	0.0	0.0	14.0	5,688.1	1,173.1	3.0
Nov	7,119.2	202.1	2.3	0.0	2.3	0.0	0.0	14.0	5,674.7	1,223.1	3.0
Dec	7,223.0	306.9	2.3	0.0	2.3	0.0	0.0	14.0	5,673.7	1,223.1	3.0
2013											
Jan	7,274.9	356.7	2.3	0.0	2.3	0.0	0.0	14.0	5,755.7	1,143.1	3.0
Feb	7,403.6	296.9	2.4	0.0	2.3	0.0	0.0	14.0	5,944.2	1,143.1	3.0
Mar	7,571.4	354.2	2.4	0.0	2.3	0.0	0.0	14.0	6,054.7	1,143.1	3.0
Apr	7,549.8	375.6	2.4	0.0	2.3	0.0	0.0	14.0	6,061.7	1,093.1	3.0
May	7,682.1	413.4	2.4	0.0	2.3	0.0	0.0	14.0	6,156.2	1,093.1	3.0
Jun	7,873.1	536.0	2.4	0.0	2.3	0.0	0.0	14.0	6,112.7	1,193.1	15.0

* With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new (FIRMA) reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 14. CONTINUED
Royal Insurance Corporation of Bhutan Limited

Millions of Ngultrums

End of Period	Liabilities							
	Total	Life Fund	Private Provident Fund *	Group Insurance Fund	Credit from DMBs	Credit from NBFIs	Capital Accounts	Other Items (Net)**
2004	1,428.4	87.2	73.8	210.7	94.5	400.0	306.4	255.7
2005	1,657.6	116.9	93.8	233.2	170.5	350.0	373.0	320.2
2006	1,773.0	153.6	117.7	253.9	172.4	300.0	445.1	330.3
2007	2,030.7	199.0	141.4	303.8	0.0	480.0	531.5	375.1
2008	2,600.7	261.4	183.4	206.1	0.0	780.0	644.1	525.7
2009	3,328.9	342.3	233.1	433.7	0.0	1,184.0	799.8	336.0
2010	5,584.1	472.4	308.3	498.4	300.0	2,661.0	974.4	369.5
2011								
Jan	5,584.6	0.0	0.0	0.0	300.0	2,661.0	976.4	1,647.2
Feb	5,856.9	0.0	0.0	0.0	500.0	2,661.0	812.6	1,883.3
Mar	5,942.3	0.0	0.0	0.0	500.0	2,661.0	714.4	2,067.0
Apr	5,961.4	0.0	0.0	0.0	1,161.0	2,000.0	814.7	1,985.7
May	6,017.5	0.0	0.0	0.0	500.0	2,661.0	852.1	2,004.4
Jun	6,095.4	0.0	0.0	0.0	500.0	2,661.0	1,037.2	1,897.2
Jul	6,192.2	0.0	0.0	0.0	500.0	2,661.0	1,016.8	2,014.5
Aug	6,102.8	0.0	0.0	0.0	500.0	2,661.0	803.1	2,138.8
Sep	6,221.5	0.0	0.0	0.0	500.0	2,661.0	1,031.2	2,029.3
Oct	6,357.6	0.0	0.0	0.0	500.0	2,661.0	889.8	2,306.7
Nov	6,401.5	0.0	0.0	0.0	500.0	2,661.0	862.8	2,377.7
Dec	6,446.5	0.0	0.0	0.0	500.0	2,638.0	1,210.5	2,098.1
2012								
Jan	6,458.9	0.0	0.0	0.0	500.0	2,438.0	1,136.0	2,384.9
Feb	6,522.6	0.0	0.0	0.0	500.0	2,438.0	1,067.8	2,516.8
Mar	6,661.6	0.0	0.0	0.0	500.0	2,438.0	968.5	2,755.2
Apr	6,710.1	0.0	0.0	0.0	500.0	2,438.0	930.1	2,842.0
May	6,662.2	0.0	0.0	0.0	650.0	2,438.0	938.7	2,635.6
Jun	6,783.3	0.0	0.0	0.0	650.0	2,438.0	1,312.0	2,383.3
Jul	6,748.9	0.0	0.0	0.0	650.0	2,438.0	1,216.2	2,444.8
Aug	6,845.5	0.0	0.0	0.0	650.0	2,438.0	1,152.4	2,605.1
Sep	6,756.5	0.0	0.0	0.0	650.0	2,438.0	1,353.9	2,314.6
Oct	7,048.0	0.0	0.0	0.0	850.0	2,438.0	1,321.9	2,438.1
Nov	7,119.2	0.0	0.0	0.0	850.0	2,438.0	1,441.9	2,389.3
Dec	7,223.0	0.0	0.0	0.0	650.0	2,615.0	1,507.1	2,451.0
2013								
Jan	7,274.9	0.0	0.0	0.0	650.0	2,615.0	1,485.9	2,523.9
Feb	7,403.6	0.0	0.0	0.0	687.9	2,723.0	1,443.4	2,549.4
Mar	7,571.4	0.0	0.0	0.0	675.3	2,723.0	1,416.5	2,756.6
Apr	7,549.8	0.0	0.0	0.0	663.0	2,774.3	1,463.0	2,649.5
May	7,682.1	0.0	0.0	0.0	650.5	2,774.3	1,441.5	2,815.8
Jun	7,873.1	0.0	0.0	0.0	608.6	2,739.3	1,624.4	2,900.8

*) The Government Employee Provident Fund (GEPF) was transferred to National Pension and Provident Fund from 2002 and thereafter only Private Provident Fund was retained with the RICBL.

**) Starting from January 2011, Private Provident Fund, Group Insurance Fund and Life Insurance Fund are clubbed with Other Items Net based on new reporting format introduced by the FRSD.

TABLE 15. BHUTAN INSURANCE LIMITED - FINANCIAL STATISTICS (*)

Millions of Ngultrums

End of Period	Assets										
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Public Sector **	Claims on Private Sector	Claims on DMBs	Claims On NBFIs
			Total	Rupee	Others						
2010											
Apr	139.3	46.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0
May	144.6	51.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0
Jun	164.4	71.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0
Jul	157.1	18.2	0.0	0.0	0.0	0.0	0.0	0.0	29.0	110.0	0.0
Aug	159.7	43.6	0.0	0.0	0.0	0.0	0.0	0.0	36.0	80.0	0.0
Sep	161.2	32.3	0.0	0.0	0.0	0.0	0.0	0.0	48.9	80.0	0.0
Oct	161.0	32.9	0.0	0.0	0.0	0.0	0.0	0.0	68.0	60.0	0.0
Nov	164.6	11.1	0.0	0.0	0.0	0.0	0.0	0.0	93.6	60.0	0.0
Dec	230.2	60.9	0.0	0.0	0.0	0.0	0.0	0.0	123.3	46.0	0.0
2011											
Jan	270.4	51.2	0.0	0.0	0.0	0.0	0.0	0.0	173.1	46.0	0.0
Feb	276.5	36.0	0.0	0.0	0.0	0.0	0.0	0.0	194.6	46.0	0.0
Mar	289.6	40.9	0.0	0.0	0.0	0.0	0.0	0.0	208.7	40.0	0.0
Apr	284.4	32.4	0.0	0.0	0.0	0.0	0.0	0.0	212.0	40.0	0.0
May	285.5	33.7	0.0	0.0	0.0	0.0	0.0	0.0	211.8	40.0	0.0
Jun	306.3	54.7	0.0	0.0	0.0	0.0	0.0	0.0	211.6	40.0	0.0
Jul	324.3	60.6	0.0	0.0	0.0	0.0	0.0	0.0	223.8	40.0	0.0
Aug	327.9	56.3	0.0	0.0	0.0	0.0	0.0	0.0	231.5	40.0	0.0
Sep	315.8	8.3	0.0	0.0	0.0	0.0	0.0	0.0	267.5	40.0	0.0
Oct	365.4	49.3	0.0	0.0	0.0	0.0	0.0	0.0	276.2	40.0	0.0
Nov	356.6	26.7	0.0	0.0	0.0	0.0	0.0	0.0	289.9	40.0	0.0
Dec	367.3	23.7	0.0	0.0	0.0	0.0	0.0	0.0	303.6	40.0	0.0
2012											
Jan	362.2	11.4	0.0	0.0	0.0	0.0	0.0	0.0	310.8	40.0	0.0
Feb	368.8	11.6	0.0	0.0	0.0	0.0	0.0	0.0	317.2	40.0	0.0
Mar	380.4	25.2	0.0	0.0	0.0	0.0	0.0	0.0	315.2	40.0	0.0
Apr	384.2	23.8	0.0	0.0	0.0	0.0	0.0	0.0	320.5	40.0	0.0
May	397.5	19.0	0.0	0.0	0.0	0.0	0.0	0.0	338.5	40.0	0.0
Jun	418.1	40.4	0.0	0.0	0.0	0.0	0.0	0.0	337.7	40.0	0.0
Jul	453.7	64.9	0.0	0.0	0.0	0.0	0.0	0.0	348.8	40.0	0.0
Aug	441.9	17.8	0.0	0.0	0.0	0.0	0.0	0.0	384.1	40.0	0.0
Sep	444.0	25.1	0.0	0.0	0.0	0.0	0.0	0.0	378.9	40.0	0.0
Oct	447.8	43.2	0.0	0.0	0.0	0.0	0.0	0.0	374.6	30.0	0.0
Nov	449.4	47.3	0.0	0.0	0.0	0.0	0.0	0.0	372.0	30.0	0.0
Dec	437.8	32.8	0.0	0.0	0.0	0.0	0.0	0.0	364.9	40.0	0.0
2013											
Jan	442.0	34.7	0.0	0.0	0.0	0.0	0.0	0.0	367.3	40.0	0.0
Feb	453.6	41.6	0.0	0.0	0.0	0.0	0.0	0.0	372.0	40.0	0.0
Mar	441.3	32.0	0.0	0.0	0.0	0.0	0.0	0.0	369.3	40.0	0.0
Apr	430.7	33.1	0.0	0.0	0.0	0.0	0.0	0.0	367.7	30.0	0.0
May	424.1	28.1	0.0	0.0	0.0	0.0	0.0	0.0	366.0	30.0	0.0
Jun	437.4	44.5	0.0	0.0	0.0	0.0	0.0	0.0	363.0	30.0	0.0

(*) Reports on the newly established BIL are available from April 2010.

** With effect from 1st January 2011, claims on Joint Corporations were reclassified as claims on Public Sector as per new reporting format by the Financial Regulation and Supervision Department of the RMA.

TABLE 15. CONTINUED
Bhutan Insurance Limited

Millions of Ngultrums

End of Period	Liabilities								
	Total	General Insurance Reserve Fund	Life Insurance Fund	Private Provident Fund	Group Insurance Fund	Credit from DMBs	Credit from NBFIs	Capital Accounts	Other Items (Net)
2010									
Apr	139.3	0.0	0.0	0.0	0.0	0.0	0.0	132.5	6.8
May	144.6	0.0	0.0	0.0	0.0	0.0	0.0	136.8	7.8
Jun	164.4	0.0	0.0	0.0	0.0	0.0	0.0	153.9	10.5
Jul	157.1	0.0	0.0	0.0	0.0	0.0	0.0	148.3	8.9
Aug	159.7	0.0	0.0	0.0	0.0	0.0	0.0	152.6	7.0
Sep	161.2	0.0	0.0	0.0	0.0	0.0	0.0	158.5	2.6
Oct	161.0	0.0	0.0	0.0	0.0	0.0	0.0	159.8	1.1
Nov	164.6	0.0	0.0	0.0	0.0	0.0	0.0	173.5	-8.9
Dec	230.2	0.0	50.0	13.2	0.0	50.0	0.0	109.7	7.3
2011									
Jan	270.4	0.0	0.0	0.0	0.0	85.0	0.0	122.6	62.8
Feb	276.5	0.0	0.0	0.0	0.0	85.0	0.0	128.4	63.1
Mar	289.6	0.0	0.0	0.0	0.0	85.0	0.0	136.7	67.8
Apr	284.4	0.0	0.0	0.0	0.0	85.0	0.0	143.0	56.4
May	285.5	0.0	0.0	0.0	0.0	85.0	0.0	145.7	54.9
Jun	306.3	0.0	0.0	0.0	0.0	85.0	0.0	160.2	61.1
Jul	324.3	0.0	0.0	0.0	0.0	85.0	0.0	172.9	66.5
Aug	327.9	0.0	0.0	0.0	0.0	85.0	0.0	176.7	66.1
Sep	315.8	0.0	0.0	0.0	0.0	85.0	0.0	170.3	60.5
Oct	365.4	0.0	0.0	0.0	0.0	85.0	40.0	176.6	63.8
Nov	356.6	0.0	0.0	0.0	0.0	85.0	40.0	166.4	65.2
Dec	367.3	0.0	0.0	0.0	0.0	85.0	40.0	127.3	115.0
2012									
Jan	362.2	0.0	0.0	0.0	0.0	85.0	40.0	137.2	100.0
Feb	368.8	0.0	0.0	0.0	0.0	85.0	50.0	131.6	102.2
Mar	380.4	0.0	0.0	0.0	0.0	85.0	60.0	145.0	90.4
Apr	384.2	0.0	0.0	0.0	0.0	85.0	70.0	138.3	91.0
May	397.5	0.0	0.0	0.0	0.0	85.0	70.0	142.0	100.5
Jun	418.1	0.0	0.0	0.0	0.0	85.0	70.0	264.4	-1.2
Jul	453.7	0.0	0.0	0.0	0.0	85.0	70.0	290.8	8.0
Aug	441.9	0.0	0.0	0.0	0.0	85.0	70.0	289.8	-2.9
Sep	444.0	0.0	0.0	0.0	0.0	85.0	70.0	301.2	-12.2
Oct	447.8	0.0	0.0	0.0	0.0	35.0	0.0	470.6	-57.8
Nov	449.4	0.0	0.0	0.0	0.0	35.0	0.0	471.7	-57.3
Dec	437.8	0.0	0.0	0.0	0.0	35.0	0.0	264.1	138.7
2013									
Jan	442.0	0.0	0.0	0.0	0.0	35.0	0.0	480.1	-73.1
Feb	453.6	0.0	0.0	0.0	0.0	35.0	0.0	465.2	-46.6
Mar	441.3	0.0	0.0	0.0	0.0	35.0	0.0	462.0	-55.6
Apr	430.7	0.0	0.0	0.0	0.0	35.0	0.0	450.6	-54.9
May	424.1	0.0	0.0	0.0	0.0	35.0	0.0	439.5	-50.4
Jun	437.4	0.0	0.0	0.0	0.0	35.0	0.0	464.0	-61.5

TABLE 16. AUCTIONS OF GOVERNMENT TREASURY BILLS

Auction/Tap Sale No.	Auction / Tap Sale Date	Maturity in Days	Bids (millions of Nu.)		Discount Rate (%)
			Received	Accepted	
R201*	14-Dec-09	91	5,287.4	2,000.0	2.50
R202	17-Mar-10	90	3,003.0	1,500.0	1.99
R203	8-Jul-10	90	2,730.0	1,000.0	2.75
R204	14-Oct-10	90	3,000.0	1,000.0	1.44
R205	21-Mar-11	90	1,001.0	500.0	0.50
R206	15-Aug-11	91	1,300.0	300.0	0.39
R207	22-Aug-11	90	1,400.0	500.0	1.99
R208	18-Nov-11	90	1,300.0	500.0	1.49
R209	14-Feb-12	90	210.0	800.0	5.00
R210	27-Feb-12	30	210.0	1,000.0	3.00
R211	28-Mar-12	14	1,217.0	1,217.0	5.00
R212	14-May-12	90	800.0	800.0	5.00
R213 & R214**	16-Jul-12	90	2,550.0	2,100.0	4.12
R215	16-Aug-12	30	2,550.0	2,100.0	4.12
R216	12-Sep-12	30	2,010.0	1,000.0	2.25
R217	8-Oct-12	30	2,350.0	1,100.0	2.72
R218	13-Oct-12	30	2,010.0	1,000.0	2.25
R219	8-Nov-12	30	2,350.0	1,100.0	3.50
R220	12-Nov-12	30	2,010.0	1,000.0	2.25
R221	8-Dec-12	30	2,350.0	1,100.0	3.50
R222	12-Dec-12	30	2,010.0	1,000.0	2.25
R223	18-Dec-12	30	2,200.0	1,000.0	3.50
R224	7-Jan-13	30	1,100.0	1,100.0	3.50
R225	9-Jan-13	30	3,000.0	1,500.0	3.00
R226	16-Jan-13	60	2,100.0	1,000.0	3.00
R227	4-Feb-13	60	3,000.0	1,500.0	3.00
R228	9-Feb-13	90	3,000.0	1,500.0	3.00
R229	15-Mar-13	90	1,500.0	1,500.0	3.00
R230	4-Apr-13	90	1,500.0	1,500.0	3.00
R231	20-May-13	30	1,500.0	750.0	3.00
R232	10-Jul-13	90	4,400.0	2,500.0	3.00
R233	7-Oct-13	60	2,500.0	1,500.0	4.26***
R234	7-Oct-13	90	2,550.0	200.0	3.00
R235	5-Dec-13	90	5,700.0	2,500.0	2.93

N.B.* The issue of RMA Bills has been discontinued w.e.f. December 14, 2009 and has been replaced by the issue of Govt. Treasury Bills thereafter.

***) The discount rate 4.12 percent is the average taken from 5.75 percent of R213 and 2.5 percent of R214.

***) 4.26 is the weighted average of the multi price of 4.5%,3.0%,4.0%,4.49%.

TABLE 17. FINANCIAL SECTOR INVESTMENT BY ECONOMIC ACTIVITY

<i>Millions of Ngultrums</i>		<i>End of June</i>							
Economic Sector/Source	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture	229.6	238.3	306.6	562.2	658.1	492.2	657.5	1,116.1	1,514.0
BOBL	1.2	0.7	0.8	1.7	2.0	2.9	3.2	3.0	1.1
BNBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BDBL	226.6	235.5	304.2	558.6	656.1	488.4	652.8	1,111.3	1,511.4
T Bank Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	0.9	1.5	1.8	1.5
RICBL	1.8	2.0	1.6	1.8	0.0	0.0	0.0	0.0	0.0
BIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade & Commerce	1,466.3	1,766.7	2,194.9	3,402.5	4,231.3	4,761.7	4,113.3	4,262.8	6,751.5
BOBL	567.0	668.3	712.6	1,004.1	975.4	735.3	1,022.9	990.4	964.3
BNBL	450.7	602.6	851.2	1,480.6	2,142.3	2,359.1	304.7	360.0	2,461.3
BDBL	57.9	87.7	138.8	261.9	297.0	366.8	385.1	467.5	665.0
T Bank Limited	0.0	0.0	0.0	0.0	0.0	2.4	475.4	448.2	475.1
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	214.2	539.7	485.1	460.0
RICBL	390.7	408.0	492.2	655.9	816.6	1,083.8	1,377.4	1,478.5	1,642.8
BIL	0.0	0.0	0.0	0.0	0.0	0.0	8.1	33.2	83.1
Manufacturing	2,187.2	2,021.5	2,678.9	3,297.5	4,702.0	5,085.7	6,572.0	7,335.2	10,168.9
BOBL	523.5	854.5	1,173.2	1,190.3	2,056.3	1,836.2	2,205.0	2,737.4	2,919.4
BNBL	1,329.1	761.5	1,060.3	1,466.5	1,907.9	2,357.8	2,634.0	2,641.1	5,027.0
BDBL	226.1	263.1	271.3	400.9	453.2	450.4	533.5	542.9	686.9
T Bank Limited	0.0	0.0	0.0	0.0	0.0	72.8	136.0	177.9	240.8
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	11.5	472.5	589.7	519.9
RICBL	108.6	142.4	174.1	239.9	284.7	357.0	568.3	615.2	749.0
BIL	0.0	0.0	0.0	0.0	0.0	0.0	22.7	31.0	25.9
Service and Tourism	1,921.1	1,506.9	2,035.1	2,693.6	3,177.6	4,352.8	4,788.9	6,164.1	7,657.5
BOBL	1,278.7	806.9	1,115.8	1,179.7	1,408.4	1,853.0	1,629.1	2,084.2	2,824.8
BNBL	155.9	235.0	380.3	826.0	1,018.4	1,303.2	1,733.9	2,072.5	2,438.9
BDBL	328.3	327.7	477.3	607.8	679.7	871.8	927.9	1,185.2	1,499.2
T Bank Limited	0.0	0.0	0.0	0.0	0.0	20.0	94.3	155.8	176.9
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	288.8	239.1	559.8	573.9
RICBL	158.1	137.3	61.7	80.1	71.1	16.0	164.6	106.7	123.6
BIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3
Building & Construction	3,126.1	3,938.2	4,999.1	5,661.2	6,072.6	7,615.8	10,281.3	13,578.1	15,234.7
BOBL	632.9	806.1	1,157.3	1,416.7	1,564.7	1,894.6	2,677.2	4,316.4	5,160.0
BNBL	1,413.2	1,955.2	2,655.1	3,138.4	3,318.2	3,828.9	4,459.3	5,460.4	5,767.7
BDBL	419.2	491.1	507.0	431.4	383.3	414.1	527.3	612.4	895.6
T Bank Limited	0.0	0.0	0.0	0.0	0.0	169.6	377.6	470.2	477.6
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	189.5	519.6	835.0	924.2
RICBL	660.8	685.8	679.7	674.7	806.5	1,119.1	1,709.0	1,876.9	1,999.1
BIL	0.0	0.0	0.0	0.0	0.0	0.0	11.5	6.7	10.5

TABLE 17. FINANCIAL SECTOR INVESTMENT BY ECONOMIC ACTIVITY, CONTINUED

Millions of Ngultrums

End of June

Economic Sector/Source	2005	2006	2007	2008	2009	2010	2011	2012	2013
Transport	811.6	828.8	942.6	1,172.1	1,515.2	2,298.7	3,800.9	4,881.9	3,777.1
BOBL	437.2	430.3	428.7	458.6	610.9	682.8	575.6	1,279.2	958.3
BNBL	260.5	277.7	303.8	438.1	497.5	680.1	1,140.1	1,458.9	1,136.1
BDBL	26.9	29.6	83.0	118.7	128.1	213.6	342.3	394.0	302.5
T Bank Limited	0.0	0.0	0.0	0.0	0.0	35.3	380.0	424.6	340.2
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	67.1	233.0	238.4	183.0
RICBL	87.0	91.2	127.1	156.8	278.7	619.8	996.2	904.8	712.0
BIL	0.0	0.0	0.0	0.0	0.0	0.0	133.7	181.9	145.0
Loan Against Shares	50.9	36.6	50.5	108.7	148.5	201.9	255.6	522.0	557.3
BOBL	0.9	0.2	6.8	8.4	27.7	1.1	57.8	161.2	146.0
BNBL	47.4	35.2	27.9	78.6	97.6	156.8	130.8	104.3	93.0
BDBL	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T Bank Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.1	18.0	15.1
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	0.0	8.8	204.5	250.2
RICBL	0.6	0.4	15.8	21.7	23.2	44.1	58.0	26.2	45.7
BIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.8	7.3
Personal Loans	755.1	879.4	1,163.0	1,862.0	3,367.9	4,552.5	6,627.5	8,334.7	10,030.6
BOBL	159.0	187.0	288.6	786.1	2,058.7	2,403.9	3,519.0	5,101.9	5,274.5
BNBL	533.9	607.3	738.9	854.8	872.4	1,035.8	1,162.6	811.6	971.1
BDBL	3.0	5.5	26.0	42.8	152.5	452.0	893.1	1,012.8	2,058.0
T Bank Limited	0.0	0.0	0.0	0.0	0.0	200.6	488.9	434.6	351.7
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	43.8	133.7	424.4	534.3
RICBL	59.2	79.6	109.4	178.3	284.4	416.3	421.1	494.5	797.4
BIL	0.0	0.0	0.0	0.0	0.0	0.0	9.0	55.0	43.6
Government (short term loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	492.1	0.0
BOBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BNBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	492.1	0.0
BDBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T Bank Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RICBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit Card	0.0	0.0	0.0	0.0	0.0	0.0	6.3	7.1	7.7
BOBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8
BNBL	0.0	0.0	0.0	0.0	0.0	0.0	6.3	7.1	6.9
BDBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T Bank Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RICBL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BIL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others*	72.7	81.7	116.3	243.5	383.5	414.4	3,542.2	4,611.0	1,078.9
BOBL	56.0	65.3	78.4	120.4	145.0	141.6	131.8	371.3	327.3
BNBL	16.0	16.0	17.7	100.5	197.3	231.4	3,292.5	3,916.6	247.7
BDBL	0.0	0.0	19.7	21.8	40.6	20.2	25.9	24.7	26.2
T Bank Limited	0.0	0.0	0.0	0.0	0.0	0.0	0.0	225.4	185.5
Druk PNB Limited	0.0	0.0	0.0	0.0	0.0	8.4	47.4	28.9	246.0
RICBL	0.6	0.3	0.5	0.7	0.6	12.8	18.0	22.0	18.8
BIL	0.0	0.0	0.0	0.0	0.0	0.0	26.6	22.2	27.5
Total	10,620.6	11,298.0	14,486.9	19,003.5	24,256.7	29,775.8	40,645.6	51,305.2	56,778.3

*) Others includes Staff Loans, Entrepreneur Development Program and Small Business and Artisans Scheme.

Note: Prior to 2011, Government (short term loans) have been clubbed with other economic sectors and therefore not shown separately. From 2011 onward Government's short term borrowing has been shown separately. This may explain differences in Financial Sector Investment data featured in other RMA publications.

TABLE 18. SUMMARY OF THE CONSUMER PRICE INDEX

Second Quarter of 2013 = 100

Item	Weight in % ¹⁾	Period													
		2010				2011				2012				2013	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Index													
Food	39.9	157.8	160.8	164.4	169.8	174.5	177.7	182.1	185.1	194.3	211.0	207.3	206.9	209.6	104.9
Non-food	60.1	133.8	139.4	141.2	143.6	146.1	149.3	152.7	155.4	158.3	165.3	167.4	168.2	172.1	105.2
Total	100.0	141.4	146.2	148.6	151.9	155.1	158.3	162.0	164.8	169.7	179.7	180.1	180.5	184.0	105.1
		Percentage change on the previous year													
Food	39.9	12.3	6.9	6.6	9.5	10.5	10.6	10.7	9.0	11.4	18.7	13.9	11.8	7.9	2.8
Non-food	60.1	2.4	5.7	7.4	8.9	9.2	7.1	8.1	8.2	8.4	10.7	9.7	8.3	8.7	7.1
Total	100.0	5.7	6.1	7.2	9.1	9.6	8.3	9.0	8.5	9.5	13.5	11.2	9.5	8.4	5.5
PPN	1.0	0.71	0.68	0.67	0.66	0.64	0.63	0.62	0.61	0.59	0.56	0.56	0.55	0.54	0.94

Source: National Statistics Bureau. -1) 2003 Household Income and Expenditure Survey; includes rent. 2. Base year used for PPN Q2, 2013 is of December 2012 and the figures represented is month-on-month. 3. The CPI reflected in this table is for the last quarter of each fiscal year. As of the Q2, 2013 the NSB has increased the weight of food in the CPI from 31.67% to 39.92%, and correspondingly decreased the weight for non-food from 68.33% to 60.08%.

Table 18.1: Month-on-Month Index and Percent Change : Domestic

December 2012 = 100

Item	Weight in percent %	2013											
		Index						Change (%)					
		Jan	Feb	March	April	May	June	Jan	Feb	March	April	May	June
Food	17.2	102.4	104.1	103.5	103.9	103.8	105.4	2.4	1.7	-0.5	0.4	-0.1	1.6
Non-food	30.2	103.4	103.5	104.2	104.3	104.5	106.1	3.4	0.1	0.7	0.0	0.2	1.6
Total	47.4	103.0	103.7	104.0	104.1	104.2	105.8	3.0	0.7	0.3	0.2	0.1	1.6

Source : National Statistics Bureau

Table 18.2: Month-on-Month Index and Percent Change : Imported

December 2012 = 100

Item	Weight in percent %	2013											
		Index						Change (%)					
		Jan	Feb	March	April	May	June	Jan	Feb	March	April	May	June
Food	22.8	100.5	101.1	101.7	104.3	104.7	106.7	0.5	0.5	0.6	2.6	0.3	2.0
Non-food	29.8	101.8	102.7	103.8	104.7	105.5	106.4	1.8	0.9	1.1	0.9	0.7	0.8
Total	52.6	101.2	102.0	102.9	104.6	105.1	106.5	1.2	0.8	0.9	1.6	0.6	1.3

Source : National Statistics Bureau

TABLE 19. INDIAN WHOLESALE PRICE INDEX OF ALL COMMODITIES

2004-05 =100

Period	Year										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	Index										
Jan	167.8	178.7	101.0	105.2	112.3	117.3	124.2	134.8	147.4	158.2	170.3
Feb	169.4	179.8	101.1	105.4	112.4	118.8	122.9	134.8	146.0	159.3	170.2
Mar	171.6	179.8	101.5	105.5	112.7	121.4	123.2	135.8	148.0	161.0	170.6
Apr	173.1	97.5	102.8	107.6	114.4	123.5	124.6	138.3	152.1	163.5	171.3
May	173.4	98.0	102.5	108.5	114.6	124	125.5	138.8	152.4	163.9	171.6
Jun	173.5	98.2	102.9	109.7	114.8	127.3	126.4	139.4	153.1	164.2	172.7
Jul	173.4	99.2	104	110.6	115.6	128.6	127.8	140.6	154.2	165.8	
Aug	173.7	100.6	104.1	111.3	115.9	128.9	129.3	140.7	154.9	166.6	
Sep	175.6	100.5	104.8	112	116	128.5	129.9	141.5	156.2	168.4	
Oct	176.1	100.7	105.2	112.5	116.3	128.6	130.5	142.4	157.0	168.7	
Nov	176.9	101.5	105.4	112.4	116.7	126.7	132.4	143.1	157.4	168.8	
Dec	176.8	100.5	104.7	112.1	116.6	124.3	132.9	145.4	156.9	168.6	
	Percentage change on the previous year										
Jan	4.2	6.5	-43.5	4.2	6.7	4.5	5.9	8.5	9.3	7.3	7.6
Feb	5.3	6.1	-43.8	4.3	6.6	5.7	3.5	9.7	8.3	9.1	6.8
Mar	6.0	4.8	-43.5	3.9	6.8	7.7	1.5	10.2	9.0	8.8	6.0
Apr	6.7	-43.7	5.4	4.7	6.3	8.0	0.9	11.0	10.0	7.5	4.8
May	6.5	-43.5	4.6	5.9	5.6	8.2	1.2	10.6	9.8	7.5	4.7
Jun	5.3	-43.4	4.8	6.6	4.6	10.9	-0.7	10.3	9.8	7.3	5.2
Jul	4.7	-42.8	4.8	6.3	4.5	11.2	-0.6	10.0	9.7	7.5	
Aug	3.9	-42.1	3.5	6.9	4.1	11.2	0.3	8.8	10.1	7.6	
Sep	4.9	-42.8	4.3	6.9	3.6	10.8	1.1	8.9	10.4	7.8	
Oct	5.1	-42.8	4.5	6.9	3.4	10.6	1.5	9.1	10.3	7.5	
Nov	5.4	-42.6	3.8	6.6	3.8	8.6	4.5	8.1	10.0	7.2	
Dec	5.7	-43.2	4.2	7.1	4.0	6.6	6.9	9.4	7.9	7.5	

Source: Reserve Bank of India. Effective August 2010, the RBI has revised the base year from 1993-04 to 2004-05, creating a break in the continuity and comparison of data. The newly-calculated WPI commences from the month of April 2004 onwards.

TABLE 20A. ANNUAL OVERALL BALANCE OF PAYMENTS ESTIMATES
(Break in series from FY 2006/07: this table features revised series from FY 2006/07 onwards)

in millions of Ngultrum

Item	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 (p)
A. CURRENT ACCOUNT	-5,519.3	-10,487.4	-1,695.7	3,707.2	-4,486.7	-3,631.2	-14,863.5	-23,621.4	-19,774.3	-24,892.2
Goods and Services	-6,979.4	-12,852.0	-6,069.7	2,190.2	-4,491.9	-5,547.0	-15,884.0	-25,118.5	-24,630.6	-22,757.2
Goods: Net (Trade Balance)	-4,766.0	-11,099.0	-5,496.7	3,469.8	-1,836.4	-3,529.0	-12,568.3	-20,835.3	-19,880.6	-19,441.6
Exports (fob)	7,157.5	9,457.1	13,959.8	25,333.8	24,170.8	24,343.0	24,480.1	30,160.1	30,997.4	32,498.3
Imports (fob)	11,923.5	20,556.0	19,456.5	21,863.9	26,007.2	27,872.0	37,048.4	50,995.4	50,878.1	51,939.9
Services	-2,213.4	-1,753.1	-573.0	-1,279.6	-2,655.4	-2,018.0	-3,315.8	-4,283.1	-4,749.9	-3,315.6
Credit	1,252.3	1,894.9	2,313.8	2,660.9	2,205.8	2,700.0	3,210.0	3,703.8	5,146.0	6,837.0
Debit	3,465.7	3,647.9	2,886.8	3,940.5	4,861.2	4,718.0	6,525.8	7,986.9	9,896.0	10,152.6
Primary Income	-739.6	-707.7	-312.5	-15.0	-1,399.3	-1,560.4	-3,335.7	-4,709.7	-5,922.4	-9,266.3
Credit	436.3	537.2	813.3	1,161.9	1,397.6	1,012.6	762.4	753.6	875.1	965.9
Debit	1,175.9	1,244.9	1,125.8	1,176.9	2,796.9	2,573.0	4,098.1	5,463.3	6,797.5	10,232.1
Secondary Income	2,199.7	3,072.3	4,686.5	1,532.1	1,404.5	3,476.3	4,356.2	6,206.7	10,778.7	7,131.3
Credit	4,442.3	5,492.8	7,313.7	3,832.2	3,456.4	5,181.9	6,435.0	8,562.2	12,907.3	8,417.7
o.w. Budgetary grants	4,264.7	5,033.0	6,424.7	3,299.4	2,574.8	4,001.7	4,669.7	6,540.0	9,020.7	4,716.2
Debit	2,242.5	2,420.5	2,627.2	2,300.1	2,051.8	1,705.6	2,078.8	2,355.5	2,128.6	1,286.4
B. CAPITAL ACCOUNT	5,072.0	4,586.4	1,751.5	3,229.5	3,360.6	3,269.2	6,985.6	7,609.7	4,755.1	14,459.0
o.w. Budgetary grants for investment *				2,701.5	3,360.6	2,510.6	3,920.6	3,957.7	3,436.5	4,698.6
C. FINANCIAL ACCOUNT **	3,729.6	1,973.1	4,095.6	-6,089.8	-936.8	-4,613.5	-8,933.9	-18,632.7	-15,222.1	-17,249.4
Direct Investment in Bhutan: net incurrence of liabilities	157.0	401.5	273.9	6,409.9	125.0	865.8	3,468.6	1,408.8	1,209.7	1,166.8
o.w. Equity capital	0.0	0.0	0.0	3,185.4	29.9	349.1	753.3	770.5	589.3	1,111.3
Other Investment	3,572.6	1,571.7	3,821.6	320.1	-811.8	-3,747.7	-5,465.3	-17,223.9	-14,012.4	-16,082.6
Other Investment: Net Acquisition of Financial Assets				821.7	512.6	-396.4	57.9	-147.6	-63.4	934.4
Other Investment: Net Incurrence of Financial Liabilities				501.6	1,324.4	3,351.4	5,523.2	17,076.3	13,949.0	17,017.1
o.w. RGOB loans ***	4,666.2	2,939.4	3,474.7	539.4	-638.8	1,318.1	4,359.0	11,974.7	11,435.1	18,454.7
o.w. Other loans	363.3	89.2	347.0	-37.8	2,150.0	1,988.3	444.0	4,618.7	2,950.8	-512.9
D. Net Errors & Omissions	-2,912.2	3,009.3	1,057.7	-7,605.3	877.9	2,321.1	3,354.0	-1,823.4	-9,271.4	2,395.9
E. Overall Balance	370.1	-918.6	5,209.1	5,421.2	688.6	6,572.6	4,410.0	797.5	-9,068.4	9,212.2
F. Reserve Assets	370.1	-918.6	5,209.1	5,421.2	688.6	6,572.6	4,410.0	797.5	-9,068.4	9,212.2

* 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. *** Includes hydropower loans and accrued interest. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

Launched for the first time in FY 2012/13, Bhutan's BOP statistics have been revised in line with IMF BPM6 methodology (from FY 2006/07 onwards), replacing BPM5 methodology. Revisions were made under the IMF-JSA project to improve external sector statistics in the Asia-Pacific region and also includes other improvements in data coverage and classifications that were carried out in 2013. Please refer to Section I Economic Review 3. External Sector for details.

TABLE 20B. QUARTERLY OVERALL BALANCE OF PAYMENTS ESTIMATES

in millions of Ngultrum

Item	FY10/11:	FY10/11:	FY10/11:	FY10/11:	FY11/12:	FY11/12:	FY11/12:	FY11/12:	FY12/13:	FY12/13:	FY12/13:	FY12/13:
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT	1,316.8	-5,881.7	-10,048.2	-9,008.3	89.1	-2,875.2	-9,367.7	-7,620.4	-2,248.0	-10,748.6	-8,195.3	-3,700.3
Goods and Services	468.6	-6,953.7	-9,691.7	-8,941.7	-1,837.4	-4,940.2	-9,353.4	-8,499.6	-1,658.5	-8,335.1	-7,613.8	-5,149.8
Goods: Net (Trade Balance)	1,301.3	-6,456.8	-8,396.4	-7,283.5	-724.8	-4,181.9	-7,695.3	-7,278.6	-1,330.9	-7,356.1	-6,721.6	-4,033.0
Exports (fob)	10,530.5	7,711.6	4,665.1	7,252.9	10,869.0	8,082.6	5,740.2	6,305.7	10,487.0	6,476.6	6,368.4	9,166.3
Imports (fob)	9,229.2	14,168.4	13,061.5	14,536.4	11,593.8	12,264.5	13,435.5	13,584.2	11,817.8	13,832.7	13,090.1	13,199.3
Services	-832.7	-496.9	-1,295.3	-1,658.2	-1,112.6	-758.3	-1,658.1	-1,221.0	-327.7	-979.0	-892.1	-1,116.8
Credit	740.5	1,123.4	851.7	988.2	1,033.3	1,636.5	1,195.1	1,281.1	1,544.4	2,038.7	1,476.6	1,777.3
Debit	1,573.3	1,620.3	2,147.0	2,646.4	2,145.9	2,394.7	2,853.2	2,502.1	1,872.1	3,017.7	2,368.8	2,894.0
Primary Income	-703.9	-452.6	-1,873.2	-1,680.0	-776.4	-841.9	-2,561.6	-1,742.4	-1,679.4	-3,505.6	-1,566.8	-2,514.5
Credit	139.5	172.4	270.4	171.3	198.6	259.4	191.4	225.8	236.9	245.6	238.5	244.8
Debit	843.5	624.9	2,143.7	1,851.3	975.0	1,101.3	2,753.0	1,968.1	1,916.3	3,751.2	1,805.3	2,759.3
Secondary Income	1,552.1	1,524.6	1,516.7	1,613.3	2,702.9	2,906.9	2,547.4	2,621.5	1,090.0	1,092.1	985.3	3,963.9
Credit	2,107.2	2,139.6	2,130.8	2,184.6	3,242.9	3,385.6	3,133.7	3,145.1	1,426.8	1,405.1	1,316.6	4,269.2
o.w. Budgetary grants	1,635.0	1,635.0	1,635.0	1,635.0	2,255.2	2,255.2	2,255.2	2,255.2	1,179.0	1,179.0	1,179.0	1,179.0
Debit	555.1	615.0	614.1	571.3	540.0	478.7	586.4	523.6	336.8	312.9	331.3	305.3
B. CAPITAL ACCOUNT	2,348.3	1,113.4	2,087.6	2,060.4	859.1	1,537.9	1,498.9	859.1	1,720.3	1,174.7	5,174.7	6,389.4
o.w. Budgetary grants for investment	989.4	989.4	989.4	989.4	859.1	859.1	859.1	859.1	1,174.7	1,174.7	1,174.7	1,174.7
C. FINANCIAL ACCOUNT *	2,245.0	-3,324.4	-3,604.9	-11,130.8	-1,189.3	6,366.6	-9,302.8	-8,677.1	-8,080.4	-5,834.0	-2,615.4	1,613.9
Direct Investment in Bhutan	252.6	517.6	405.1	233.5	356.6	339.3	306.1	207.7	330.6	280.5	303.4	252.2
o.w. Equity capital	183.8	219.1	277.1	90.4	143.9	201.7	144.1	99.6	330.6	258.6	302.9	219.2
Other Investment	1,992.4	-3,842.0	-4,010.1	-11,364.3	-1,546.0	6,027.3	-9,608.9	-8,884.8	-8,411.0	-6,114.5	-2,918.9	1,361.7
Other Investment: Net Acquisition of Financial Assets	900.2	-2,006.1	-148.5	1,106.8	826.5	396.7	-103.8	-1,182.7	2,656.3	-3,456.2	-144.2	1,878.6
Other Investment: Net Incurrence of Financial Liabilities	-1,092.3	1,835.9	3,861.6	12,471.1	2,372.5	-5,630.6	9,505.1	7,702.0	11,067.2	2,658.3	2,774.6	516.9
o.w. RGOB loans **	372.5	1,903.5	119.9	9,578.8	492.8	1,513.4	2,511.5	6,917.4	6,386.7	1,549.2	2,074.2	8,444.6
o.w. Other loans	-1,533.3	-77.7	3,633.7	2,596.0	1,986.2	-7,188.0	7,159.6	993.0	4,472.3	1,606.2	946.4	-7,537.8
D. Net Errors & Omissions	372.4	9,216.8	5,321.9	17,713.3	9,269.5	-17,306.2	11,475.8	15,314.3	10,706.6	20,068.6	5,663.6	-1,877.6
E. Overall Balance	6,282.4	1,124.1	-6,243.6	-365.4	9,028.4	-12,276.9	-5,695.8	-124.1	2,098.5	4,660.7	27.6	2,425.4
F. Reserve Assets	6,282.4	1,124.1	-6,243.6	-365.4	9,028.4	-12,276.9	-5,695.8	-124.1	2,098.5	4,660.7	27.6	2,425.4

* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. ** Includes hydropower loans and accrued interest. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

Note on quarterly breakdowns: where quarterly breakdowns of data are currently unavailable from source, fiscal year data have been divided among the quarters and may explain the large variations in the net errors and omissions within a fiscal year.

TABLE 21A. ANNUAL BALANCE OF PAYMENTS ESTIMATES WITH INDIA
(Break in series from FY 2006/07: this table features revised series from FY 2006/07 onwards)

in millions of Ngultrum

Item	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 (p)
A. CURRENT ACCOUNT	-5,707.7	-5,253.9	-2,344.6	3,248.2	-3,498.8	-3,554.4	-9,211.2	-18,171.5	-15,685.8	-26,504.9
Goods and Services	-6,307.9	-6,211.8	-4,824.8	3,244.0	-2,454.2	-2,834.8	-8,372.5	-18,203.4	-16,426.7	-21,079.9
Goods: Net (Trade Balance)	-3,820.7	-3,601.2	-3,170.7	4,447.6	-27.8	-593.2	-5,855.3	-15,160.0	-12,795.1	-17,265.4
Exports (fob)	6,768.8	8,661.1	10,610.5	20,911.0	21,721.8	22,936.0	22,461.9	25,460.6	27,546.8	27,512.3
Imports (fob)	10,589.5	12,262.3	13,781.1	16,463.4	21,749.7	23,529.2	28,317.2	40,620.6	40,342.0	44,777.8
Services	-2,487.2	-2,610.6	-1,654.1	-1,203.6	-2,426.4	-2,241.7	-2,517.2	-3,043.4	-3,631.6	-3,814.5
Credit	178.1	253.9	443.9	455.9	415.4	422.7	433.0	559.7	688.8	1,565.6
Debit	2,665.3	2,864.6	2,098.0	1,659.5	2,841.8	2,664.4	2,950.2	3,603.1	4,320.4	5,380.1
Primary Income	-806.4	-938.3	-701.0	-642.0	-1,882.7	-2,380.4	-3,627.7	-5,051.2	-6,398.2	-8,812.1
Credit	249.3	181.5	255.0	112.5	270.9	72.5	18.8	83.4	6.9	4.3
Debit	1,055.8	1,119.8	955.9	754.5	2,153.5	2,452.8	3,646.5	5,134.6	6,405.1	8,816.4
o.w. Interest on hydropower loans *				209.6	1,519.0	1,608.5	1,996.6	2,504.4	3,477.2	4,913.6
Secondary Income	1,406.6	1,896.2	3,181.2	646.2	838.1	1,660.9	2,789.0	5,083.2	7,139.1	3,387.1
Credit	2,324.7	2,958.7	4,186.9	1,781.6	2,082.9	2,984.0	4,128.2	6,572.8	8,762.8	4,514.6
o.w. Budgetary grants	2,287.2	2,628.0	3,417.2	1,386.6	1,347.5	2,042.1	3,007.6	5,129.5	6,180.9	1,513.7
Debit	918.0	1,062.6	1,005.7	1,135.4	1,244.8	1,323.1	1,339.2	1,489.6	1,623.7	1,127.5
B. CAPITAL ACCOUNT	5,072.0	4,586.4	1,751.5	3,165.6	3,323.6	3,111.5	6,541.4	6,405.3	4,141.2	11,780.8
o.w. Budgetary grants for investment **				2,637.7	3,323.6	2,352.8	3,476.4	2,753.3	2,822.6	2,020.4
o.w. Grants for hydropower development	4,666.8	4,161.6	1,306.0	528.0	0.0	758.7	3,065.0	3,652.0	1,318.6	9,760.4
C. FINANCIAL ACCOUNT ***	3,258.6	1,853.1	2,324.8	1,064.6	-392.6	-3,178.7	-2,367.4	-13,063.0	-12,298.4	-13,593.1
Direct Investment in Bhutan: net incurrence of liabilities	0.0	0.0	0.0	31.3	33.0	92.7	354.0	359.7	334.4	805.3
o.w. Equity capital				0.0	0.0	52.0	201.0	211.9	260.6	805.3
Other Investment	3,258.6	1,853.1	2,324.8	1,095.9	-359.6	-3,086.0	-2,013.4	-12,703.3	-11,964.0	-12,787.8
Other Investment: net acquisition of financial assets				821.7	500.4	-447.7	113.0	-168.3	-247.3	888.2
Other Investment: net incurrence of financial liabilities				-274.2	860.0	2,638.3	2,126.5	12,535.0	11,716.7	13,676.0
o.w. Hydropower loans *	3,258.6	1,853.1	2,324.8	-274.2	-1,171.2	274.1	1,293.2	7,376.8	9,878.4	14,798.4
o.w. Other loans	0.0	0.0	0.0	0.0	2,222.3	2,028.8	543.4	4,773.2	3,074.0	-377.5
D. Net Errors & Omissions	-1,590.2	-1,970.1	-2,182.3	-7,707.3	-43.6	-2,966.0	1,052.9	-1,900.8	-12.1	10,967.1
E. Overall Balance	1,032.7	-784.6	-450.6	-2,358.1	173.8	-230.1	750.5	-604.0	741.7	9,836.0
F. Reserve Assets	1,032.7	-784.6	-450.6	-2,358.1	173.8	-230.1	750.5	-604.0	741.7	9,836.0

* 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. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

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 fiscal 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 21B. QUARTERLY BALANCE OF PAYMENTS ESTIMATES WITH INDIA

in millions of Ngultrum

Item	FY10/11:				FY11/12:				FY12/13:			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. CURRENT ACCOUNT	1,859.9	-5,977.8	-7,780.4	-6,273.2	877.5	-2,977.8	-7,674.2	-5,911.4	-2,424.5	-9,076.8	-9,978.1	-5,025.4
Goods and Services	1,436.6	-6,789.3	-6,982.9	-5,867.8	28.7	-3,792.5	-6,741.8	-5,921.2	-694.5	-6,519.7	-8,363.2	-5,502.5
Goods: Net (Trade Balance)	2,084.5	-6,105.8	-6,032.0	-5,106.7	721.8	-2,953.1	-5,463.3	-5,100.5	-164.0	-5,750.6	-7,247.7	-4,103.1
Exports (fob)	9,533.8	6,493.8	4,267.6	5,165.4	9,620.7	6,707.8	5,171.3	6,047.0	10,089.1	5,909.3	4,308.5	7,205.4
Imports (fob)	7,449.3	12,599.6	10,299.6	10,272.1	8,899.0	9,660.9	10,634.7	11,147.5	10,253.1	11,659.9	11,556.2	11,308.6
Services	-648.0	-683.5	-950.8	-761.1	-693.1	-839.4	-1,278.4	-820.7	-530.5	-769.1	-1,115.5	-1,399.3
Credit	157.5	140.0	118.1	144.1	244.4	121.5	133.1	189.9	438.4	422.4	306.9	397.9
Debit	805.5	823.5	1,069.0	905.2	937.4	960.8	1,411.5	1,010.6	969.0	1,191.4	1,422.5	1,797.2
Primary Income	-771.9	-495.2	-2,057.6	-1,726.5	-920.1	-1,042.1	-2,663.0	-1,773.0	-1,826.6	-2,654.5	-1,711.5	-2,619.5
Credit	5.5	55.6	22.3	0.0	0.0	6.9	0.0	0.0	0.0	0.0	0.0	4.3
Debit	777.4	550.7	2,080.0	1,726.5	920.1	1,049.0	2,663.0	1,773.0	1,826.6	2,654.5	1,711.5	2,623.8
o.w. Interest on hydropower loans *	291.2	218.3	1,678.5	316.4	449.5	432.1	1,894.6	700.9	801.8	1,815.3	816.9	1,479.7
Secondary Income	1,195.3	1,306.7	1,260.1	1,321.1	1,769.0	1,856.8	1,730.6	1,782.8	96.6	97.4	96.6	3,096.6
Credit	1,619.9	1,659.3	1,619.2	1,674.4	2,193.4	2,231.0	2,181.6	2,156.8	378.4	379.3	378.4	3,378.4
o.w. Budgetary grants	1,282.4	1,282.4	1,282.4	1,282.4	1,545.2	1,545.2	1,545.2	1,545.2	378.4	378.4	378.4	378.4
Debit	424.6	352.6	359.1	353.3	424.5	374.2	451.1	374.0	281.9	281.9	281.9	281.9
B. CAPITAL ACCOUNT	2,047.2	812.3	1,786.5	1,759.3	705.6	1,384.4	1,345.4	705.6	1,050.7	505.1	4,505.1	5,719.9
o.w. Budgetary grants for investment	688.3	688.3	688.3	688.3	705.6	705.6	705.6	705.6	505.1	505.1	505.1	505.1
o.w. Grants for hydropower development	1,358.8	124.0	1,098.2	1,071.0	0.0	678.8	639.8	0.0	545.6	0.0	4,000.0	5,214.8
C. FINANCIAL ACCOUNT **	2,129.7	-2,330.2	-2,745.9	-10,116.5	-1,041.4	5,947.8	-8,844.9	-8,359.9	-8,196.9	-4,290.8	-2,404.3	1,298.9
Direct Investment in Bhutan: net incurrence of liabilities	137.9	87.6	127.2	7.0	28.8	93.2	109.9	102.5	273.6	199.8	197.7	134.2
o.w. Equity capital	69.1	16.5	126.0	0.2	0.0	65.1	119.0	76.5	273.6	199.8	197.7	134.2
Other Investment	2,267.5	-2,242.6	-2,618.7	-10,109.5	-1,012.6	6,041.0	-8,735.0	-8,257.4	-7,923.3	-4,091.0	-2,206.6	1,433.1
Other Investment: net acquisition of financial assets	825.2	-1,940.2	-144.6	1,091.4	809.3	366.0	-69.2	-1,353.5	2,686.5	-3,491.5	-130.7	1,823.9
Other Investment: net incurrence of financial liabilities	-1,442.3	302.3	2,474.1	11,200.9	1,821.9	-5,674.9	8,665.9	6,903.9	10,609.9	599.5	2,075.9	390.8
o.w. Hydropower loans *	97.0	218.3	-1,206.8	8,268.2	255.3	1,398.1	2,009.4	6,215.5	5,883.6	-509.7	1,526.7	7,897.8
o.w. Other loans	-1,533.3	0.0	3,633.7	2,672.8	1,986.2	-7,128.0	7,159.6	1,056.2	4,477.8	1,670.4	946.4	-7,472.2
D. Net Errors & Omissions	2,297.2	3,417.2	-1,652.1	-5,963.1	-3,126.8	8,333.6	-2,498.4	-2,720.5	-5,966.4	3,274.1	3,936.1	9,723.3
E. Overall Balance	4,074.6	582.0	-4,900.1	-360.5	-502.2	792.5	17.8	433.7	856.6	-1,006.8	867.3	9,118.8
F. Reserve Assets	4,074.6	582.0	-4,900.1	-360.5	-502.2	792.5	17.8	433.7	856.6	-1,006.8	867.3	9,118.8

* Includes accrued interest (from FY 2006/07 onwards), and are therefore not comparable with figures published by the Ministry of Finance. ** Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

Note on quarterly breakdowns: where quarterly breakdowns of data are currently unavailable from source, fiscal year data have been divided among the quarters and may explain the large variations in the net errors and omission within a fiscal year.

TABLE 22A. ANNUAL BALANCE OF PAYMENTS ESTIMATES WITH COUNTRIES OTHER THAN INDIA
(Break in series from FY 2006/07: this table features revised series from FY 2006/07 onwards)

in millions of Ngultrum

Item	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 (p)
A. CURRENT ACCOUNT	188.4	-5,233.5	648.8	459.1	-987.9	-76.8	-5,652.3	-5,449.9	-4,088.4	1,612.7
Goods and Services	-671.6	-6,640.2	-1,245.0	-1,053.8	-2,037.7	-2,712.2	-7,511.5	-6,915.0	-8,203.8	-1,677.3
Goods: Net (Trade Balance)	-945.4	-7,497.8	-2,326.1	-977.8	-1,808.6	-2,935.8	-6,713.0	-5,675.3	-7,085.5	-2,176.2
Exports (fob)	388.6	795.9	3,349.3	4,422.8	2,449.0	1,406.9	2,018.2	4,699.5	3,450.6	4,986.0
Imports (fob)	1,334.0	8,293.7	5,675.4	5,400.5	4,257.6	4,342.7	8,731.2	10,374.8	10,536.1	7,162.2
Services	273.8	857.6	1,081.1	-76.0	-229.1	223.7	-798.6	-1,239.7	-1,118.4	498.9
Credit	1,074.2	1,641.0	1,869.9	2,205.0	1,790.4	2,277.3	2,777.0	3,144.1	4,457.3	5,271.4
Debit	800.4	783.4	788.8	2,281.0	2,019.4	2,053.6	3,575.6	4,383.8	5,575.6	4,772.5
Primary Income	66.8	230.6	388.5	627.0	483.3	819.9	292.0	341.5	475.8	-454.1
Credit	187.0	355.7	558.3	1,049.4	1,126.7	940.1	743.6	670.2	868.2	961.6
Debit	120.1	125.1	169.8	422.4	643.4	120.2	451.6	328.7	392.4	1,415.7
Secondary Income	793.1	1,176.1	1,505.3	885.9	566.5	1,815.4	1,567.2	1,123.6	3,639.6	3,744.2
Credit	2,117.6	2,534.0	3,126.9	2,050.6	1,373.5	2,197.9	2,306.8	1,989.5	4,144.5	3,903.1
o.w. Budgetary grants	1,977.5	2,405.0	3,007.5	1,912.7	1,227.3	1,959.7	1,662.1	1,410.6	2,839.9	3,202.4
Debit	1,324.5	1,357.9	1,621.5	1,164.7	807.0	382.5	739.6	865.9	504.9	158.9
B. CAPITAL ACCOUNT	0.0	0.0	0.0	63.9	37.0	157.8	444.1	1,204.4	614.0	2,678.2
o.w. Budgetary grants for investment *				63.9	37.0	157.8	444.1	1,204.4	614.0	2,678.2
C. FINANCIAL ACCOUNT **	471.0	120.0	1,770.8	-7,154.4	-544.2	-1,434.8	-6,566.5	-5,569.7	-2,923.7	-3,656.3
Direct Investment in Bhutan: net incurrence of liabilities	157.0	401.5	273.9	6,378.5	92.0	773.1	3,114.6	1,049.1	875.3	361.5
o.w. Equity capital				3,185.4	29.9	297.1	552.3	558.7	328.8	306.0
Other Investment	314.0	-281.5	1,496.8	-775.8	-452.1	-661.7	-3,451.9	-4,520.6	-2,048.3	-3,294.8
Other Investment: net acquisition of financial assets ***					12.3	51.3	-55.2	20.7	184.0	46.3
Other Investment: net incurrence of financial liabilities				775.8	464.4	713.0	3,396.7	4,541.3	2,232.3	3,341.1
o.w. RGOB loans	1,407.6	1,086.2	1,149.9	813.6	532.4	1,043.9	3,065.8	4,597.9	1,556.7	3,656.3
o.w. Other loans	363.3	89.2	347.0	-37.8	-72.3	-40.5	-99.4	-154.5	-123.3	-135.3
D. Net Errors & Omissions	-1,322.0	4,979.4	3,240.1	102.0	921.5	5,287.0	2,301.1	77.4	-9,259.3	-8,571.1
E. Overall Balance	-662.6	-134.1	5,659.7	7,779.3	514.8	6,802.8	3,659.5	1,401.5	-9,810.1	-623.8
F. Reserve Assets	-662.6	-134.1	5,659.7	7,779.3	514.8	6,802.8	3,659.5	1,401.5	-9,810.1	-623.8

* 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. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. *** Data currently compiled from FY 2007/08.

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 in the two fiscal years for around USD 200 million each. 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. Please refer to Section I Economic Review 3. External Sector for details.

TABLE 22B. QUARTERLY BALANCE OF PAYMENTS ESTIMATES WITH COUNTRIES OTHER THAN INDIA

in millions of Ngultrum	FY10/1 1: Q1	FY10/1 1: Q2	FY10/1 1: Q3	FY10/1 1: Q4	FY11/1 2: Q1	FY11/12: Q2	FY11/1 2: Q3	FY11/1 2: Q4	FY12/1 3: Q1	FY12/1 3: Q2	FY12/13 : Q3	FY12/13 : Q4
A. CURRENT ACCOUNT	-543.1	96.1	-2,267.8	-2,735.1	-788.4	102.6	-1,693.5	-1,709.1	176.6	-1,671.7	1,782.8	1,325.1
Goods and Services	-967.9	-164.4	-2,708.8	-3,073.9	-1,866.1	-1,147.7	-2,611.7	-2,578.4	-964.0	-1,815.4	749.5	352.7
Goods: Net (Trade Balance)	-783.2	-351.0	-2,364.4	-2,176.8	-1,446.6	-1,228.8	-2,232.0	-2,178.1	-1,166.9	-1,605.5	526.1	70.1
Exports (fob)	996.7	1,217.8	397.5	2,087.5	1,248.2	1,374.8	568.9	258.7	397.8	567.4	2,059.9	1,960.8
Imports (fob)	1,779.9	1,568.8	2,761.8	4,264.3	2,694.8	2,603.6	2,800.9	2,436.8	1,564.8	2,172.8	1,533.8	1,890.7
Services	-184.8	186.6	-344.4	-897.1	-419.5	81.1	-379.7	-400.2	202.9	-209.9	223.4	282.6
Credit	583.0	983.4	733.5	844.1	789.0	1,515.0	1,062.0	1,091.3	1,106.0	1,616.3	1,169.7	1,379.4
Debit	767.8	796.8	1,078.0	1,741.2	1,208.5	1,433.9	1,441.7	1,491.5	903.1	1,826.3	946.3	1,096.8
Primary Income	68.0	42.6	184.4	46.6	143.7	200.2	101.4	30.6	147.2	-851.0	144.6	105.0
Credit	134.1	116.8	248.1	171.3	198.6	252.5	191.4	225.8	236.9	245.6	238.5	240.5
Debit	66.1	74.2	63.7	124.7	54.9	52.3	90.0	195.2	89.7	1,096.6	93.9	135.5
Secondary Income	356.8	217.8	256.7	292.2	933.9	1,050.1	816.8	838.7	993.4	994.7	888.7	867.3
Credit	487.4	480.3	511.6	510.2	1,049.4	1,154.6	952.1	988.4	1,048.4	1,025.8	938.1	890.8
o.w. Budgetary grants	352.6	352.6	352.6	352.6	710.0	710.0	710.0	710.0	800.6	800.6	800.6	800.6
Debit	130.5	262.4	255.0	218.0	115.5	104.4	135.3	149.7	55.0	31.1	49.4	23.5
B. CAPITAL ACCOUNT	301.1	301.1	301.1	301.1	153.5	153.5	153.5	153.5	669.6	669.6	669.6	669.6
o.w. Budgetary grants for investment	301.1	301.1	301.1	301.1	153.5	153.5	153.5	153.5	669.6	669.6	669.6	669.6
C. FINANCIAL ACCOUNT *	-389.8	-2,029.4	-1,669.3	-1,481.3	-861.2	-259.8	-1,070.0	-732.6	-544.6	-2,104.2	-818.0	-189.5
Direct Investment in Bhutan: net incurrence of liabilities	114.7	430.0	278.0	226.5	327.8	246.2	196.2	105.2	57.0	80.7	105.7	118.0
o.w. Equity capital	114.7	202.6	151.1	90.2	143.9	136.6	25.2	23.1	57.0	58.8	105.2	85.0
Other Investment	-275.1	-1,599.4	-1,391.3	-1,254.8	-533.4	-13.7	-873.9	-627.4	-487.6	-2,023.5	-712.3	-71.4
Other Investment: net acquisition of financial assets	75.0	-65.8	-3.8	15.4	17.2	30.6	-34.6	170.8	-30.3	35.3	-13.5	54.8
Other Investment: net incurrence of financial liabilities	350.1	1,533.6	1,387.5	1,270.2	550.5	44.3	839.3	798.2	457.3	2,058.8	698.7	126.2
o.w. RGOB loans	275.5	1,685.1	1,326.7	1,310.6	237.5	115.3	502.1	701.9	503.0	2,059.0	547.5	546.8
o.w. Other loans	0.0	-77.7	0.0	-76.8	0.0	-60.0	0.0	-63.2	-5.5	-64.2	0.0	-65.6
D. Net Errors & Omissions	2,060.1	-1,884.4	-1,046.2	947.8	9,304.4	-13,585.3	-5,243.6	265.1	-148.9	4,565.5	-4,110.2	-8,877.5
E. Overall Balance	2,207.8	542.2	-1,343.5	-4.9	9,530.6	-13,069.3	-5,713.5	-557.8	1,241.9	5,667.5	-839.7	-6,693.4
F. Reserve Assets	2,207.8	542.2	-1,343.5	-4.9	9,530.6	-13,069.3	-5,713.5	-557.8	1,241.9	5,667.5	-839.7	-6,693.4

* Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. ** Includes accrued interest (from FY 2006/07 onwards), and therefore are not comparable with figures published by the Ministry of Finance. Note on general sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities.

Note on quarterly breakdowns: where quarterly breakdowns of data are currently unavailable from source, fiscal year data have been divided among the quarters and may explain the large variations in the net errors and omission within a fiscal year.

TABLE 23. GROSS INTERNATIONAL RESERVES (*)

End of Period	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Item										
1. Rupee Reserves (INR millions)	4362.8	3578.3	3127.7	769.6	858.2	628.1	1378.6	774.6	1516.3	11352.2
Royal Monetary Authority of Bhutan	1822.4	2069.7	1507.4	136.3	135.1	118.4	137.3	91.2	229.9	10706.4
Bank of Bhutan Limited	1988.3	1079.4	938.9	387.4	435.8	373.0	923.0	329.4	857.3	229.8
Bhutan National Bank Limited	552.1	429.1	681.4	245.9	287.3	136.7	196.3	99.5	171.8	56.5
T Bank Limited							50.0	39.8	53.3	115.7
Druk PNB Limited							72.1	214.7	204.1	243.8
2. Convertible Currency Reserves (USD millions)	287.4	281.3	418.5	589.5	527.2	662.2	729.8	778.9	647.4	726.7
Royal Monetary Authority of Bhutan ⁽¹⁾	249.0	250.5	372.3	510.7	503.9	637.5	698.5	731.8	623.6	692.7
Bank of Bhutan Limited	31.3	21.0	29.6	47.3	11.2	7.6	15.4	35.1	9.0	21.6
Bhutan National Bank Limited	7.0	9.9	16.5	31.5	12.1	17.0	15.8	10.0	14.2	10.6
T Bank Limited							0.0	0.2	0.1	0.1
Druk PNB Limited							0.2	1.7	0.5	1.7
3. Total reserves in USD millions (1+2)	382.3	363.6	486.3	608.4	547.1	675.2	759.4	796.2	674.3	916.9
4. Exchange rates used	45.98	43.51	46.08	40.76	42.95	48.51	46.60	44.72	56.31	59.70
5. Months of Merchandise Imports ⁽²⁾										
Total Reserves	17.7	9.2	13.8	13.6	10.8	14.1	11.5	8.4	9.0	12.6
Rupee Reserves	4.9	3.5	2.7	0.6	0.5	0.3	0.6	0.2	0.5	3.0
Convertible Currency Reserves	118.9	17.7	40.8	53.4	63.8	88.8	46.7	40.3	41.5	72.7
6. Months of Imports (Merchandise + Services) ⁽²⁾										
Total Reserves	13.7	7.8	12.0	11.5	9.1	12.1	9.7	7.2	7.5	10.6
Rupee Reserves	3.9	2.8	2.4	0.5	0.4	0.3	0.5	0.2	0.4	2.7
Convertible Currency Reserves	12.0	16.2	35.8	37.5	43.3	60.3	33.2	28.3	27.1	43.6

(*) 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. Data for 2012/13 onwards are based on provisional import figures for 2012/13 and are subject to change.

TABLE 24A. COMPOSITION OF IMPORTS FROM INDIA

Millions of Ngultrum

SI	IMPORT CATEGORY	2006	2007	2008	2009	2010	2011	2012	Share of Total in (2012)	% change over 2011
1	Live Animals & Animal Products	629.3	682.5	776.4	984.9	1,180.6	1,299.6	1,995.0	4.8	53.5
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains &	839.6	976.7	1,121.5	1,290.3	1,523.4	1,840.3	2,748.5	6.6	49.4
3	Animal or Vegetable Fats & Oils	311.8	365.2	480.7	407.7	489.9	661.9	906.3	2.2	36.9
4	Processed Foods & Beverages	765.7	763.1	822.5	1,009.8	1,213.0	1,477.7	1,707.0	4.1	15.5
5	Mineral Products inc. oils & fuels	3,221.0	3,790.4	4,933.5	4,996.8	7,263.4	8,796.0	11,625.1	27.8	32.2
6	Products of Chemical & Allied	679.1	626.8	750.9	821.2	1,081.2	1,358.3	1,850.1	4.4	36.2
6.1	<i>Medicine / Pharmaceutical Products</i>	159.8	92.3	132.7	131.4	108.4	141.4	276.2	0.7	95.3
7	Plastic & Rubber Products	458.5	473.8	458.7	557.5	794.8	1,105.8	1,561.8	3.7	41.2
8	Wood and Wood pulp products	376.2	561.5	823.2	1,126.5	1,375.4	1,879.0	1,940.7	4.6	3.3
8.1	<i>Wood and Wood Products</i>	119.0	272.8	516.5	684.8	869.0	1,276.0	1,242.9	3.0	(2.6)
8.2	<i>Wood Pulp Products</i>	257.3	288.7	306.7	441.8	506.4	603.0	697.8	1.7	15.7
9	Textiles, Footwear & Hats/Headgear	239.8	251.0	251.7	286.9	368.2	418.8	750.8	1.8	79.3
10	Articles of Stone, Plaster, Cement,	260.3	317.4	305.7	356.2	500.0	727.3	967.8	2.3	33.1
10.1	<i>Ceramic Products</i>	121.8	129.5	111.3	142.3	224.7	350.4	439.9	1.1	25.5
11	Pearls and Products of Precious/Semi-precious Metal & Stones	40.6	760.9	0.7	1.4	0.6	1.0	0.7	0.0	(35.6)
12	Base Metals and Articles of Base	2,002.8	1,955.0	2,948.3	3,270.8	5,431.8	6,181.6	8,930.6	21.4	44.5
13	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	2,272.4	2,270.3	2,066.6	2,420.1	4,698.7	4,499.3	4,501.7	10.8	0.1
13.1	<i>Magnetic Discs & Media</i>	3.6	4.7	2.5	22.1	13.4	15.1	24.3	0.1	61.1
14	Transport Vehicles & Aircraft and Engines & Parts	639.1	1,060.1	1,322.0	1,953.2	2,964.1	4,409.4	1,766.9	4.2	(59.9)
15	Optical, Photographic, Cinematographic & Measuring Equipment	185.8	101.9	131.1	162.1	129.4	271.8	209.4	0.5	(23.0)
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.0	0.1	0.0	0.0	0.7	0.0	0.2	0.0	650.3
17	Miscellaneous Manufactured	132.0	143.0	146.2	195.2	313.7	263.1	363.0	0.9	38.0
	TOTAL	13,053.9	15,099.5	17,339.5	19,840.8	29,329.1	35,190.8	41,825.6	100.0	18.9

TABLE 24B. COMPOSITION OF EXPORTS TO INDIA

Millions of Ngultrum

SI	EXPORT CATEGORY	2006	2007	2008	2009	2010	2011	2012	Share of Total in (2012)	% change over 2011
1	Live Animals & Animal Products	10.8	13.4	0.2	4.9	2.7	0.2	5.8	0.0	3,001.8
1.1	<i>RawHides & Skins</i>	1.6	0.6	0.1	-	-	-	-	-	-
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains &	276.7	307.1	241.7	606.7	452.7	595.3	783.2	2.8	31.6
2.1	<i>Potatoes</i>	138.5	149.9	119.8	401.9	197.3	250.7	309.2	1.1	23.3
3	Animal or Vegetable Fats & Oils	1,448.3	1,875.3	605.3	3.9	13.4	23.8	7.5	0.0	(68.6)
3.1	<i>Palm Oil</i>	1,380.5	481.6	-	0.1	-	0.1	0.2	0.0	50.5
4	Processed Foods & Beverages	413.9	368.0	276.3	318.9	317.5	406.5	441.2	1.6	8.5
5	Mineral Products inc. oils & fuels	1,587.1	1,809.1	2,161.6	2,519.0	2,782.4	2,573.2	2,931.0	10.5	13.9
6	Electricity	4,982.0	10,034.3	11,032.6	10,072.5	10,411.5	9,825.0	10,323.4	37.1	5.1
7	Products of Chemical & Allied	587.0	783.3	893.6	1,050.9	1,453.9	1,476.5	1,638.6	5.9	11.0
8	Plastic & Rubber Products	246.6	275.7	214.1	308.4	246.0	309.8	331.3	1.2	7.0
9	Wood and Wood Pulp Products	257.7	305.6	306.6	323.2	319.6	317.4	369.5	1.3	16.4
9.1	<i>Wood Pulp Products</i>	3.5	2.6	7.1	9.9	8.2	11.8	19.8	0.1	67.6
10	Textiles, Footwear & Hats/Headgear	476.4	444.9	291.0	66.5	41.4	32.1	47.2	0.2	46.7
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	24.9	113.1	122.3	80.6	74.1	120.6	126.5	0.5	4.9
12	Base Metals and Articles of Base	4,098.2	6,302.2	5,250.9	7,012.7	9,833.5	10,044.1	10,800.0	38.8	7.5
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	51.8	60.0	52.0	8.9	2.6	2.6	6.3	0.0	144.2
14	Transport Vehicles & Aircraft and Engines & Parts	0.6	-	-	-	-	-	-	-	-
15	Optical, Photographic, Cinematographic & Measuring	0.3	0.6	0.1	-	0.0	0.0	-	-	(100.0)
16	Handicrafts, Works of Art, Collectors' Pieces & Personal	0.2	0.0	0.0	-	0.0	0.0	0.1	0.0	658.3
17	Miscellaneous Manufactured	25.5	31.1	31.8	39.1	49.3	34.3	14.2	0.1	(58.6)
	TOTAL	14,488.0	22,723.7	21,480.0	22,416.2	26,000.9	25,761.5	27,825.6	100.0	8.0

Source: Bhutan Trade Statistics, Department of Revenue & Customs.

TABLE 25A. COMPOSITION OF IMPORTS FROM COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

SI	IMPORT CATEGORY	2006	2007	2008	2009	2010	2011	2012	Share of Total in % (2012)	% Change over 2011
1	Live Animals & Animal Products	2.1	3.2	12.8	7.8	7.7	12.2	23.0	0.2	87.6
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	7.0	14.2	10.4	4.7	36.3	216.4	133.2	1.2	-38.4
3	Animal or Vegetable Fats & Oils	1285.4	1689.8	485.5	6.4	19.0	5.8	19.9	0.2	241.9
3.1	<i>Palm Oil (Crude & Other)</i>	<i>1212.0</i>	<i>1580.0</i>	<i>483.6</i>	<i>5.8</i>	<i>9.3</i>	<i>0.0</i>	<i>0.0</i>	0.0	-100.0
4	Processed Foods & Beverages	153.3	164.9	179.7	151.3	212.0	264.8	224.4	2.1	-15.2
5	Mineral Products inc. oils & fuels	38.2	48.4	94.7	63.1	80.9	140.6	144.7	1.3	2.9
6	Products of Chemical & Allied Industries	114.7	105.5	158.2	149.7	236.3	510.6	340.6	3.1	-33.3
6.1	<i>Medicines / Pharmaceutical Products</i>	<i>55.9</i>	<i>35.1</i>	<i>40.8</i>	<i>18.2</i>	<i>12.5</i>	<i>383.8</i>	<i>41.5</i>	0.4	-89.2
7	Plastic & Rubber Products	276.5	257.8	353.7	282.6	412.5	478.5	515.9	4.8	7.8
8	Wood and Wood Products	22.8	17.7	44.7	5.0	7.2	22.5	14.4	0.1	-36.0
9	Wood Pulp Products	30.4	97.8	153.2	53.3	39.0	233.3	39.3	0.4	-83.1
10	Textiles, Footwear & Hats/Headgear	449.9	259.6	388.5	97.2	168.8	178.3	206.4	1.9	15.8
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	13.4	9.6	36.8	14.9	39.6	28.9	197.5	1.8	582.9
11.1	<i>Ceramic Products</i>	<i>6.0</i>	<i>4.7</i>	<i>25.3</i>	<i>4.9</i>	<i>13.3</i>	<i>8.8</i>	<i>10.1</i>	0.1	15.7
12	Pearls and Products of Precious/Semi-precious Metal & Stones	3.6	0.0	109.5	136.7	17.1	83.0	62.0	0.6	-25.4
13	Base Metals and Articles of Base Metal	1782.6	2102.9	827.9	1134.8	2571.0	2384.1	2839.9	26.2	19.1
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	1309.4	1393.4	2084.8	2810.7	4461.2	5754.1	5058.8	46.6	-12.1
14.1	<i>Magnetic Discs & Media (recorded/unrecorded)</i>	<i>17.0</i>	<i>1.6</i>	<i>34.7</i>	<i>18.5</i>	<i>46.2</i>	<i>8.0</i>	<i>10.9</i>	0.1	35.9
15	Transport Vehicles & Aircraft and Engines & Parts	264.3	377.8	865.7	495.2	1024.9	2971.9	732.4	6.8	-75.4
16	Optical, Photographic, Cinematographic & Measuring Equipment	173.3	68.5	301.6	157.6	309.8	88.5	169.3	1.6	91.2
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.1	2.5	1.0	0.5	1.6	0.9	1.1	0.0	23.8
18	Miscellaneous Manufactured Products	31.1	32.4	47.2	110.7	100.9	122.2	125.6	1.2	2.8
	TOTAL	5958.1	6646.1	6155.6	5682.2	9746.1	13496.6	10848.2	100.0	38.5

TABLE 25B. COMPOSITION OF EXPORTS TO COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

SI	EXPORT CATEGORY	2006	2007	2008	2009	2010	2011	2012	Share of Total in % (2012)	% Change over 2011
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	284.1	284.0	462.0	523.5	554.9	729.9	817.9	45.6	12.1
1.1	<i>Oranges</i>	176.2	160.9	226.5	352.2	304.7	306.5	419.3	23.4	36.8
1.2	<i>Apples</i>	33.7	16.2	24.9	32.7	76.0	71.6	18.6	1.0	-74.1
1.3	<i>Cardamoms</i>	48.9	29.6	76.0	49.0	105.8	250.6	256.2	14.3	2.2
2	Processed Foods & Beverages	4.6	8.1	6.7	7.1	17.4	25.9	37.2	2.1	43.6
3	Mineral Products inc. oils & fuels	249.0	270.8	314.4	353.8	408.8	576.4	508.1	28.3	-11.9
3.1	<i>Limestone & other calcereous stone</i>	86.2	84.6	125.3	141.8	236.1	281.9	255.1	14.2	-9.5
3.2	<i>Dolomite</i>	63.3	20.3	-	74.0	72.0	142.6	111.5	6.2	-21.8
3.3	<i>Bituminous Coal</i>	40.3	28.0	18.2	38.0	6.6	8.8	54.8	3.1	520.3
4	Products of Chemical & Allied Industries	3.5	0.6	1.6	0.9	0.6	0.4	3.4	0.2	827.5
5	Plastic & Rubber Products	15.5	10.2	0.1	0.0	0.1	0.0	0.0	0.0	1994.5
6	Wood and Wood Products	0.6	0.4	4.5	0.0	0.0	0.7	0.6	0.0	-23.1
7	Wood Pulp Products	62.8	13.8	0.6	0.6	0.9	0.0	0.2	0.0	130673.3
8	Textiles, Footwear & Hats/Headgear	9.0	16.2	3.3	0.6	0.1	0.3	0.3	0.0	-6.0
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	2.0	0.2	0.8	0.7	0.3	0.0	0.2	0.0	385.6
10	Articles of Precious/Semi-precious Metals	11.5	33.5	28.7	0.0	0.0	0.1	0.0	0.0	-98.3
11	Base Metals and Articles of Base Metal	12.1	41.2	284.4	49.2	190.8	431.9	421.0	23.5	-2.5
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	3,628.4	4,452.7	0.3	619.3	2,146.0	3,340.7		-	-100.0
12.1	<i>Recorded or Unrecorded media (discs, tapes, smart cards)</i>	3,626.7	4,451.3	0.0	619.3	2,146.0	3,340.7		-	-100.0
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	0.4	2.9	2.3	1.7	1.9	0.3	2.1	0.1	531.5
14	Miscellaneous Manufactured Products	0.3	0.5	0.8	0.8	1.2	1.1	1.7	0.1	51.0
	TOTAL	4283.8	5135.3	1110.6	1558.4	3323.1	5108.0	1792.8	100.0	-64.9

Source: Bhutan Trade Statistics, Department of Revenue & Customs.

TABLE 26. DIRECTION OF TRADE *

Millions of Ngultrum

Item	2006	2007	2008	2009	2010	2011	2012
Exports							
India	14,488.0	22,723.7	21,480.0	22,415.5	26,000.9	26,378.0	27,825.6
Bangladesh	470.1	469.6	632.4	758.0	906.1	1,226.7	1,172.2
Italy	0.2	4.4	0.0	0.1	15.5	119.3	125.0
Japan	8.1	21.2	66.0	2.7	132.5	130.1	113.7
Nepal	57.4	54.3	195.8	84.8	39.7	76.1	107.4
Hongkong	2,866.0	2,764.3	105.3	677.6	2,188.3	3,404.9	79.1
Netherlands	0.0	0.0	0.1	0.3	0.2	3.9	70.1
Germany	1.6	4.9	2.0	0.3	0.4	81.5	30.3
Singapore	585.4	683.8	11.2	8.6	19.6	12.1	20.4
Bulgaria	-	-	0.0	-	-	-	16.8
Others	295.0	1,132.9	97.9	25.9	21.3	53.3	57.8
Total	18,771.9	27,859.1	22,590.6	23,973.9	29,324.4	31,485.9	29,618.4
Imports							
India	13,053.9	15,099.5	17,339.5	19,840.8	29,329.1	35,190.8	41,825.6
South Korea	459.4	644.5	286.7	383.8	2,004.7	2,916.2	1,658.9
China	281.7	402.7	844.7	487.3	611.0	878.3	1,330.2
Japan	395.9	460.1	1,098.9	558.5	845.1	1,536.6	1,260.7
Austria	39.1	26.3	24.6	128.4	78.2	345.0	939.7
Singapore	515.1	1,109.7	964.8	744.0	903.0	1,844.5	783.5
Thailand	257.8	224.9	410.8	348.9	988.1	1,223.7	740.6
Sweden	176.7	306.2	240.7	462.4	550.3	581.4	609.2
Nepal	173.2	139.6	128.4	369.8	585.5	138.9	467.8
Switzerland	28.5	76.2	131.3	194.1	176.8	342.7	392.7
Others	3,630.7	3,255.6	2,024.8	2,004.9	3,003.3	3,689.3	2,664.9
Total	19,012.0	21,745.4	23,495.1	25,522.9	39,075.2	48,687.4	52,673.8
Share in percent							
Exports							
India	77.2	81.6	95.1	93.5	88.7	83.8	93.9
Bangladesh	15.3	9.9	2.8	2.8	7.5	3.9	4.0
Italy	2.5	1.7	0.0	3.2	3.1	0.4	0.4
Japan	0.0	0.1	0.3	0.0	0.5	0.4	0.4
Nepal	0.0	0.0	0.9	0.0	0.1	0.2	0.4
Hongkong	0.0	0.0	0.5	0.0	0.0	10.8	0.3
Netherlands	0.3	0.2	0.0	0.4	0.1	0.0	0.2
Germany	0.0	0.0	0.0	0.0	0.0	0.3	0.1
Singapore	3.1	2.5	0.0	0.0	0.1	0.0	0.1
Bulgaria	0.0	0.0	0.0	0.0	0.0	-	0.1
Others	1.6	4.1	0.4	0.1	0.1	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports							
India	68.7	69.4	73.8	77.7	75.1	72.3	79.4
South Korea	2.4	3.0	1.2	1.5	5.1	6.0	3.1
China	2.7	1.9	3.6	1.9	1.6	1.8	2.5
Japan	2.1	2.1	4.7	2.2	2.2	3.2	2.4
Austria	1.4	0.1	0.1	0.5	0.2	0.7	1.8
Singapore	1.5	5.1	4.1	2.9	2.3	3.8	1.5
Thailand	0.2	1.0	1.7	1.4	2.5	2.5	1.4
Sweden	1.1	1.4	1.0	1.8	1.4	1.2	1.2
Nepal	0.0	0.6	0.5	1.4	1.5	0.3	0.9
Switzerland	0.9	0.4	0.6	0.8	0.5	0.7	0.7
Others	19.1	15.0	8.6	7.9	7.7	7.6	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bhutan Trade Statistics, Department of Revenue and Customs. *By latest year rankings.

TABLE 27. EXTERNAL DEBT: DISBURSEMENTS BY SECTOR

In millions of USD & Indian Rupees

Sector	Creditor	2008/09		2009/10		2010/11		2011/12 ^(*)		2012/13		Total ¹	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
I. Concessional and Publicly Guaranteed Debt													
Agriculture & Forestry		2.0		3.0		3.9		2.7		3.5		57.3	
Agri. Marketing & Entp. Promotion Program	IFAD	2.0		3.0		3.9		1.8		0.5		12.8	
Market Access & Growth Intensification Project (MAGIP)	IFAD							0.9		2.8		3.7	
Education		8.0		3.7		0.3		0.0		- 0.0		63.0	
Basic Skills Dev. Proj.	ADB	0.2		-		0.0		-		- 0.0		7.4	
Education Development Proj.	World Bank	7.8		3.7		0.3		0.0		-		33.6	
Financial Sector		0.2		0.3		4.5		3.5		0.1		28.3	
Financial Sector Dev. Program	ADB	-		-		4.2		3.1		-		11.8	
Financial Sector Dev. Proj.	ADB	0.2		0.3		0.3		0.3		0.1		1.4	
Transport & ICT		5.8		10.9		6.6		2.4		-		68.5	
Rural Telecom Net. Expansion Proj.	Govt.of Denmark	-		-		-		-		-		16.9	
Road Network Project	ADB	5.8		10.9		6.6		2.4		-		28.6	
Multi Sector		13.2		3.1		32.7		2.7		50.4		213.2	
Urban Infrastructure Dev. Proj.	ADB	0.6		1.4		4.2		2.4		7.3		16.7	
Decentralized Rural Dev. Project	World Bank	1.0		1.6		0.2		0.3		-		71.6	
Second Urban Development Proj.	World Bank					2.0		-		3.0		5.0	
First Development Policy Credit	World Bank					26.4		-		-		26.4	
Second Development Policy Credit	World Bank									36.7		36.7	
Remote Rural Communities Dev. Proj.	World Bank									0.3		0.3	
SASEC Trade Facilitation Prog.	ADB									3.1		3.1	
Industry		-		-		-	1,500.0	-	420.0	-	-	36.0	1,920.0
Dungsam Cement Corp Ltd	EXIM, PNB, SBI, UBI						1,500.0		420.0		-		1,920.0

TABLE 27. EXTERNAL DEBT: DISBURSEMENTS BY SECTOR, CONTINUED

In millions of USD & Indian Rupees

Sector	Creditor	2008/09		2009/10		2010/11		2011/12 (*)		2012/13		Total1	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
Energy		0.3	1,745.0	51.2	2,376.0	66.5	7,951.8	31.5	9,480.6	25.4	14,152.6	252.2	56,151.7
Green Power Dev. Proj. (Special Operations)	ADB	-		14.9		3.7		7.1		2.0		27.7	
Green Power Dev. Proj. (Ordinary Operations)	ADB			13.3		25.7		9.2		2.0		50.3	
Dagachhu Hydroelectric Proj.	Govt. of Austria			4.3		25.4		8.7		9.1		47.5	
The Financing of Rural Electrification new	Govt. of Austria							0.6		1.2		1.8	
Rural Elect. Proj. (Phase I)	JICA	0.3		18.6		11.6		3.5		1.2		35.3	
Rural Electrification Project (Phase II)	JICA							2.4		10.0		12.4	
Punatsangchhu-I Hydroelectric Proj.	Govt. of India		1,745.0		2,376.0		5,568.5		5,091.0		6,336.1		21,596.6
Punatsangchhu-II Hydroelectric Proj.	Govt. of India						1,638.0		2,475.0		5,240.4		9,353.4
Mangdechhu Hydroelectric Proj.	Govt. of India						745.3		1,914.6		2,814.8		5,474.7
Other		0.0	6,590.5	-	4,756.8	-	16,388.3	-	43,485.5	-	77,495.9	13.4	152,902.3
GOI Line of Credit	Govt. of India		3,000.0		-		-		3,000.0		4,000.0		10,321.8
OD Facility	SBI & PNB		3,590.5		4,756.8		16,388.3		40,485.5		68,086.0		136,884.5
RBI SWAP	RBI										5,409.9		5,409.9
Total (Concessional and Publicly Guaranteed Debt)		29.5	8,335.5	72.1	7,132.8	114.6	25,840.1	42.8	53,386.1	79.4	91,648.5	731.9	210,974.0
II. Other Loans²		-		-		-		-		-		41.0	
TOTAL (Publicly + Non-Publicly Guaranteed Debt)		29.5	8,335.5	72.1	7,132.8	114.6	25,840.1	42.8	53,386.1	79.4	91,648.5	772.9	210,974.0

Source: Dept. of Public Accounts & private sector enterprises 1) Total disbursements are cumulative from 1981/82; Only those projects with ongoing disbursements are shown here while the total includes other closed loans as well. 2) Includes private sector debt on non-concessional terms. (*) From FY 2011/12 onwards, quarterly disbursements have been converted using the respective quarter average exchange rates to the USD (previously total disbursements in a fiscal year were converted using the end of year average exchange rate).

TABLE 28. EXTERNAL DEBT SERVICING BY SECTOR (*)

Sector	2010/11		2011/12		2012/13	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
I. Concessional and Publicly Guaranteed Debt						
Agriculture & Forestry	0.39		0.40		0.40	
	1.40		1.40		1.37	
Small Farm Dev. Proj.	0.03		0.03		0.03	
	0.15		0.15		0.14	
T/gang Mongar Dev. Proj.	0.03		0.02		0.02	
	0.10		0.10		0.10	
Punakha Wangdi Valley Dev. Proj.	0.02		0.02		0.02	
	0.08		0.08		0.07	
1st Eastern Zone Agricultural Proj.	0.03		0.03		0.03	
	0.11		0.11		0.11	
2nd Eastern Zone Agricultural Proj.	0.08		0.07		0.07	
	0.34		0.35		0.34	
Forestry I	0.03		0.03		0.03	
	0.19		0.20		0.19	
Forestry II	0.01		0.00		0.00	
	0.04		0.04		0.04	
Forestry III	0.04		0.04		0.03	
	0.12		0.12		0.12	
Chirang Hill Irrigation Proj.	0.01		0.01		0.01	
	0.05		0.05		0.05	
Highland Livestock Dev. Proj.	0.05		0.04		0.04	
	0.22		0.22		0.21	
Agri. Marketing & Entp. Promotion Program	0.07		0.09		0.10	
	0.00		0.00		0.00	
Market Access & Growth Intensification Project (MAGIP)			0.00		0.01	
			0.00		0.00	
Strg. Regional Cooperation for wildlife Protection in Asia Proj.					0.00	
					0.00	
Education	0.56		0.55		0.52	
	0.98		1.03		1.00	
Primary Education Proj.	0.03		0.02		0.02	
	0.20		0.19		0.19	
Second Education Proj.	0.11		0.11		0.09	
	0.30		0.31		0.30	
Technical and Voc. Edn. Train. Proj.	0.05		0.04		0.04	
	0.16		0.20		0.20	
Basic Skills Dev. Proj.	0.12		0.12		0.11	
	0.33		0.32		0.32	
Education Development Proj.	0.25		0.26		0.26	
	0.00		0.00		0.00	
Financial Sector	0.17		0.21		0.23	
	0.28		0.29		0.28	
Bhutan Dev. Finance Corporation	0.02		0.02		0.01	
	0.10		0.10		0.10	
Financial Sector Dev. Program (a)	0.04		0.04		0.04	
	0.09		0.09		0.09	
Financial Sector Dev. Program (b)	0.05		0.09		0.11	
	0.00		0.00		0.00	
Dev. Finance Loan Proj.	0.05		0.05		0.05	
	0.09		0.09		0.09	
Financial Sector Dev. Project	0.01		0.01		0.01	
	0.00		0.00		0.00	

TABLE 28. EXTERNAL DEBT SERVICING BY SECTOR, CONTINUED

Sector	2010/11		2011/12		2012/13	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
Transport & ICT	0.50		0.57		0.54	
	2.63		2.53		2.49	
Road Works Mechanization Proj.	0.05		0.05		0.04	
	0.23		0.23		0.23	
East West Highway Maintenance	0.05		0.05		0.05	
	0.11		0.11		0.11	
Road Improvement Proj.	0.19		0.20		0.17	
	0.47		0.47		0.46	
Rural Telecom Network Exp. Proj	0.00		0.00		0.00	
	1.82		1.71		1.69	
Road Network Proj.	0.21		0.27		0.28	
	0.00		0.00		0.00	
Multi Sector	0.53		0.74		0.98	
	1.32		1.29		1.27	
Multi Project I	0.03		0.03		0.03	
	0.23		0.23		0.22	
Multi Project II	0.08		0.08		0.06	
	0.47		0.46		0.45	
Urban Infrastructures Improv. Proj.	0.08		0.09		0.08	
	0.13		0.13		0.13	
Urban Infrastructure Dev. Proj.	0.04		0.08		0.11	
	0.00		0.00		0.00	
Urban Development Proj.	0.08		0.08		0.08	
	0.23		0.23		0.23	
Rural Access Proj.	0.08		0.08		0.08	
	0.25		0.25		0.24	
Decentralized Rural Dev. Proj.	0.05		0.05		0.05	
	0.00		0.00		0.00	
Dev. Policy Financing for Inst. Strengthening	0.09		0.09		0.09	
	0.00		0.00		0.00	
Second Urban Dev. Proj.	0.00		0.02		0.02	
	0.00		0.00		0.00	
First Development Policy Credit	0.00		0.14		0.19	
	0.00		0.00		0.00	
Industry	0.06	36.01	0.05	227.23	0.05	235.96
	0.30	0.00	0.29	71.43	0.29	1,000.00
Bhutan Calcium Carbide Ltd.	0.05		0.05		0.05	
	0.26		0.26		0.25	
Industrial Estates Dev. Proj.	0.01		0.01		0.01	
	0.03		0.03		0.03	
Dungsam Cement Corp Ltd		36.01		227.23		235.96
		0.00		71.43		1,000.00

TABLE 28. EXTERNAL DEBT SERVICING BY SECTOR, CONTINUED

Sector	2010/11		2011/12		2012/13	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
Energy	3.26	1,497.56	4.76	1,497.56	3.96	1,937.86
	4.68	1,581.84	4.72	1,581.84	4.83	2,329.96
Rural Electrification Proj.	0.09		0.10		0.08	
	0.15		0.15		0.15	
Sustainable Rural Elect. Proj.	0.21		0.21		0.18	
	0.45		0.46		0.45	
Rural Electrification & Network Exp	0.11		0.12		0.17	
	0.00		0.21		0.42	
Basochhu Hydropower Proj. (lower)	1.14		1.05		0.93	
	2.91		2.74		2.71	
Basochhu Hydropower Proj. (upper)	0.00		0.00		0.00	
	1.16		1.15		1.11	
Green Power Proj. (Special Operations)	0.54		0.69		0.84	
	0.00		0.00		0.00	
Green Power Proj. (Ordinary Operations)	0.08		0.21		0.33	
	0.00		0.00		0.00	
Rural Electrification Proj. (Phase I)	0.00		0.00		0.00	
	0.00		0.00		0.00	
Rural Electrification Project (Phase II)			0.77		-0.74	
			0.00		0.00	
Dagachhu Hydroelectric Proj.	1.08		1.61		2.17	
	0.00		0.00		0.00	
		-				
Kurichhu Hydropower Proj.		201.69		201.69		201.69
		186.67		186.67		186.67
Tala Hydroelectric Proj.		1,295.86		1,295.86		1,736.16
		1,395.17		1,395.17		2,143.29
Punatsangchhu-I Hydroelectric Proj.		-				
		-				
Other	0.18	292.01	0.17	666.20	0.15	1,235.00
	0.85	13,115.06	0.86	40,760.08	0.84	76,873.39
GOI Line of Credit		150.82		150.41		353.29
		-		-		-
OD Facility		141.19		515.79		806.71
		13,115.06		40,760.08		76,873.39
RBI SWAP						75.00
						-
Health Care Reform Program	0.16		0.15		0.13	
	0.73		0.75		0.72	
Technical Assistance Proj	0.02		0.02		0.02	
	0.12		0.12		0.12	
Total (Concessional and Publicly Guaranteed Debt)	5.65	1,825.57	7.46	2,390.99	6.83	3,408.81
	12.44	14,696.90	12.41	42,413.35	12.37	80,203.35
II. Other Loans¹	0.86		0.56		0.41	
	2.48		2.35		2.46	
TOTAL (Publicly + Non-Publicly Guaranteed Debt)	6.51	1,825.57	8.02	2,390.99	7.23	3,408.81
	14.92	14,696.90	14.76	42,413.35	14.84	80,203.35
GRAND TOTAL (I+P)	21.43	16,522.47	22.77	44,804.34	22.07	83,612.17

Source: Department of Public Accounts and private sector enterprises. (*) Totals may not add up due to rounding. 1) Includes private sector debt on non-concessional terms.

TABLE 29. RUPEE DEBT INDICATORS

Millions of Indian Rupees

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 (p)
Total INR Debt Outstanding	14,222.3	16,603.8	18,400.2	18,369.9	18,966.5	21,529.9	23,406.1	35,697.3	49,165.6	67,228.6
Hydropower Debt	14,222.3	16,603.8	18,400.2	18,369.9	17,320.2	17,483.4	18,277.6	24,647.5	32,546.3	44,369.0
Chhukha	350.2	262.7	175.1	87.6	0.0	0.0	0.0	0.0	0.0	0.0
Kurichhu	2,240.0	2,053.3	1,866.7	1,680.0	1,493.3	1,306.7	1,120.0	933.3	746.7	560.0
Tala	11,632.1	14,287.8	16,358.5	16,602.4	15,346.9	13,951.7	12,556.6	11,161.4	9,766.2	7,384.3
Punatsangchhu - I					480.0	2,225.0	4,601.0	10,169.5	15,260.5	21,596.6
Punatsangchhu - II								1,638.0	4,113.0	9,353.4
Mangdechhu								745.3	2,659.9	5,474.7
Accrued Interest on Hydro					18.1	129.1	628.2	1,635.0	3,614.7	6,590.4
Non-hydropower Debt	0.0	0.0	0.0	0.0	1,628.1	3,917.3	4,500.3	9,414.8	13,004.6	16,269.2
GOI Line of Credit						3,000.0	3,000.0	3,000.0	6,000.0	10,000.0
OD Facility					1,628.1	917.3	1,500.3	4,914.8	5,156.0	0.0
RBI SWAP										5,409.9
Dungsam Cement Corp Ltd								1,500.0	1,848.6	859.3
Debt Service Payments	108.3	492.3	487.9	483.8	4245.7	7741.9	7481.4	16522.5	44804.3	83612.2
Principal	87.6	274.2	274.2	274.2	2697.1	6143.5	5795.2	14696.9	42413.4	80203.4
Interest	20.8	218.1	213.7	209.6	1548.5	1598.4	1686.2	1825.6	2391.0	3408.8
Debt Service Ratio (%)	2.4	9.4	7.9	3.6	19.2	33.1	32.7	63.5	158.7	287.5
Interest Payments/Export of Goods & Services	0.3	2.4	1.9	1.0	7.0	6.8	7.4	7.0	8.5	11.7
Principal Repayments/Exports of Goods & Services	1.3	3.1	2.5	1.3	12.2	26.3	25.3	56.5	150.2	275.8
Debt Outstanding/GDP (%)	49.1	52.1	51.0	45.2	38.3	39.1	37.2	49.2	57.2	67.6

Source: Department of Public Accounts & RMA

TABLE 30. FOREIGN DEBT INDICATORS FOR CONVERTIBLE CURRENCY LOANS

Millions of US Dollars

Items	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13(p)
	Debt Outstanding	294.4	302.1	369.5	308.8	350.4	347.4	385.4	527.6	524.7
Debt Service Payments	6.7	6.4	9.2	12.0	14.2	12.7	22.0	21.4	22.8	22.1
Principal	3.3	3.3	3.5	4.7	9.0	8.5	11.6	14.9	14.8	14.8
Interest	3.4	3.1	5.6	7.3	5.2	4.2	10.4	6.5	8.0	7.2
Debt Service Ratio (%)	24.6	25.4	16.8	8.0	13.5	16.4	21.4	12.4	14.5	11.8
Interest Payments/Convertible Currency Exports of Goods & Services	10.5	5.7	4.8	4.8	5.0	5.4	10.1	3.8	5.1	3.9
Principal Repayments/ Convertible Currency Exports of Goods & Services	10.3	6.1	3.0	3.2	8.6	11.0	11.3	8.6	9.4	7.9
Debt Outstanding/GDP (%)	46.1	42.3	45.7	33.5	28.6	30.3	29.4	32.5	34.4	34.8

Source: Department of Public Accounts & private sector companies.

TABLE 31. SUMMARY OF BUDGETARY OPERATIONS

Millions of Ngultrum

	Year						
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 (r)	2013/14 (est.)
Total Revenue	12,381.5	16,867.9	19,871.8	17,674.0	20,144.8	21,849.6	21,873.3
Tax	5,238.4	6,482.4	9,655.8	11,593.5	14,676.9	15,561.8	15,324.8
Non-tax	7,107.6	7,566.6	5,982.7	5,865.3	5,677.5	5,621.8	6,536.1
Others	35.5	2,818.9	4,233.4	215.2	-209.6	666.1	12.4
Grants	5,935.4	6,575.1	11,118.9	10,497.7	12,501.5	15,798.6	8,109.5
From India	4,671.1	4,394.9	7,306.4	7,882.8	9,003.4	10,497.0	5,332.3
Others	1,264.3	2,180.2	3,812.5	2,615.0	3,498.1	5,301.6	2,777.2
Total Revenue and Grants	18,316.9	23,443.0	30,990.7	28,171.8	32,646.4	37,648.2	29,982.8
Expenditure (1)	17,913.4	22,350.5	29,888.9	29,842.4	33,688.0	38,604.4	34,215.8
Current	9,725.7	11,061.4	12,902.7	14,735.1	16,705.6	18,626.1	19,160.1
Capital (1)	8,187.6	11,289.1	16,986.2	15,107.4	16,982.4	19,978.3	15,055.7
Budget surplus or Deficit (-)	403.5	1,092.5	1,101.8	-1,670.7	-1,041.7	-956.2	-4,233.0
Financing Transactions (2)	-403.5	-1,092.5	-1,101.8	1,670.7	1,041.7	956.2	4,233.0
External borrowings (Net of Principal repayments)	-1,143.9	-1,218.7	82.0	294.0	-1,007.1	744.7	83.8
Internal Resource gap (3)	-1,091.0	126.2					
Internal borrowings (Net of principal repayments)	-175.3	126.2	- 1,183.7	1,376.7	2,048.8	211.4	-175.3
Cash and bank balances (3)	-915.7						4,324.5
Others			-0.1				

Source- National Budget Report and Annual Financial Statements, Ministry of Finance. Figures may not add due to rounding. (1) Includes lending to public and joint sector corporations, net of principal repayment (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) Includes use + or repayment - of overdraft.

Others: other receipts.

TABLE 32. ROYAL SECURITIES EXCHANGE OF BHUTAN Ltd., INFORMATION ON LISTED COMPANIES

Company* (Year of Listing)	Reference Year	Paid Up Capital Nu. in Mill.	No. of Shareholders	Market Price (Nu)		Market Capitalization Nu. in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
BCCL 1993	2009	100.00	259	900.00	900.00	900.00	-88.17	377.22	477.22	-88.17	-10.21	0.00	0.00	-0.18
	2010	100.00	259	N.A	N.A	900.00	72.20	428.76	528.76	72.20	12.50	20.00	2.20	0.10
	2011	100.00	258	N.A	N.A	900.00	8.15	421.45	521.45	8.15	110.43	10.00	1.11	0.02
	2012	100.00	259	900.00	900.00	900.00	29.87	426.03	526.03	29.87	30.13	25.00	2.78	0.06
RICBL 1993	2009	240.00	1556	350.00	100.00	792.00	181.20	559.83	333.30	75.50	4.37	15.00	4.55	0.22
	2010	240.00	1553	350.00	350.00	840.00	210.13	734.42	406.00	87.60	4.00	25.00	7.10	0.20
	2011	240.00	1536	500.00	400.00	1,200.00	300.09	982.52	509.38	125.04	4.00	30.00	6.00	0.25
	2012	240.00	1524	600.00	500.00	1,440.00	350.75	1,267.06	627.94	146.15	4.11	35.00	5.83	0.23
PCAL 1993	2009	340.00	1462	800.00	600.00	2,550.01	370.20	759.74	323.45	108.88	6.89	100.00	13.33	0.34
	2010	340.00	1467	950.00	750.00	2,550.00	378.74	798.48	334.80	111.40	6.70	100.00	13.30	0.30
	2011	340.00	1456	950.00	600.00	3,230.01	291.37	749.85	320.54	85.70	11.09	100.00	10.53	0.27
	2012	340.00	1449	950.00	850.00	3,162.01	351.91	761.76	324.05	103.50	8.99	100.00	10.75	0.32
BFAL 1995	2009	150.00	44	NA	NA	825.00	90.43	464.42	409.61	60.28	9.12	50.00	9.09	0.15
	2010	150.00	43	600.00	600.00	900.00	244.93	581.85	487.90	163.30	3.70	85.00	14.20	0.30
	2011	150.00	43	NA	NA	900.00	130.92	615.27	510.18	87.28	6.87	65.00	10.83	0.17
	2012	150.00	43	NA	NA	900.00	93.00	618.27	512.18	62.00	9.68	60.00	10.00	0.12
BBPL 1993	2009	140.00	491	NA	NA	196.00	33.22	79.47	156.76	23.73	5.90	15.00	10.71	0.15
	2010	140.00	494	NA	NA	196.00	33.60	92.07	165.80	24.00	5.80	12.00	10.70	0.10
	2011	140.00	494	NA	NA	196.00	21.29	100.76	171.97	15.21	9.20	12.00	8.57	0.09
	2012	140.00	487	NA	NA	196.00	16.41	117.17	183.69	11.72	11.95	0.00	0.00	0.06
BTCL 1994	2009	20.94	162	NA	NA	63.03	10.94	81.56	489.49	52.26	5.76	NA	NA	0.11
	2010	20.94	159	400.00	400.00	83.80	11.12	89.67	528.20	53.10	7.50	20.00	5.00	0.10
	2011	20.94	158	400.00	400.00	83.76	18.54	102.26	588.33	88.53	4.52	25.43	6.36	0.15
	2012	20.94	157	NA	NA	83.76	28.81	127.63	709.52	137.60	2.91	25.00	6.25	0.19
BNBL 1996	2009	355.52	4374	500.00	400.00	1,496.73	266.27	1,098.08	408.87	74.90	5.34	28.50	7.13	0.18
	2010	355.52	4308	500.00	400.00	1,670.93	250.82	1,247.58	450.92	70.55	6.66	28.50	6.06	0.16
	2011	675.83	4415	550.00	460.00	3,514.34	510.06	2,877.30	525.74	75.47	6.89	-	-	0.14
	2012	2,027.50	4523	600.00	250.00	6,082.51	697.92	2,927.19	244.37	34.42	8.72	16.64	5.55	0.14
BPCL 1997	2009	24.93	128	NA	NA	24.93	11.07	36.28	245.53	44.42	2.25	35.00	35.00	0.18
	2010	24.93	128	NA	NA	24.93	10.50	46.79	257.64	42.12	2.37	30.00	30.00	0.15
	2011	24.93	128	NA	NA	24.93	3.27	40.08	260.74	13.10	7.64	10.00	10.00	0.05
	2012	24.93	128	NA	NA	24.93	1.79	40.62	262.90	7.16	13.96	5.00	5.00	0.03
STCBL 1997	2009	40.00	125	190.00	190.00	38.00	30.99	82.55	306.38	77.49	2.45	10.00	5.26	0.25
	2010	40.00	135	100.00	190.00	76.00	88.48	141.03	452.59	221.20	0.86	25.00	13.16	0.49
	2011	60.00	135	NA	NA	114.00	72.29	201.32	435.54	120.48	1.58	20.00	10.53	0.28
	2012	90.00	135	NA	NA	171.00	9.04	180.36	300.40	10.04	18.92	-	-	0.03
DSCL 2008	2009	45.65	1279	NA	NA	136.96	60.04	78.89	272.80	131.50	2.28	100.00	33.33	0.48
	2010	91.31	1277	100.00	100.00	273.93	71.01	49.47	154.17	77.77	3.86	60.00	20.00	0.50
	2011	91.31	1276	NA	NA	273.93	111.82	92.80	201.64	122.46	2.45	75.00	25.00	0.61
	2012	91.31	1272	NA	NA	273.93	91.49	120.38	231.84	100.20	2.99	70.00	23.33	0.43

TABLE 32. ROYAL SECURITIES EXCHANGE OF BHUTAN Ltd., INFORMATION ON LISTED COMPANIES, CONTINUED

Company* (Year of Listing)	Reference Year	Paid Up Capital Nu. in Mill.	No. of Share-holders	Market Price (Nu)		Market Capitalization Nu. in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
DPOP 2001	2009	10.00	213	NA	NA	20.00	7.54	8.99	189.94	75.43	2.65	30.00	15.00	0.40
	2010	10.00	212	NA	NA	20.00	9.77	12.76	227.60	97.67	2.05	60.00	30.00	0.43
	2011	10.00	214	NA	NA	20.00	3.89	15.15	251.51	38.89	5.14	15.00	7.50	0.15
	2012	10.00	214	NA	NA	20.00	3.89	16.54	265.43	38.93	5.14	25.00	12.50	0.15
EBCC 2005	2009	52.10	1082	NA	NA	156.30	76.86	58.35	212.00	105.85	2.03	30.00	10.00	0.50
	2010	52.10	1081	150.00	150.00	156.30	119.03	127.86	345.41	228.47	1.31	60.00	20.00	0.66
	2011	52.10	1075	300.00	300.00	156.30	118.06	193.81	471.99	226.61	1.32	65.00	21.67	0.48
	2012	52.10	1074	300.00	300.00	156.30	148.33	284.79	646.62	284.70	1.05	75.00	25.00	0.44
KCL 2007	2009	50.00	233	NA	NA	50.00	10.00		290.41	20.00	5.00	12.00	12.00	0.10
	2010	50.00	232	NA	NA	50.00	15.88	100.82	301.64	31.75	3.15	18.00	18.00	0.11
	2011	50.00	232	NA	NA	50.00	22.21	110.87	321.75	44.43	2.25	20.00	20.00	0.14
	2012	50.00	232	130.00	130.00	65.00	12.46	123.34	346.68	24.91	5.22	12.00	9.23	0.07
DWAL 2008	2009	194.00	507	100.00	100.00	194.00	-23.99	0.00	100.00	-12.37	-8.09	0.00	0.00	-0.12
	2010	194.00	501	200.00	150.00	388.00	105.81	4.21	102.17	54.54	3.67	40.00	20.00	0.53
	2011	194.00	498	600.00	350.00	1164.00	168.73	56.54	129.15	86.97	6.90	60.00	10.00	0.67
	2012	194.00	498	600.00	450.00	873.00	60.73	77.20	139.50	31.30	14.38	30.00	6.67	0.22
JMCL 2008	2009	42.65	418	650.00	100.00	277.25	78.99	103.24		185.23	3.51	70.00	10.77	0.54
	2010	42.65	418	NA	NA	277.25	93.84	154.40	461.99	220.01	2.95	100.00	15.38	0.48
	2011	56.88	415	700.00	650.00	398.13	103.64	186.94	428.68	182.22	3.84	100.00	14.29	0.43
	2012	56.88	416	700.00	700.00	398.13	107.21	237.27	517.17	188.50	3.71	100.00	14.29	0.36
BTL 2008	2009	40.00	289	105.00	105.00	42.00	-9.91	-5.32	86.70	-24.77	NA	0.00	0.00	-0.17
	2010	40.00	289	NA	NA	42.00	-0.40	-3.87	90.30	-0.99	NA	0.00	0.00	-0.01
	2011	40.00	289	NA	NA	42.00	-4.21	-8.08	79.79	-10.53	NA	0.00	0.00	-0.01
	2012	40.00	288	NA	NA	42.00	-10.61	-18.69	53.28	-26.51	-	-	-	-0.50
BIL 2009	2009	100.00	4432	120.00	100.00	105.00	3.25	4.25	104.25	3.25	32.31	0.00	0.00	0.03
	2010	100.00	4393	200.00	100.00	200.00	12.37	9.12	109.12	12.37	16.16	7.50	3.75	0.11
	2011	100.00	4310	225.00	200.00	220.00	29.80	23.91	123.91	29.80	7.38	15.00	6.82	0.23
	2012	200.00	4445	300.00	189.00	400.00	40.17	45.08	122.54	20.08	9.96	9.50	4.75	0.16
DFAL 2009	2009	163.01	366	NA	NA	163.01	-45.89	0.00	100.00	-28.15	-3.55	0.00	0.00	-0.28
	2010	289.78	471	200.00	100.00	289.78	50.45	1.19	100.41	17.41	5.74	17.00	17.00	0.17
	2011	289.78	467	200.00	100.00	289.78	68.00	2.54	100.88	23.46	4.26	23.00	23.00	0.23
	2012	289.78	460	200.00	100.00	434.66	51.53	4.81	101.66	17.78	8.44	17.00	11.33	0.17
DPNBL 2010	2010	300.00	23216	350.00	100.00	1050.00	-11.79	0.00	100.00	-3.93	NA	0.00	0.00	-0.04
	2011	300.00	22540	350.00	100.00	1050.00	45.30	33.51	111.17	15.10	23.18	-	-	0.14
	2012	449.03	22564	400.00	300.00	1347.08	85.98	120.70	126.88	19.15	15.67	6.00	2.00	0.15
TBL 2011	2011	220.00	8066	300.00	200.00	550.00	21.63	21.63	109.83	9.83	25.43	-	-	0.09
	2012	220.00	7909	300.00	250.00	660.00	36.95	58.58	126.63	16.79	17.86	-	-	0.13

Source: Royal Securities Exchange of Bhutan. Formula used : 1) Book Value = Capital + Reserves/ No. of Shares. 2) EPS = Net Profit/ No. of Shares. 3) PE = Market Price/ EPS. 4) Return on Capital = Net Income/ (Equity + Reserves). 5) Dividend Yield = Dividend X 100/ Book Value Per Share.

TABLE 33. EXCHANGE RATE, NGULTRUM/US DOLLAR**Period Average**

Period	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Jan	44.40	44.33	39.37	48.83	45.96	45.39	51.35	54.31
Feb	44.33	44.16	39.73	49.26	46.33	45.44	49.16	53.75
Mar	44.48	44.03	40.36	51.23	45.50	44.99	50.32	54.39
Apr	44.95	42.15	40.02	50.06	44.50	44.37	51.80	54.38
May	45.41	40.78	42.13	48.53	45.81	44.90	54.44	55.03
Jun	46.06	40.77	42.82	47.77	46.56	44.85	56.03	58.33
Jul	46.46	40.41	42.84	48.48	46.84	44.42	55.50	
Aug	46.54	40.82	42.94	48.34	46.57	45.28	55.56	
Sep	46.12	40.34	45.56	48.44	46.06	47.64	54.61	
Oct	45.47	39.51	48.66	46.72	44.41	49.26	53.02	
Nov	44.85	39.44	49.00	46.57	45.02	50.84	54.78	
Dec	44.64	39.44	48.63	46.63	45.16	52.67	54.65	
Calendar year average	45.31	41.35	43.51	48.41	45.73	46.67	53.43	
Fiscal year average	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	44.74	44.19	40.37	47.78	46.65	45.33	50.27	54.86

Source: International Financial Statistics, IMF.

TABLE 34. EXCHANGE RATE, JAPANESE YEN / US DOLLAR

Period Average

Period	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Jan	115.45	120.58	107.66	90.48	91.16	82.61	76.98	89.16
Feb	117.89	120.45	107.16	92.50	90.28	82.50	78.39	93.17
Mar	117.31	117.28	100.79	98.16	90.52	81.79	82.44	94.75
Apr	117.11	118.87	102.54	99.00	93.38	83.35	81.49	97.71
May	111.61	120.73	104.14	96.30	91.77	81.26	79.72	101.08
Jun	114.53	122.62	106.90	96.52	90.92	80.51	79.32	97.43
Jul	115.67	121.59	106.81	94.50	87.71	79.40	78.98	
Aug	115.88	116.72	109.28	94.84	85.47	77.22	78.67	
Sep	117.01	115.02	106.75	91.49	84.39	76.84	78.17	
Oct	118.66	115.74	100.33	90.29	81.87	76.77	78.97	
Nov	117.35	111.21	96.68	89.19	82.48	77.58	80.79	
Dec	117.13	112.25	91.32	89.56	83.43	77.86	83.58	
Calendar year average	116.30	117.76	103.36	124.76	117.04	106.41	106.39	
Fiscal year average (+)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	114.96	118.52	110.14	98.68	91.49	83.11	78.67	87.70

Source : International Financial Statistics, IMF.

Additional Source: Bank of Japan Website.

TABLE 35. EXCHANGE RATE, EURO/US DOLLAR

Period Average

Period	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Jan	0.826	0.769	0.679	0.755	0.701	0.749	0.775	0.753
Feb	0.838	0.765	0.678	0.782	0.731	0.733	0.756	0.749
Mar	0.832	0.755	0.644	0.767	0.736	0.714	0.758	0.771
Apr	0.815	0.740	0.635	0.758	0.746	0.692	0.760	0.768
May	0.783	0.740	0.643	0.734	0.796	0.697	0.782	0.770
Jun	0.791	0.745	0.643	0.714	0.819	0.695	0.798	0.757
Jul	0.788	0.729	0.634	0.710	0.783	0.702	0.814	
Aug	0.781	0.734	0.668	0.701	0.776	0.697	0.807	
Sep	0.786	0.720	0.696	0.687	0.765	0.727	0.778	
Oct	0.793	0.703	0.752	0.675	0.720	0.730	0.771	
Nov	0.776	0.681	0.785	0.671	0.732	0.738	0.780	
Dec	0.757	0.686	0.734	0.685	0.757	0.759	0.758	
Calendar year average	0.797	0.731	0.683	0.720	0.755	0.719	0.778	
Fiscal year average (+)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	0.822	0.766	0.681	0.732	0.721	0.734	0.748	0.773

Source : International Financial Statistics, IMF.

Additional Source: European Central Bank Website.



SECTION IV

ANNEXURES

CHRONOLOGY OF MAJOR FINANCIAL SECTOR DEVELOPMENTS

Section A: Financial Sector Milestones & Developments

Year	Developments
1982	The RMA Act was passed by the National Assembly during its fifty-sixth session in August 1982. The RMA commenced operations from April 1, 1983.
1992	The Financial Institutions Act, 1992 was passed by the National Assembly in November 1992 to provide the RMA with the necessary legal framework to issue licenses to financial institutions and to regulate, supervise, and inspect their operations.
1993	The RMA initiated the establishment of the Royal Securities Exchange of Bhutan to begin a small capital market for the purpose of facilitating public participation in the holding of securities of the public and private companies.
1997	To enhance competition in the banking sector, the Unit Trust of Bhutan was converted into Bhutan National Bank, a full-fledged commercial bank, in January 1997.
	In line with the Government's program of liberalizing trade and industrial policies, the RMA Board approved the new Foreign Exchange Regulations 1997, removing various restrictions on foreign exchange transactions to benefit important stakeholders of the economy.
	The RMA partially liberalized interest rates from October 1997, allowing FIs to determine their rates in accordance with the "spread system". The spread system allowed financial institutions to determine their deposit and lending rates, while maintaining an overall interest spread of a maximum of six percentage points.
1999	To further encourage competition among financial institutions, the RMA fully liberalized interest rates on both deposits and advances of the FIs in April 1999.
	The Moveable and Immovable Property Act and the Bankruptcy Act were enacted to provide the legal framework for loan recovery and collateral requirement.
2000	The Negotiable Instruments Act was passed in July 2000 during the 78 th session of the National Assembly to provide legal support for cheque clearing houses and use of negotiable instruments in the payments and settlement system.
	As part of the financial sector reform program, the Government Employees Provident Fund was transferred from the RICBL to the newly created National Pension and Provident Fund.

Year	Developments
2007	The NPPF formally came under the purview of the RMA on March 9, 2007.
2008	The RMA issued in-principle approval to two commercial banks (Druk PNB Bank Ltd. and T Bank Ltd.), and an insurance company (Bhutan Insurance Limited) in December 2008. The in-principle approval remained valid for one year.
2009	Bhutan's first issue of the RGOB Treasury Bills was auctioned on December 14, 2009.
2010	The RMA issued a commercial banking license to Druk PNB Bank Ltd., an FDI joint venture bank, on January 19, 2010. Druk PNB Bank Ltd. commenced its business on January 27, 2010 and established its first branch in Phuentsholing on February 7, 2010.
	On March 1, 2010, the RMA granted a license to the BDBL to operate as a specialized deposit-taking commercial bank. The license allowed the BDBL to engage in depository banking, excluding foreign exchange transactions.
	On March 10, 2010, the RMA issued a commercial banking license to T-Bank Ltd. The T-Bank Ltd. formally commenced its business on March 12, 2010. The T-Bank Ltd. set up its Phuentsholing branch office on September 14, 2010.
	The Royal Monetary Authority Act of Bhutan 2010 was formally enacted during the 5 th session of Parliament on June 2, 2010.
	The Regulations for Establishment of Reinsurance Business in Bhutan to license reinsurance companies in Bhutan were issued in October 2010 with the main objective to maximize retention of insurance premium within the country as well as to develop the insurance sector in Bhutan in view of the huge hydropower projects in the pipeline.
	The Regulations for Branchless Banking in Bhutan was issued in November 2010 to license branchless banking business to support new technology-based products and services and to enable increased banking outreach and market penetration.

Year	Developments
2011	<p>The Financial Services Act of Bhutan 2011 was formally enacted during the 7th session of the Parliament on May 26, 2011. The FSA 2011 came into force from July 5, 2011 and supersedes the FI Act 1992.</p> <p>Following the enactment of the Financial Services Act of Bhutan 2011, the RMA initiated the drafting of several regulations related to the financial sector. The following five regulations were issued in October 2011, pursuant to section 202 and 362 of the FSA 2011:</p> <ul style="list-style-type: none"> • <i>The Corporate Governance Regulations 2011 applicable to all FIs, as well as any other licensees, licensed by the RMA and to all companies listed on the RSEBL.</i> • <i>Regulations for Fund Management Company, 2011 aimed at regulating the establishment, offering and management of investment funds in Bhutan.</i> • <i>The Insurance Brokers Regulations aimed at developing the system and business of insurance through intermediary agents in the market.</i> • <i>The Investment Advisors Regulations, 2011 to develop and advise on investment prospects and research services.</i> • <i>The Securities Brokers Regulations, 2011</i>
2012	<p>Towards the end of 2012, a series of draft regulations were uploaded by the RMA on its website for public review and comments. The following regulations were issued for public comments:</p> <ul style="list-style-type: none"> • <i>Regulations for Deposit Taking Microfinance Institutions in Bhutan</i> • <i>Regulations for Microloan Institutions in Bhutan</i> • <i>Regulations for E-Money Issuers in Bhutan</i> • <i>Regulations for Agent Business of Financial Services Providers in Bhutan</i> • <i>Anti-Money Laundering and Combating the Financing of Terrorism Regulations</i> • <i>Loss Adjuster Regulations</i> • <i>Foreign Exchange Regulations (revision of the Foreign Exchange Regulations, 1987)</i> <p>On October 8, 2012, the RMA issued in-principle approval for a proposed application for insurance broker, Kubera Insurance Brokers Pvt. Ltd.</p>

Year	Developments
2012	<p>The RMA, in pursuant to Chapter 3 of the Financial Services Act 2011, granted a license on November 2012 to Nubri Capital Pvt. Ltd., to operate as Bhutan's first Fund Management Company and conduct fund management business in terms of improving and developing the capital market in Bhutan with the objective of providing the Bhutanese investors with an alternative source of investment besides equities and debt instruments.</p>
2013	<p>The RMA issued a license to Kubera Insurance Brokerage Pvt. Limited on February, 2013 to conduct composite insurance brokerage business with the objective to facilitate the public and companies in smoothly conducting insurance transactions through a third party. It is the first brokerage company in Bhutan.</p>
	<p>Exercising the powers conferred by Section 117 of the RMA Act of Bhutan 2010, the new Foreign Exchange Regulations, 2013 was endorsed by the RMA Board of Directors with effect from March 30, 2013, and supersedes the Foreign Exchange Regulations, 1997 including all related past notifications, circulars and guidelines.</p>
	<p>On August, 2013, the RMA issued a license to GIC-Bhutan Re Limited, the first reinsurance company in Bhutan, to conduct general reinsurance business. The company is owned by two Bhutanese promoters and GIC India.</p>
	<p>The RMA established the Central Registry for movable properties on September, 2013, with the objective to facilitate secured credit transactions and provide secured creditors' rights as provided under the Movable and Immovable Property Act (MIPA) 1999. The registry will enable creditors to register movable assets with the central registry which will then facilitate smooth credit appraisal and the foreclosure of bad loans. It will also enable the public and entities to inquire any lien by any creditor on any kind of movable assets that they intend to transact.</p>

Section B: RMA & FI Institutional Developments

Year	Developments
1983	RMA took over the issue of the national currency, the management of external reserves, and foreign exchange operations.
1984	The Cash Reserve Ratio was introduced for liquidity control and prudential purposes.
1988	In March 1988, the RMA took over the additional function of banker to the Government, by holding the bulk of government deposits, and to provide short term advances to the Government, whenever necessary.
1993	RMA discount bills were introduced as a monetary policy tool.
1996	For the purposes of improving RMA's liquidity management functions, the RMA introduced the reserve repurchase as its second debt instrument in September 1996. The repurchase was rolled over until January 2002, when it was discontinued.
1997	Cheque clearing facilities were established in the country (the first in Thimphu in 1997 and the second in Phuentsholing in 1999) to provide a clearing facility to the commercial banks to settle their claims against each other involving cheques and other negotiable demand items. The facilities are also envisaged to enhance the payments and settlement system through the use of negotiable instruments.
2002	The RMA made arrangements with the Reserve Bank of India to participate in the auctions of Government of India securities by investing in Indian Rupee reserves.
2004	The BNBL was the first bank to launch ATM services (in Thimphu and Phuentsholing).
2005	To mark the International Day of Micro-credit, the BDBL launched a new saving scheme for rural farmers in collaboration with the UNDP, UNCDF and SNV on 6th April 2005.
2007	In March 2007, the RMA was appointed as the implementing agency for "Strengthening the financial sector through IT investments" under the World Bank Private Sector Development Project.
2009	During 2008, the BOBL undertook major up-gradation of its stand-alone technology platform to a centralized Core Banking Solutions network to all its branches. The BOBL was also the first bank to introduce internet banking facilities on May 28, 2009.
	The BNBL launched SMS banking in March 2009 and internet banking in November 2009.

Year	Developments
2009	<p>On August 17, 2009, RMA issued a license to Bhutan Insurance Ltd. to carry on non-life insurance business. The BIL officially commenced business transactions from August 20, 2009. On November 18, 2009, the BIL established its branch office in Paro and Phuentsholing, and opened a counter in Bumthang and Wangduephodrang.</p>
	<p>The RSEBL launched its website in September 2009 under the ADB Financial Sector Development Program.</p>
	<p>The RMA launched Bhutan's first Credit Information Bureau and the RMA Integrated Central Banking System on September 9, 2009.</p>
2010	<p>The Druk PNB Bank Ltd. commenced business on January 27, 2010 and established its first branch in Phuentsholing on February 7, 2010.</p>
	<p>The BDBL, formerly the Bhutan Development Finance Corporation started operations as a commercial bank in March 2010.</p>
	<p>The T-Bank Ltd. commenced business on March 12, 2010 and set up its Phuentsholing branch office on September 14, 2010.</p>
	<p>The RMA, in collaboration with the financial institutions in Bhutan, carried out a Financial Literacy Education Program and Awareness Campaign starting in March 2010 and ending in September 2011, with the multiple objectives of educating the public at large on the services provided by the financial institutions, their role and responsibilities, the rights of the clients of the financial institutions and also to improve the public's understanding of the financial sector.</p>
	<p>The RMA delegated transactions in gold and silver as well as distribution of fresh notes to the commercial banks in May 2010.</p>
	<p>The RMA formally launched the Electronic Funds Transfer and Clearing System on June 11, 2010. The launch was inaugurated jointly by the Chairman of the RMA Board, H.E. Lyonpo Wangdi Norbu, Hon'ble Finance Minister and Dr. D. Subbarao, Governor of Reserve Bank of India. The launch was also attended by the officials of the Asian Clearing Union, senior Government officials and key officials of the financial sector and international organizations in the country.</p>
	<p>On August 18, 2010, His Majesty the King appointed the Managing Director of the RMA, Mr. Daw Tenzin, as the country's first Governor of the RMA.</p>
	<p>The RMA delegated the release of foreign exchange for current transactions to the commercial banks on August 20, 2010.</p>

Year	Developments
2011	<p data-bbox="272 322 1407 389">On March 8, 2011, the two Deputy Governors were appointed in pursuance to Chapter IV Section 44 of the RMA Act of Bhutan 2010.</p> <p data-bbox="272 456 1407 524">The BNBL launched the Recurring Deposit and Rupee Denominated Prepaid Card in April 2011.</p> <p data-bbox="272 591 1407 748">In pursuance to chapter IV section 56 and 58 of the RMA Act of Bhutan 2010, the Executive Committee of the RMA was formed on March 10, 2011. The members of the Committee consists of Governor (Chairman), two Deputy Governors, Directors of the Payment and Settlement Systems Department, Administration and Finance Department, Banking Department and Foreign Exchange Department.</p> <p data-bbox="272 815 1407 882">The RMA opened a Currency Chest facility with the DPNBL office in Thimphu and Phuentsholing in August 2011.</p> <p data-bbox="272 949 1407 1061">The RMA formally launched the National Electronic Fund Transfer System and Bhutan Financial Switch on December 2, 2011. The launch was inaugurated by His Excellency Lyonchhen Jigmi Y. Thinley, Prime Minister of Bhutan.</p> <p data-bbox="272 1128 1407 1162">The Druk PNB Bank Ltd launched its international Maestro Debit Card on December 2, 2011.</p>
2012	<p data-bbox="272 1234 1407 1424">The RMA introduced the RMA Short Term Liquidity Adjustment Window Facility (RSTLAW) on March 29, 2012 to provide short-term liquidity to liquidity-deficient banks to meet daily operational requirements and short term outstanding liabilities only and not for long term lending activities. To ensure that liquidity injected through the RSTLAW was prudently utilized and not directed towards further credit creation, prudential guidelines and criteria were issued.</p> <p data-bbox="272 1491 1407 1626">Indian Rupee management and public accessibility to the Rupee were streamlined to reflect its status as a foreign currency, following growing imbalances with India. The Operational Guidelines for Indian Rupee Transactions to facilitate the operational arrangements relating to the access of Indian Rupees for transactions was issued in May 2012.</p> <p data-bbox="272 1693 1407 1760">The CRR was reduced from 17 percent to 10 percent to address liquidity shortages in the banking system, with retroactive effect from March 2012.</p> <p data-bbox="272 1805 1407 1872">The CRR was further reduced from 10 percent to 5 percent to address the continued liquidity shortage in the banking system, with effect from June 2012.</p>

Year

Developments

2012

On March 8, 2012, following the growing external imbalances with India and rising pressures on the demand for Indian Rupees, the RMA suspended access to Indian Rupees to finance imports of personal transport vehicles and housing construction materials that were approved after March 8, 2012. Specifically, the RMA issued a circular to FIs titled “Circular on Foreign Currency” explicitly stating the status of the Indian Rupee as a foreign currency. The Circular outlined the eligibility and limits for access to Indian Rupees by residents; closure of the accounts of non-resident foreigners; and the requirement for the channeling of all export proceeds via the banking channel within 91 days of the date of export. In particular,

- Ceiling on the withdrawal of INR from credit/debit/pre-paid cards were set at INR 10,000 per instance with a maximum limit of INR 50,000 per month.
- Resident foreigners working in Bhutan without bank accounts are permitted to remit/access INR on validation from their employers.
- Indian Rupee denominated transactions with documentary evidence (including but not limited to pro-forma invoice/invoice/tax receipts) and routed through the banking channel were permitted for the following: payments related to government and public sector corporations; for the import of capital goods, spares, raw materials and other inputs for industries (manufacturing and services); for import of oil and fuel products; for medical supplies and equipment; for import of construction materials for housing constructions approved as on March 8, 2012 by individuals/business entities; for imports of all goods excluding personal transport vehicles; payments for education/training and medical expenses.

On April 23, 2012, the RSEBL launched its Integrated System, a web-based system that will enable online trading, provide real time market information for investors, making the securities market more organized and visible through a more formal and systematic mechanism with enhanced market outreach and participation.

The RMA, in collaboration with the DRC and the banks, designed and installed a software system to monitor trade flows effective from June 1, 2012. The software assists relevant authorities to monitor Indian Rupee inflows of sales proceeds from exports and movement of imports based on import payments in line with the 91-day stipulation for flows.

In collaboration with the banks, the RMA launched Point of Sales (POS) as an alternative means of payment delivery channel on July 12, 2012. Moreover, the Bhutan Financial Switch has facilitated the interoperability of the POS terminals. In other words, POS terminals of all banks are now connected, allowing customers to pay for goods and services by using their ATM/Debit cards on any POS terminals, irrespective of their host bank. This initiative was implemented to reduce cash transactions, improve transparency and disclosure and to avoid risks associated with physical cash.

In addition, the Cabinet issued an Executive Order in June 2012 for all public utility companies and service providers, fuel outlets and retailers to install POS terminals to enable the electronic transactions of sales.

The BOBL launched VISA Credit Cards on August 20, 2012.

Year	Developments
2012	<p>In close consultation with the financial institutions, the RMA finalized the structure of the Base Rate and with effect from September 1, 2012 each FI launched and implemented their respective base rates. The base rate is the minimum rate below which it is not viable for FIs to lend. The base rate will also serve as the reference benchmark rate for floating rate loan products, apart from other external market-based benchmark rates.</p> <p>On November 9, 2012, the RMA revised several prudential provisions pertaining to loan provisioning and gestation periods to ease liquidity stress on commercial banks as follows:</p> <ul style="list-style-type: none"> (i) Loan provisioning on standard loans has been reduced from 1.5% to 1%; (ii) Loan provisioning on sub-standard loans has been reduced from 20% to 15%; (iii) Asset classification on doubtful loans has been revised from “181-365 days” to “181 days to 18 months;” (iv) Asset classification on loss loans has been revised from “more than 365 days” to “more than 18 months.” (v) Gestation period for personal housing/construction has been raised to a maximum of 3 years; (vi) Gestation period for hotel construction has been raised to a maximum of 5 years; and (vii) Gestation period for the manufacturing and service sector has been raised to a maximum of 5 years. <p>After temporarily suspending all loan applications (except for consumer loans) in March 2012, the BOBL in December 2012 lifted its suspension on all loan portfolios, except for housing and transport loans which would be extended only to finance vehicles that were in stock with dealers within the country.</p>
2013	<p>Following from the March 8, 2012 RMA “Circular on Foreign Currency,” in March, 2013, the RMA (i) lowered the international credit card limit from USD 3,000 p.a to USD 1,000 p.a., and (ii) lowered the transaction limit on point-of-sale (POS) machines in India (through debit cards) from INR 1 lakh per month to INR 15,000, to ease pressures on Rupee reserves since INR outflows from these channels were escalating.</p> <p>On March 8, 2013, The RMA in collaboration with the Royal Government entered in a Rupee Currency SWAP agreement with the RBI for a total of INR 5.4 billion at 5.5% p.a for the duration of 6 months (3 month-period with an additional 3 months rollover). Such financing provided short-term relief to meet immediate BOP transactions.</p> <p>The RMA formed a new Financial Policy Committee in March, 2013 during the 86th RMA Board meeting (committee of the RMA board, consisting of five Board of Directors and the Directors of Foreign Exchange Department, Research and Statistics Department, and Financial Regulation and Supervision Department as invitee). The FPC is responsible for discussing and recommending policies relating to macro-prudential framework to mitigate systemic risks from affecting the Bhutanese financial sector.</p>

Year

Developments

2013

On **May 2013**, the Financial Regulation and Supervision Department of the RMA was divided into three units: i) Banking and Micro-Finance; ii) Insurance and Pension; and iii) Securities and Fund Management, to enhance effective implementation of the new regulations pertaining to the different sectors as well as ensure efficient regulation and supervision of the banking, insurance and securities business.

The **Financial Intelligence Unit** was formally established with the enactment of the Financial Services Act (FSA), 2011. Although the FIU operated as part of the FRSD since October, 2010, it was officially instituted as a separate unit from the FRSD on **May 16, 2013**. Section 141 to 149 of the FSA provides the basis for the operation of the FIU and it also provides for detailed regulation which is to be issued to deal with specific elements of the Anti-Money Laundering (AML) and the Combating the Financing of Terrorism (CFT) regulation.

Effective **June 1, 2013**, the RMA Financial Policy Committee of the RMA Board of Directors made **amendments to the RMA Prudential Regulations on Risk Weights**, identifying sector portfolios with increasing loan exposure trends and risks. To regulate credit flows to those sectors and reduce pressures on the external account, the RMA raised risk weight percentages as follows:

- (i) *Service and Tourism – 200%*
- (ii) *Housing – 200%*
- (iii) *Transport – 200%*
- (iv) *Personal – 300%*
- (v) *Others – 200%*

These amendments have been implemented with the additional conditions:

- a) *Loans for education and loans against fixed deposits are excluded from the “personal” loan category;*
- b) *Loans to the entrepreneurship development program (EDP) are excluded from the “other” loan category;*
- c) *Education loans shall be disbursed directly to educational institutes; and*
- d) *Financial institutions shall not be allowed to sanction loans for the purchase of land unless the purchase of land is for investment/project purposes.*

Year

Developments

2013 During August 2013, Sectoral Loan Classification and Risk Weight for loans were further revised to be complied by financial institutions effective December 2013. Revised risk weights shall be assigned with the new Sectoral Classification for loan portfolios designed collaboratively with the financial institutions as follows:

- (i) *Agriculture - 50%*
- (ii) *Manufacturing/Industry – 100%*
- (iii) *Services – 150%*
- (iv) *Trade/Commerce – 100%*
- (v) *Housing – 150%*
- (vi) *Transport – 150%*
- (vii) *Loan to Purchase Securities – 100%*
- (viii) *Personal Loan – 300%*
- (ix) *Education Loan – 100%*
- (x) *Loan against Term Deposits – 0%*
- (xi) *Loans to FIs – 100%*
- (xii) *Infrastructure Loan – 100%*
- (xiii) *Staff Loan – 50%*
- (xiv) *Loan to Government Owned Corporations – 20%*
- (xv) *Consumer Loans (GE) – 50%*

These risk weights shall be reviewed after 6 months from the date of compliance. Furthermore, for sector exposures above 20%, further 50% risk weight shall apply for additional exposure.

DEVELOPMENTS IN BHUTAN'S FINANCIAL INSTITUTIONS (FY 2012/13)

The *finance, insurance and real estate* sector collectively contributed 7.8 percent to the country's GDP in 2012. Bhutan's financial institutions witnessed a growth of 24.8 percent in total assets to Nu. 88.4 billion in the year 2012/13. 89.7 percent of the total assets belonged to commercial banks and the remaining 10.3 percent to non-bank financial institutions.

The Royal Monetary Authority of Bhutan has contributed significantly to the development of the financial sector. Through regular monitoring of the financial institutions and timely amendments to various regulations, the RMA continues to be the pillar of the financial sector and constantly works towards contributing to the financial sector and the economy as a whole. The creation of the Credit Information Bureau (CIB) in recent years (*delinked from the RMA in January 2013 but currently housed in the RMA*) and the more recent establishment of the Central Registry for movable properties has expedited and significantly eased the credit appraisal processes. Constant efforts are being made to further intensify the ICT and payment and settlement systems in order to facilitate and provide fast, secure and efficient financial services to the public including the upcoming introduction of the Interbank Mobile Payment Services (IMPS) system, which is currently under process.

This section provides a brief history of the financial institutions and covers developments in the Financial Sector up to the FY 2012/2013, including the National Pension and Provident Fund and the Royal Securities Exchange of Bhutan and other recent notable developments. Please refer to **Annex VIII** for a more comprehensive review of Bhutan's Financial Sector performance.

BANK OF BHUTAN LIMITED (BOBL)

The country's oldest and largest commercial bank, the **Bank of Bhutan Limited** was established on May 28, 1968. However, the non-convertibility of the Ngultrum hampered growth of the bank. With sluggish growth of the bank and the increasing need to improve banking services in the country, banking experts from India and the RGOB recommended the collaboration of the bank with the State Bank of India in 1971. Consequently, the BOBL was reconstituted in 1972, with the SBI participating in the capital and management of the bank. SBI held 40 percent of the bank's equity, and the remaining 60 percent was held by the RGOB. Until the establishment of the Royal Monetary Authority of Bhutan, BOBL also undertook the role of a central bank. In 2002, SBI's shareholding with BOBL was reduced to 20 percent, as a result of handing over the management to the Bhutanese, and the RGOB, represented by Druk Holding and Investments, now owns the remaining 80 percent.

Over the years, the BOBL has worked immensely to develop its banking services. Since 1975, the bank started contributing to foreign exchange earnings by financing and facilitating export transactions. In order to expand outreach, in 1986, the bank conducted door-to-door surveys in rural areas to introduce lending and deposit schemes to the rural

community. In 1989, the BOBL introduced customer education in rural areas on its services, deposit mobilization, and follow-up on loans.

Currently, the BOBL has an established network of 28 branches and 12 extension counters. In 2008, the bank undertook the major task of upgrading its stand-alone technology platform to a centralized core banking solutions network. The Bank has been working to significantly improve the reliability and efficiency of financial operations through timely advancement of information technology. The Core Banking Solutions (CBS) system, launched in 2009, has been fully implemented in all the branches and continuous development and enhancement modules like mobile banking, and utility modules are being implemented. The bank has established a full-fledged transaction enabled internet banking facility. This has been received well by the bank's customers mainly on account of online transfers, payment of personal income tax, and payment of utility bills. With the up-gradation of its technology, the BOBL introduced convenient delivery channels such as ATM, SMS, POS and mobile banking services in the country. The BOBL has the highest number of ATMs installed, with a total of 59 ATMs across the country. In addition, Mobile Banking Van services with ATM facility and two teller counters were introduced to expand outreach and facilitate convenient banking. The BOBL was also the first bank to introduce internet banking facilities on May 28, 2009, while also having constructed a USD 1 million worth, Tier-III, state of the art data centre, the first of its kind in Bhutan.

The bank has started according the highest priority to customer satisfaction with regular customer feedback surveys to monitor customer satisfaction levels. The Complaint Redressal System was launched in all branches by the end of October 2012. To improve services and customer convenience, Sunday Banking services were also launched on November 30, 2008, in addition to a 24x7 Customer Helpline since July 6, 2012, ATM services, and internet and mobile banking services.

In terms of HRD, the bank plans to improve succession planning through mentoring and development of training programs and hence initiated numerous policies and practical interventions at all levels, particularly in the areas of professionalization and specialization. In 2012, a total of 161 employees were sent for training both in-country and ex-country. To improve the quality of its human resources, the BOBL also initiated on-campus recruitment drives to recruit top achievers from tertiary institutions. In order to facilitate accurate report generation and faster delivery of services to internal customers, the implementation of Enterprise Resource Planning (ERP) is also underway.

BHUTAN NATIONAL BANK LIMITED (BNBL)

Bhutan National Bank Limited, formerly known as The Unit Trust of Bhutan (UTB), was established in 1980 as a subsidiary of the RICBL, jointly owned by the RGOB and the RICBL. In 1992, the UTB functioned as an independent financial institution to promote and inculcate saving habits among the general public and to channel capital to productive sectors in the economy. With the goal of deepening the financial system to generate broader and competitive banking services, the RGOB, with assistance from the ADB, converted the UTB into the Bhutan National Bank on December 5, 1996. The bank's

equity was floated to the public in 1996 making BNBL the first bank to be owned by the public with a share of 28.58 percent. Other shareholders included the RGOB, the RICBL, and the ADB and Citibank also making BNBL the first bank with foreign investors. The bank officially opened for business on January 6, 1997.

In January 2003, the BNBL upgraded its software to provide modern banking facilities. The BNBL was the first bank to provide ATM facilities in 2004 (in Thimphu and Phuentsholing), while currently, it has installed 30 ATMs across its branches in Bhutan. New financial products and services have been introduced throughout the years such as: the Global Credit Cards in December 2004, which has enabled ASEAN tourists to use their cards to purchase merchandise/services in Bhutan; the Gold Visa International Credit Card, Debit-cum-ATM card, and SMS and internet banking in 2009. The bank also launched debit cards under the VISA umbrella in 2012 enabling clients to shop online and also withdraw Indian Rupees from any ATM in India. In order to achieve global best standards in the area of risk management, the bank has introduced a credit scoring model in retail advances to minimize credit risk. The bank's website has also been re-designed to make it more user-friendly.

In 2010, the bank launched its long term corporate strategy with the assistance of Ernst and Young Consultancy, focusing on the following core areas: organization restructuring, performance management system, salary harmonization, customer profiling, risk based internal auditing, credit risk mitigation, business process re-engineering, policy and governance framework, financial modeling, management information system, and ICT policy and knowledge transfer.

In terms of outreach and setting up of branches, the bank established branches in Paro and Mongar in the later part of 2004, and converted its Gelephu extension office into a full-fledged branch in December, 2005. In 2008, BNBL established a branch in Wangduephodrang and Bumthang and also converted its extension offices at Samdrup Jongkhar and Trashigang into full-fledged branches. The bank also opened a branch at Gomtu and two extension counters at Khuruthang under the Wangduephodrang branch and at Olakha under the Thimphu Branch with the objective of reaching more people in urban as well as rural areas while minimizing overhead costs. In 2012, a new branch in Tsirang was opened and in addition, 5 extension counters were opened at Rangjung and Wamrong under Trashigang branch, at Tala under Phuentsholing branch, at Taba under Thimphu branch and at Trongsa under Bumthang branch.

More recently, the bank launched its Piggy Bank facility in November, 2012 and B-Wallet services in December, 2012. Two products have been introduced under the Piggy Bank facility: (i) Piggy Bank Savings Account, and (ii) Piggy Bank Recurrent Account. The piggy bank savings account aims to promote and inculcate practical financial knowledge among children, such as depositing and withdrawing money, while the piggy bank recurrent account is aimed at building saving habits. In order to improve customer service, the customer service division has been restructured and redesigned and the Piggy Bank account opening forms have been redesigned to make it more customer- friendly. Moreover, the BNBL hotline has been made Toll Free.

The B-Wallet service was launched in collaboration with the Bhutan Telecom. Under this scheme, B-mobile users who have their bank accounts with the BNBL (other banks in the future) can top-up their pre-paid phones and transfer money from one account to another in BNBL through their cell phones. Currently, B-Wallet Services can be availed from 12 dzongkhags across the country. Plans are also underway to enable B-Wallet subscribers to make utility payments.

During the year 2012, more than 70 percent internal data cleanup and customer segmentation were carried out. Furthermore, in-house training programs were conducted for all the staff in Phuentsholing, Samdrupjongkhar and Trashigang branches.

BHUTAN DEVELOPMENT BANK LIMITED (BDBL)

Bhutan Development Bank Limited, formerly, the Bhutan Development Finance Corporation, was established on January 31, 1988 with assistance from the ADB, and the equity participation of the RGOB (major shareholder), the BOBL, the RICBL, and the BNBL. The bank was set up primarily to assist the private sector by providing financial and technical assistance for industrial, agricultural, and commercial projects. BDBL is funded by international multilateral agencies such as the UNCDF, HELVETAS, KFAED, IFAD, SDC, and the ADB, through concessional loans and grants. The UNCDF/IFAD agricultural credit program, which was initially implemented by the RMA, was transferred to the BDBL in March 1988, along with all assets and staff of the former Agricultural Credit Division of the RMA. To finance small entrepreneurs, the BDBL joined the Entrepreneurial Development Program initiated by the RGOB; its share in the EDP is Nu.20 million.

Industrial lending dominates the BDBL's activities and profitability, while agricultural lending, particularly micro-financing, remains its primary function. In October 1998, the BDBL issued Nu.50 million worth of 10-year rural credit bonds for the purpose of providing micro-credit to rural borrowers. The principal goal was to assist small farmers to increase production and income, ultimately improving quality of life.

In line with the resolution of the 82nd session of the National Assembly on the reduction of the interest rate on rural credit from 13 percent to 10 percent, the institution reduced interest rates of its rural credit group loans 10 percent with effect from August 1, 2004. In addition, marking the United Nations International Year of Micro Credit 2005, the BDBL launched two savings schemes, fixed and savings deposits during the first quarter of 2005, and beginning 2008, it launched a recurring deposit scheme.

From March 2010, the BDBL started functioning as a domestic commercial bank with cheque facilities after obtaining its banking license from the RMA. With the introduction of mobile banking facilities at the grassroot level, the BDBL continues to emphasize the implementation of its Group Guarantee Lending and Savings Scheme program piloted in 2002, targeted at assisting the rural poor.

With the initiation of its retail banking function in March 2010, the BDBL set up its Banking and Treasury Division to manage the fund and banking operations. This division also initiated preparation of banking manuals. Recognizing the importance of risk

management, the bank, for the first time, set up an office for managing risk and assessing portfolio quality. Through assistance from the microfinance expertise of BASIX, India, the BDBL also engaged in business plans in the following areas: increasing access to savings, credit and other services in rural areas; expanding outreach to different customer segments; developing and promoting savings products and services; developing product and marketing strategies; improving credit management systems (lending and recovery management systems); introducing agricultural/business development services in identified sectors; supporting micro and small enterprises; enhancing risk management, internal audit and supervision capabilities; improving operational and decision making systems through the use of ICT; enhancing capabilities in treasury and fund management; production of research on the development of microfinance in Bhutan and role for BDBL in microfinance; and assisting in the development of a microfinance policy.

In order to transfer the benefits of information technology to the grassroots, the bank officially launched Smart Phone Banking using what is known as “Personnel Digital Assistance,” in Shaba gewog under Paro dzongkhag in June 2011. Through this service, a client can make loan repayment and savings deposits live from the field and check account balances, thereby improving and speeding up service delivery. This service has also been launched in Haa and Wanduephodrang dzongkhags as a pilot project, and if successful, then such services will be replicated in all other branches.

Recently, the bank opened 3 new branches in Samdrupcholing under Samdrupjongkhar dzongkhag, in Yathi under Mongar dzongkhag and Sibsoo under Samtse dzongkhag and converted the Dagapela gewog office into a full-fledged branch. On 15th October 2013, a new gewog field office was opened in Sakten Dungkha gewog under Trashigang dzongkhag to function as a normal branch office providing credit and banking services. Currently, the BDBL has a nation-wide branch network that covers all 20 districts and 5 sub-districts, with 33 branch offices nationwide, 2 sub-branches, 2 field offices and 3 regional offices. Expanding its outreach of banking services has significantly benefited the people, especially the rural community, making it closer, more accessible, and less costly.

Drongsep Kuendruel Tshe Sog Ngensung, an insurance scheme developed jointly with the Royal Insurance Corporation of Bhutan Limited (RICBL) was introduced on January 31, 2013. Under this scheme, in the event of death or permanent or partial disability of the borrower, RICBL would assume the liability for the loan repayment up to the maximum amount of loan sanctioned. The BDBL will also introduce the “Cooperative Loan,” which is a wholesale loan where the distribution is to be decided by the cooperatives themselves.

To meet the growing needs of the rural community and extend its outreach, numerous services have been planned and provided. “Farmers Outreach banking,” a banking service at the gewog level was introduced to the clients in the rural areas, where the field officers visit the farmers to provide banking services including loan disbursement, collection, deposit, withdrawal etc. The BDBL will be opening 4 to 5 field/branch offices in all the feasible Drungkhags and gewog centers. The bank plans to increase its real time bank operations (online mode) from 27 branches to 30 by the end of 2013. The BDBL joined the Bhutan Financial Switch (BFS) ATM interoperability network on October 24, 2013

and currently has 5 ATMs installed across its branches in the country. The bank plans to also extend SMS and internet banking services across the country.

Recognizing human resource development as an integral part of achieving the objectives of the bank, continuous efforts have been made to build the institutional capacity of its employees. Jointly funded by the BDBL and the UNCDF during the year, the bank sent 71 employees for ex-country trainings, study tours, seminars, and exposure visits and 385 employees for in-country capacity building programs.

T BANK LIMITED

The **T Bank Limited**, Bhutan's fourth commercial bank, established its first office in Thimphu on March 12, 2010. T-Bank Ltd is a local bank with three domestic promoters, holding a total of 60 percent shares (20 percent each), while its IPO was floated in December 2010 for the remaining 40 percent. After floating its shares to the public, the bank then listed with the Royal Securities Exchange of Bhutan Limited on March 17, 2011. The bank established its second branch office in Phuentsholing on September 21, 2010 while internet banking facilities were made available from November 2010 and ATM services were launched in March, 2011 in Thimphu and Phuentsholing. So far the bank has installed 10 ATMs across its branches in the country and also launched the T-SMS banking service effective October 30, 2013. Currently, T-SMS banking service is only available for Tashi Cell (the second mobile service provider in the country) users while plans are underway to connect its SMS banking services with the country's prime mobile service provider, B-Mobile.

T-Bank also opened a branch office at Wangduephodrang on March 15, 2012 and more recently a branch office in Gelephu on April 27, 2013. The bank plans to open more branch offices in the central and eastern regions to cater to the growing need for financial services in these areas.

DRUK PNB BANK LIMITED (DPNBL)

Druk Punjab National Bank Limited, the second FDI bank in Bhutan after the BOBL, started business on January 27, 2010 with a total capital of Nu.300 million. 51 percent is held by Punjab National Bank, India, 19 percent by its domestic promoters, and the remaining 30 percent floated to the public through its IPO. The bank opened its first branch office in Phuentsholing in February, 2010. After which 2 branches in Thimphu and Wangduephodrang were opened with the aim of capturing business and building its foundation as prospective customers were concentrated in these areas. Amid the success of this aim, during the year 2012, DPNBL opened two more branches in Gelephu and Paro with future plans to expand outreach in the eastern region in the year 2013/14.

The bank launched, in December 2011, its Maestro Debit card for clients traveling to India and other countries. During its three years of business, the bank has installed 14 ATMs and also launched mobile phone and internet banking services informing and updating its customers on banking transactions on a real time basis.

More recently, DPBNL started accepting U.S Non-immigrant Visa Fees for Bhutanese citizens. This has made it very convenient for the Bhutanese, as earlier payments could only be made to banks in India, particularly New Delhi, the capital, which is the designated place for Bhutanese citizens to apply for U.S Visas.

The DPBNL endeavors to enhance the knowledge and skills of its employees with plans to regularly train its employees at the Punjab National Bank training centers in India. During the year 2012, the bank sent 43 employees for training at PNB's Central Staff College in New Delhi and National Institute of Bank Management Pune, India. Moreover, realizing human resource development as an integral part of the bank's success, the Employees Stock Ownership Plan (ESOP) was introduced to reward its employees. Under this plan, approved by the RSEBL, the bank offered allotment of 200 equity shares to interested employees at face value of Nu.100 per share against the market value of Nu.350 per share to be allotted over a period of three years.

ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED (RICBL)

The **Royal Insurance Corporation of Bhutan Limited** commenced its operations as the country's first and only insurance institution in 1975 under Royal Charter, with 39.25 percent of the share owned by the Royal Government and the remaining 60.75 held by the public. It was subsequently incorporated under the Companies Act of Bhutan 1989 and licensed under the Financial Institutions Act of Bhutan, 1992. The Royal Charter mandated the RICBL to underwrite all types of insurance business emanating from Bhutan and engage in investment activities. The RICBL's main lines of business are categorized into life insurance and non life insurance, besides investment and real estate. The corporation also manages the general insurance schemes of the civil service, armed forces and the monk body, while managing rural insurance and private provident funds for private individuals.

Since inception, the RICBL has not only met the insurance needs of the country, but has also contributed towards the country's economic development by providing access to finance for private individuals. In this connection, the corporation's Credit and Investment Department was set up to act as an investment body for effective and efficient utilization of funds from insurance and Government Employees Provident Fund (GEPF). With the investment of these funds in the economy, housing, construction and transportation activities in the country were taken up by the private sector on a large scale.

The GEPF, managed by the RICBL since 1976, was transferred to the NPPF from April 2000, when the company had to part with assets worth Nu.1.2 billion (accounting for over 80 percent of the RICBL's assets). However, the separation of the GEPF did not have adverse effects on the overall performance of the RICBL. Instead, it helped resolve the long-standing problem of excess liquidity and enabled the corporation to concentrate on its core business.

The RICBL operates on a fully computerized financial and operational system under the local area network system at its head office. Currently, the RICBL is using an Integrated Insurance Management System for the general and life insurance system. The corporation

also developed a new system for its Credit and Investment Management Department under an Integrated Credit and Investment Management System.

During 2011/12 RICBL introduced three new products: (i) the *Professional Indemnity Policy*, which is a non-life insurance policy to insure professionals and employees against negligent acts and errors and omissions during the conduct of their business/profession that may cause financial loss; (ii) the *Flight Insurance (Coupon) Policy*, where the life of the traveler is insured for the duration of the travel/journey; and, (iii) the *Ten-tsai Mangul Ngenchoel*, for the benefit of customers planning short term savings coupled with life risk cover. The Ten-Tsai Mangul Ngenchoel life insurance scheme was initiated by the Army Welfare Project (AWP), the first organization in the country to buy life insurance policy for its employees.

Furthermore, the Guidelines for Rural House Insurance Scheme was revised in 2011/12, aimed primarily at making the indemnification of losses effective. The revised guideline is expected to address the deficits of the existing scheme. Under the existing scheme, beneficiaries were dissatisfied as they were eligible to claim the settlement under only two categories. In the revised scheme, the houses are categorized into four classes based on the type of construction, construction materials used and other features. This is expected to facilitate the RICBL in better pricing the scheme according to the value of the house and risks involved.

A Memorandum of Understanding was signed with NIPPONKOA Insurance Co. Ltd., Japan on August 15, 2012. Through this partnership, NIPPONKOA will provide technical assistance to RICBL to develop and improve non-life insurance products in the country.

On February 21, 2013, RICBL launched the first annuity scheme in the country, the *Life Annuity Scheme*, aimed at providing more options and benefits after retirement. Under this scheme, there are four optional retirement ages of 50, 55, 60, and 65 years and the individual receives lifelong regular annuity income postretirement. Furthermore, this scheme provides *Total Permanent Disability (TPD)* benefits and *Life Insurance*, ensuring a steady monthly annuity for the dependents in case of the death or permanent disability of the policyholder. The *Immediate Annuity Scheme* is provided for individuals between the ages of 45 and 76, where premium is charged as a single lump sum and the monthly annuity is paid to the insured after a month.

The RICBL signed a Memorandum of Understanding with the Royal Civil Service Commission (RCSC) and AWP on April 25, 2013 whereby the RCSC will insure its ex-country scholars under the *Student Health Insurance Scheme*. The health insurance will be available through the network of more than 4,500 hospitals associated with the RICBL in India, Thailand and Sri Lanka.

On August 16, 2013, the RICBL was given a **Financial Strength Rating** of **B⁺** and an **Issuer Credit Rating** of **bbb-** by A.M. Best Asia-Pacific Limited, a subsidiary of A.M Best Company (world's oldest and most authoritative insurance rating and information source). These ratings are an important indicator for stakeholders on RICBL's financial security, efficiency and overall credibility.

More recently on September 30, 2013, a Memorandum of Understanding, which will initially be in effect for two years, was signed between Tilganga Institute of Ophthalmology (TIO) and the RICBL at TIO, Nepal. The TIO will provide ophthalmic services to beneficiaries with eye health insurance.

The RICBL opened a branch office in Gasa dzongkhag on March 25, 2013 and another branch office on October 15, 2013 in Sakten dungkhag, Trashigang dzongkhag to provide convenient access to their services for the rural community. The two new branch offices are instrumental in the timely delivery of services related to rural house insurance schemes. Headquartered in Thimphu, the RICBL currently has 26 offices across the country with the regional office at Phuentsholing.

BHUTAN INSURANCE LIMITED (BIL)

The **Bhutan Insurance Limited** was incorporated under the Companies Act of the Kingdom of Bhutan, 2000 on July 24, 2009 and soon after started operations by August 20, 2009. Currently, 32 percent of the BIL's shares are held by its domestic promoters and the remaining 68 percent is held by the public constituting of 63 percent individuals and 5 percent FIs. The BIL offers all types of non-life insurance services, including personal insurance, commercial insurance, industrial insurance, and liability insurance. On April 4, 2010, the RMA granted approval to operate a Financing and Investment Department, soon after which the BIL also created the Private Provident Fund Department.

Headquartered in Thimphu, the BIL operates 12 offices across the country including the recent inaugural of 2 extension offices in Olakha and Taba, Thimphu on May 5, 2013. Since its establishment, BIL experienced considerable growth and in order to meet customer demand, more staff were employed in 2012, resulting in staff strength of more than 80 people as compared to 68 employees in 2011.

NATIONAL PENSION AND PROVIDENT FUND (NPPF)

Formally created on March 30, 2000, the **National Pension and Provident Fund** is an autonomous organization responsible for managing and administering retirement schemes in the country. Prior to the establishment of the NPPF, the GEPF was managed by the RICBL and covered only government employees. Its benefits were limited to a gratuity and a provident fund scheme which were paid as a lump sum after retirement. In order to enhance social security, the Royal Government initiated a formal old-age income security scheme by restructuring the GEPF scheme aimed to provide:

- Post service retirement benefits to its members;
- Income security in the event of permanent disability;
- Social support to spouse(s) and dependent children in the event of the death of a member; and
- Compulsory savings plan for salaried employees.

The ADB project and the RGOB working committee in 1999, under the governance of the Board of Directors, reviewed and evaluated the UNDP's study (1997) on the *Feasibility of*

Introducing a Pension Scheme in Bhutan and recommended an annuity-based, multi-tiered retirement plan called the National Pension and Provident Fund Plan (NPPFP). Thereafter, the Royal Government formally established the National Pension and Provident Fund consisting of two tiers: the National Pension Plan (NPP)¹ and the Provident Fund Plan (PFP)².

On July 3, 2000, the NPPF took over the GEPF and real estate operations from the RICBL, worth Nu.2 billion in the form of fixed deposits, cash, and real estate assets, thus making it the largest institutional investor in the country. Meanwhile, on the investment and credit front, realizing the importance of investing its assets in a prudent manner the NPPF was licensed by the RMA to carry out limited financial services on March 9, 2007. To ensure that members' funds were safeguarded, the NPPF came under the purview of the RMA with effect from July 1, 2007.

In 2010, the NPPF enhanced its services with the introduction of the One-Stop-Solution, Hotline and SMS services, providing timely services to its members. Furthermore, the NPPF extended its pension payment outlet with T Bank and BNBL in addition to BOBL and Bhutan Post. In collaboration with the BNBL, it also started its first ever ATM facilities for pension payment.

The NPPF achieved significant growth in all areas of operations and activities during the financial year 2012/13, largely on account of robust performance of its equity investments and the increasing trend in long-term deposit rates to 8.5 percent p.a. Revenue increased by 28.6 percent and surplus grew by 23.4 percent achieving a rate of return of 6.7 percent during the year.

The Royal Government has granted a limited investment mandate to the NPPF in order to avoid exposure to undue risks while trying to optimize returns. The NPPF is the third largest institutional investor in Bhutan with a growing fund size. The fund size increased from Nu.12.9 billion to Nu.15.1 billion, recording a growth of 16.5 percent during the year. At the end of June 2013, the NPPF had 49,885 contributing members, representing about 6.6 percent of the total population.

During the year, among its many investments, the NPPF made significant investments in the Dagachhu Hydro-Power Corporation and the Dungsum Cement Corporation with Nu.600 million at an interest rate of 10 percent p.a. The NPPF also has limited scope in its lending activities as per its mandate and hence its loan products are available only for members. The credit operations of the NPPF comprises of the Housing loans, Education loans and Student loans. As of June end, 2013, the loan portfolio grew by 39.6 percent to Nu.3.0 billion constituting 637 active clients including eight new clients.

¹ *The NPP, titled Tier 1 of the NPPFP, is a defined benefit plan under which monthly pension benefits will be provided to a member upon retirement and in addition it also provides disability benefits to a member and benefits to survivor(s).*

² *The PFP, Tier 2, is a benefit plan where members receive lump sum payments of accumulated balances upon retirement.*

During the year, in order to improve service delivery, the NPPF introduced a number of facilities via online web-based applications which enable NPPF members to access a wide range of services including transactions, information on benefits entitlement, claim processing status, and statement of contributions. Furthermore, under the Government to Citizen (G2C) project³, the *Pension Service Portal* was introduced to deliver services to Gewog Community Centers, managed by Bhutan Postal Corporation. The NPPF, in collaboration with the BOBL and BNBL, also customized its internet banking facilities to collect loan repayments and monthly rent payments. A few members have already availed of the facilities and the NPPF continues to create awareness among members to use such facilities.

ROYAL SECURITIES EXCHANGE OF BHUTAN LIMITED (RSEBL)

The **Royal Securities Exchange of Bhutan Limited** is regulated under the Companies Act, 2000, and licensed under the Financial Institutions Act, 1992. Its initial paid-up capital of Nu.2 million was provided by the four FIs whose subsidiary units, the brokerage firms⁴, were licensed to serve as brokers. The board of directors consists of the Governor of the RMA as Chairman, the CEOs of BNBL, RICBL and BDBL, the Registrar, Department of Industry, Ministry of Economic Affairs, the CEO of the RSEBL as member secretary and the Advisor of RSEB as observer. The RMA's role is that of a Securities Commission.

The trading system of the RSEBL runs through an automated system, linked through a local area network on the trading floor. Since the volume of trading is relatively low, the exchange conducts trading only twice a week, i.e. on Tuesdays and Fridays, at 11 a.m. Furthermore, to eliminate delays in the registration of physical transfers of shares and to ensure the safety of such documents, a Central Depository (CD) was established.

The exchange commenced operations in 1993 with four listed companies and a total market capitalization of Nu.393 million. Currently, the RSEBL has 20 listed companies with a total volume of 47,864,670 shares and a market capitalization of over Nu.17 billion. In 2012, the total transaction in the secondary market, including rights and bonus issues, increased in volume to 17,048,342 shares amounting to Nu.1.9 billion as compared to 3,921,158 shares worth Nu.1.6 billion in 2011. However, in terms of actual trading volume, in isolation of corporate action, transactions in the secondary market during the year increased to Nu.219.1 million (741,382 shares) as compared to Nu.132.9 million (375,758 shares) in 2011.

Although there were no IPOs during 2012, the market recorded an overall increase in traded volume and value (including secondary trading, bonus/rights issues) of Nu.1.9 billion for 17,048,342 shares as compared to Nu.1.8 billion for 6,121,158 shares during 2011. In 2012, the market capitalization of the 20 listed companies increased significantly to Nu.17.6 billion as compared to Nu.14.4 billion in the previous year. The increase was

³ *The Government-to-Citizen (G2C) Project was initiated in 2010 with the primary objective to simplify and enhance the delivery of public services.*

⁴ *RICB Securities Ltd., BNB Securities Ltd., BOB Securities Ltd., and Drook Securities of the BDBL.*

largely due to the issuance of new shares in the market through right offers of DPNBL and BIL and bonus issue by the BNBL. Off-market transactions of the DPBNL and BIL also contributed to the growth in market capitalization.

During the year, the total number of shareholder's account in the Central Depository increased to 48,077 compared to 48,005 accounts in 2011. This increase was attributed to the subscription of the renounced shares of the Rights offer and the Employee Stock Option issued by DPNBL and BIL. Consequently, the volume of securities deposited in the CD increased by 51.7 percent to 47,864,670 shares from 31,557,710 shares in the previous year. The CD currently holds 100 percent of the outstanding shares of all the listed companies.

With technical assistance from the World Bank and RMA, the RSEBL has changed the trading platform from its existing backend office trading system to a web-based Integrated Exchange Solution. The RSEBL's new web based Integrated System, jointly funded by the World Bank, ADB and RMA, was formally launched on April 23, 2012 and can seamlessly link the Trading, Depository, Clearing and Settlement, Market Surveillance, IPO and Brokers' Back Office System. With the new system in place, investors have convenient access to real time market data along with online trading facilities and RSEBL has issued online terminals to 32 users since May 22, 2012.

In terms of Human Resource development, ex-country short term attachment courses were arranged in order to enhance knowledge and skills on new IT infrastructure and procedures associated with the integrated system. A total of 7 staff were sent for the attachment courses at the Nepal Stock Exchange and Maldives Stock Exchange. In addition, the CEO of RSEBL led a team of CEOs and brokers to the Lao Securities Exchange and the Stock Exchange of Thailand to explore their trading practices including the regulatory aspects of the exchanges. During the year, two separate in-house training programs on the operational aspects of the RSEBL Integrated System were also provided for four officials from BDBL and for the CEO of BOB Securities Ltd.

INTEREST RATES

Close economic and financial relations between Bhutan and India can be traced back to 1961 with the commencement of the first five year development plan in the country. India is not only an important stakeholder in Bhutan's overall economic development but also a principal trading partner (under a joint Free Trade Agreement), and the Ngultrum has been pegged at par to the Indian Rupee since its first issue in 1974. Maintenance of a fixed exchange rate regime has been beneficial for Bhutan. Pursuing exchange rate targeting as a policy measure has not only contributed to low volatility in the bilateral real exchange rate with India, but also facilitated smooth trade integration between India and Bhutan. Moreover, the peg arrangement has been instrumental in maintaining confidence in the local currency, while tying Bhutan to relatively stable economic and monetary conditions in India. Although the RMA has limited influence on domestic interest rates, the RMA regulates the market using both direct and indirect instruments particularly through capital and prudential controls and reserve management, by influencing the level of bank reserves and management of banking sector liquidity.

Given these macroeconomic and institutional linkages, the consequent monetary policy implications are that interest rate and price movements are by and large influenced by corresponding macroeconomic developments in India. Huge deviations in interest rates differentials for Bhutan would otherwise have serious effects on investment and capital flows.

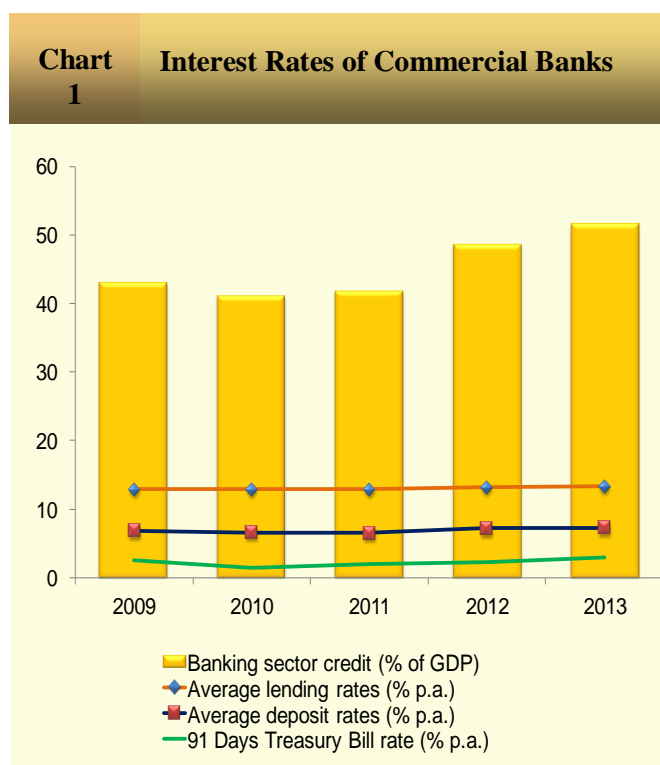
Interest rates in Bhutan, prior to its liberalization in 1999, were fixed by the RMA. Today, interest rates are determined by the interaction of the supply and demand for funds in the money market. However, following a sticky period in interest rates since its liberalization, movements in Bhutan's deposit rates across deposit categories as tracked in more recent years (Tables 1 and 2) have begun to show some variation.

Table 1 Deposit Rates of Commercial Banks: 2008-2012					
Percent per annum; as of end of June					
Type of Deposits	2009	2010	2011	2012	2013
Savings	4.50-5.00	4.50-5.50	4.50-5.00	4.50-5.50	5.00-5.50
Fixed Deposits					
a) 3 months to less than 1 year	4.50-5.00	4.50-5.50	4.50-5.50	5.00-6.00	5.00-6.50
b) 1 year to less than 2 years	6.00-6.50	4.50-6.50	6.00-7.00	7.00-7.25	7.00-7.50
c) 2 years to less than 3 years	7.00	6.00-7.00	6.00-7.50	7.50-7.75	7.50-7.75
d) More than 3 years	7.00-7.50	7.00-8.50	7.00-8.50	8.00-9.00	8.00-8.75

Source: FRSD, RMA.

The saving deposit rates of commercial banks averaged 5.25 percent as of June 2013, which has increased from 5 percent during the same period last year. Similarly, as of June 2013, the fixed deposit rates of commercial banks averaged 7.3 percent, increasing slightly from 7.2 percent during the same period of previous year. The lending rates of commercial banks also slightly moved upwards from an average of 13.1 percent in 2012 to an average of 13.3 percent as of June 2013.

The spread between lending and deposit rates reflects the interest rates charged on loans, covering not only the cost of funds (marginal cost), but also intermediation and other overhead costs, including the spread or profit margin of the banks. Key factors that affect the movements in commercial banks' interest rates include the domestic price level, maturity period of the financial products and the perception of risks associated with the exposed loan portfolios. Those with longer-term maturity and with higher probability of incurring loss carried higher interest rates. Further, low levels of domestic savings, limited competition in the financial system and inefficient financial intermediation have also influenced the limited interest rate movements in Bhutan. But since the introduction of the Base Rate some time during the third quarter of 2012, there has been an upward movement both in the deposits and lending rates.



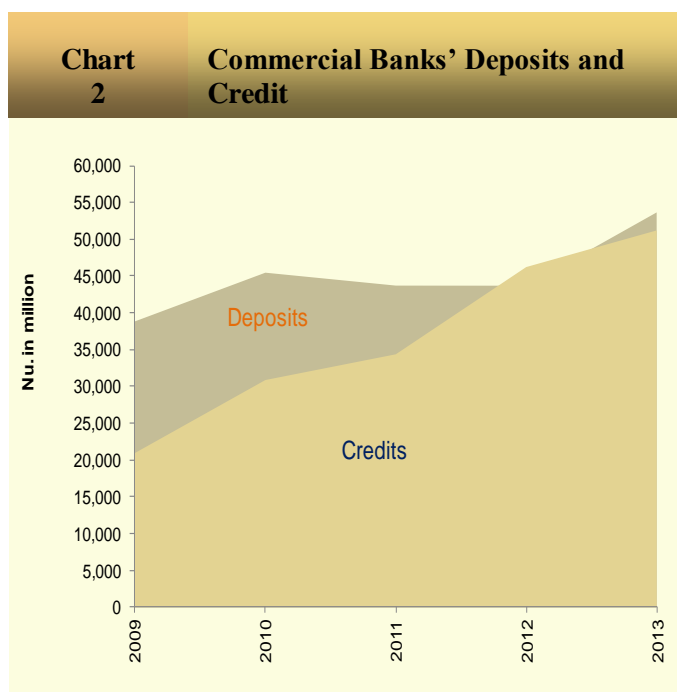
Only few institutional players have been active in participating and dominating the purchase of Treasury Bills. The issuance of Treasury bills has continued to lower the cost of borrowing in 2013. Treasury bills issued at a rate of 6 percent in 2008 were issued at a lower rate of 3 percent in October 2013. The decline in the Treasury bill rate reflects the lack of diverse market instruments for short term funds and limited investment alternatives for institutional investors.

With the introduction of the base rate and its implementation by commercial banks, in 2012, upward movements in both the deposit and lending rates have been observed. The saving rates of commercial banks increased marginally from the 4.50-5.00 percent range in June 2012 to 5.00-5.50 percent range in June 2013. Interest rates on deposits of commercial banks with a maturity of 3 months to less than 1 year grew slightly from the range of 5.00-6.00 percent in 2012 to 5.00-6.50 percent, while the interest rates of commercial banks' deposits with a maturity of 1 year and above ranged from 7.00-8.75 percent during the same period. Similarly, average interest rates paid by commercial banks on corporate deposits (46 days to 1 year) remained along the same level of the previous year which ranges from 2.50-7.00 percent.

The lending rates of commercial banks and other financial institutions across major sectors such as manufacturing industry, general trade, transport, and housing ranged between 11.73-13.13 percent, 13.00-14.00 percent, 11.73-16.00 percent, and 12.73-14.63 percent, respectively.

With a 22.9 percent increase in commercial banks deposits (Nu.43.7 billion to Nu.53.7 billion as of June 2013) as compared to the 10.8 percent growth in credit (Nu.46.3 billion to Nu. 51.3 billion), the credit to deposit ratio declined from 105.8 percent in 2012 to 95.3 percent as of June 2013. Around 74 percent of the commercial banks' deposits constituted retail and corporate deposits.

The credit allocation of the commercial banks was mainly concentrated in a few sectors (such as Housing, Manufacturing and Industry and Personal loans) where loans are secured through collateral and rate of returns are high.



On the lending front, there was an annual growth of 10.7 percent in the total loans of the financial institutions (including non-bank financial institutions, excluding NPPF), which increased from Nu.51.3 billion as of 2012 to Nu.56.8 billion. The annual growth of total credit declined from 26.2 percent in 2012 to 10.7 percent in 2013 mainly due to the ban on vehicles imports as well housing loans from the financial institutions. Although the annual growth of credit has declined, in absolute terms it has increased by over Nu.6 billion. This increase was attributed mainly to the significant increase in lending towards Manufacturing and Industry which grew from Nu.7.8 billion in 2012 to Nu.10.2 billion in 2013; similarly Personal loans grew from Nu.8.3 billion to Nu.10 billion in 2013, and Trade and Commerce from Nu.4.3 billion to Nu.6.8 billion in 2013. Of total loans and advances, 26.3 percent were invested in the Building and Construction sector, followed by Manufacturing and Industry (17.9 percent), Personal loans (17.6 percent), Service and Tourism (11.7 percent), and the remaining invested in other sectors of the economy.

Table 2 Selected Lending Rates in Bhutan, 2009-2013

Loans by Purpose	Percent per annum; as of end-June				
	2009	2010	2011	2012	2013
1. General Trade	13.75	13.75	13.00-14.00	13.00-14.00	13.00-14.00
2. Export Finance	13.0-14.0	13.0-14.0	13.0-14.0	13.00-14.00	13.00-14.00
3. Manufacturing Industry	12.00-13.00	12.00-13.00	12.00-13.00	12.00-13.00	11.73-13.13
4. Service Industries	10.00-13.00	10.00-13.00	10.00-13.00	10.00-13.00	11.73-13.13
5. Transport	13.00-14.00	13.00-14.00	13.00-14.00	10.00-16.00	11.73-16.00
6. Agriculture & Livestock	12.0-13.0	12.0-13.0	10.0-13.0	10.0-13.0	11.73-13.00
7. Housing	10.0-13.0	10.0-13.0	10.0-13.0	10.0-13.0	12.73-14.63
8. Equity Finance	10.0-13.0	10.0-13.0	13.0	13.0-14.0	12.00-14.00
9. Personal Loan	15.00-16.00	15.00-16.00	15.00-16.00	15.00-16.00	15.00-16.00
10. Govt. Employee Loan	12.00	12.00	12.00	10.00-13.00	12.00-13.13

Source: BDBL, BNBL, BOBL, TBL, DPNBL, BIL and RICBL. Note: Effective April 1997, the interest rates on deposits and loans were fully liberalised by RMA.

Current Base Rates of the Financial Institutions

The RMA implemented the base rate system with effect from September 1, 2012. The main objective of introducing the base rate was (i) to encourage transparency in the methodology of pricing of lending products in the financial sector, and (ii) to enhance the monetary policy transmission process. The first Base rate review was conducted in April 2013 in collaboration with respective representatives from the commercial banks and on the basis of their annual audited accounts of 2012 the new base rates were computed. The following are the prevailing base rates of the financial institutions:

Financial Institutions		Applicable Base Rate	
		2013	2012
1	Bank of Bhutan Limited	10.81%	10.38%
2	Bhutan National Bank Limited	11.01%	10.70%
3	Druk PNB Bank Limited	11.25%	12.70%
4	T Bank Limited	11.19%	12.00%
5	Bhutan Development Bank Limited	10.83%	10.46%
6	Non-Bank Financial Institutions	13.19%	13.00%

The current base rate ranges between 10.81 percent to 11.25 percent in the case of commercial banks, while a uniform base rate of 13.19 percent is applied to all non-bank financial institutions who are also engaged in lending activities. The above base rates are subject to periodic revisions depending on changes in market conditions and the macroeconomic situation. The base rate for DPNB and T Bank declined as compared to the previous year, attributed to (i) an increase in term deposit rates (less than 1 year), which resulted in an increase in the level of their deployable deposits; (ii) improvements in their profits level; (iii) growth in the capital base; and (iv) a reduction in the cash reserve requirement (CRR).

Interest Rate Developments in India

A deterioration in macroeconomic conditions in India during 2012-13 slowed growth due to structural constraints and weak external demand. Moreover, with a widening current account deficit (CAD), high fiscal deficit earlier in the year and deterioration in assets quality, the Reserve Bank of India undertook calibrated monetary easing during 2012-13. With monetary easing, interest rates of public sector banks on their deposits with a maturity of one year to three years, declined from the range of 8.50-9.30 percent in September 2012 to a range of 8.00-9.10 percent in June 2013. Meanwhile, interest rates on deposits of the same maturity in the private sector banks and foreign owned banks stood at 8.50-9.50 percent and 3.60-9.88 percent, respectively during the same period.

The base rate of the public sector banks decreased from the range of 9.75-10.50 percent in September 2012 to 9.70-10.25 percent in June 2013. Correspondingly, the base rate of the private sector banks remained within the range of 9.60-11.25 percent, while the base rate of foreign banks ranged from 7.20-14.00 percent in June 2013.

The weighted Average Lending Rate (WALR) of public sector banks and private sector banks decreased from 12.34 percent in September 2012 to 12.10 percent and 12.32 percent to 12.10 percent, while the weighted average lending rate of foreign banks increased from 11.34 percent in September 2012 to 12.24 percent in June 2013.

Table 3 Indian Deposit and Lending Rates		Percent per annum			
Items	Sep-12	Dec-12	Mar-13	Jun-13	
1. Domestic Deposit Rate (1-3 year tenor)					
(i) Public Sector Banks	8.50-9.30	8.50-9.10	8.75-9.10	8.00-9.10	
(ii) Private Sector Banks	8.00-9.75	8.00-9.75	8.00-9.65	8.50-9.50	
(iii) Foreign Banks	3.50-9.75	3.50-9.75	3.50-9.60	3.60-9.88	
2. Base Rate					
(i) Public Sector Banks	9.75-10.50	9.75-10.50	9.70-10.25	9.70-10.25	
(ii) Private Sector Banks	9.75-11.25	9.70-11.25	9.70-11.25	9.60-11.25	
(iii) Foreign Banks	7.25-11.75	7.20-11.75	7.20-14.50	7.20-14.00	
3. Weighted Average Lending Rate					
(i) Public Sector Banks	12.34	12.23	12.18	12.10	
(ii) Private Sector Banks	12.32	12.14	12.13	12.10	
(iii) Foreign Banks	11.34	11.51	12.10	12.24	

Source: Reserve Bank of India Monthly Bulletin, November 2013.

TOURISM¹

A group of Americans led by Lars Eric Lindblad of the Lindblad Travel, New York were the first official tourists to Bhutan after the coronation of the fourth King in 1974. Thereafter, until the tourism industry was privatised in 1991, the Bhutan Tourism Corporation was responsible for all tourist operations. With the privatisation of the industry, the Tourism Authority of Bhutan was established as a regulatory body for tourist operations, which in 2000 was further reinstated as the Department of Tourism in a government restructuring exercise. In 2008, realizing the need for a multi-sectoral approach towards tourism development, the Department of Tourism under the Ministry of Economic Affairs was reconstituted as the Tourism Council of Bhutan (TCB), a separate autonomous body under the chairmanship of the Prime Minister.

The expansion of the tourism sector is recognized as an important prerequisite for meeting the government's objective of promoting Bhutan as a quality service destination. The government's target of achieving 100,000 tourist arrivals by the end of 10th FYP was fulfilled, as the number of tourist arrivals increased to 105,407 in the year 2012 from 64,028 in 2011. The above set target was achieved as a result of the government focusing more on diversifying tourism from cultural to nature-based products involving the opening up of many previously closed communities and protected areas. At the same time, Bhutan's tourism policy has been realigned along the theme of "high value, low impact" in order to not only meet

future tourist targets but more importantly, to ensure that adverse impacts from tourism on the socio-cultural and natural environment are minimal. According to the TCB's Bhutan Tourism Monitor 2012, the most popular keywords to describe Bhutan and visitors' impressions from the trip were: "beautiful" (74.2 percent), "natural" (68.8 percent), "cultural" (66.2 percent), "friendly" (41.7 percent), "happy" (32.7 percent) and "spiritual" (22 percent); while some other keywords were "unspoiled", "pure", "remote", "expensive", and "peaceful".

The tourism sector is an important private sector employer of Bhutan's growing population and is also recognized for its considerable potential as a major source of income for the government. The TCB estimates that the tourism industry provided employment for some 28,982 people in 2012 as compared to 22,045 people in 2011.

Analysis of Daily Fee Break Down (USD)

HIGH SEASON

Client pays per day	250.0
Less 10 % commission to overseas agent	25.0
<hr/>	
<i>So Bhutan receives</i>	<i>225.0</i>
Less 35% agreed royalty to RGOB	65.0
Less 2% withheld tax to RGOB	3.2
<hr/>	
<i>Received by tour operator</i>	<i>156.8</i>

LOW SEASON

Client pays per day	200.0
Less 10% commission to overseas agent	20.0
<hr/>	
<i>So Bhutan receives</i>	<i>180.0</i>
Less 35% agreed royalty to RGOB	65.0
Less 2% withheld tax to RGOB	2.3
<hr/>	
<i>Received by tour operator</i>	<i>112.7</i>

Source: Tourism Council of Bhutan.

¹ Sources: Tourism Council of Bhutan; UN World Tourism Organization; News archives

Since the last revision in 1989, tariffs were revised in January 2012: from USD 200 to USD 250 per day during the months of March, April, May, September, October and November; and from USD 165 to USD 200 during the months of January, February, June, July, August and December. The daily tariff covers the cost for food, lodge, transport and guide services. With royalty payable to the government still remaining the same at USD 65, the revised tariffs offer operators a chance to improve services, ranging from food to tour packages. Tour operators are also now mandated to keep their guests in accommodation facilities that have been rated as 3 stars and above.

Recent Performance

Total visitor arrivals in 2012 was recorded at 105,407 – this figure includes ‘regional’ (India, Bangladesh and Maldives) arrivals that entered Bhutan by air, and International MICE (Meetings, Incentives, Conferences, Exhibitions) and FAM (Familiarization) arrivals. In terms of international arrivals only, from 287 tourists in 1974, this figure has increased to 43,931 in 2012. Japanese tourists arrivals topped the Asian/Pacific region with 6,967 (2011: 3943) followed by 6,007 from USA, 3,766 Chinese, 3,753 Thais, 2,880 Germans, and notably, 2,466 from United Kingdom. The tourism sector also continues to remain the Kingdom's largest source for convertible currency earnings with revenue to the government comprising of royalties and taxes collected from tour operators².

International arrivals in terms of percentage decreased to 19.5 percent compared to 35.2 percent in the fiscal year 2011/12, but total revenue earnings increased to USD 62.8 million in the fiscal year 2012/13 from USD 47.7 in the year 2011/12. International arrivals increased by 19.5 percent from the previous fiscal year to 43,931 with a corresponding increase in total revenue to USD 62.8 million (an increase of 31.6 percent over the previous fiscal year). For the fiscal year 2012/13, government revenue from tourism, in the form of royalties and taxes, totalled Nu.902.4 million, accounting for around 4.3 percent of total domestic revenue, compared to its contribution of Nu.765.6 million in 2011/12. The higher number of tourist arrivals in 2012 was attributed to the continuous efforts put in by the Royal Government of Bhutan (RGOB) to diversify the tourism sector.

On January 23, 2013, Bhutan was selected as one of the three finalists for the “**Destination Stewardship**” award. The award goes to a destination which successfully demonstrates a program of sustainable tourism, while incorporating social, cultural, environmental and economic benefits. The award is categorized for the Tourism for Tomorrow Awards and is hosted by the World Travel and Tourism Council (WTTC).

² The tariff also includes USD 10 per visit paid by each convertible currency paying tourist, which goes towards the Tourism Development Fund (TDF). The TDF is used for the development of tourism activities with the approval of the TDF Management Committee, and is maintained by the TCB and Association of Bhutanese Tour Operators.

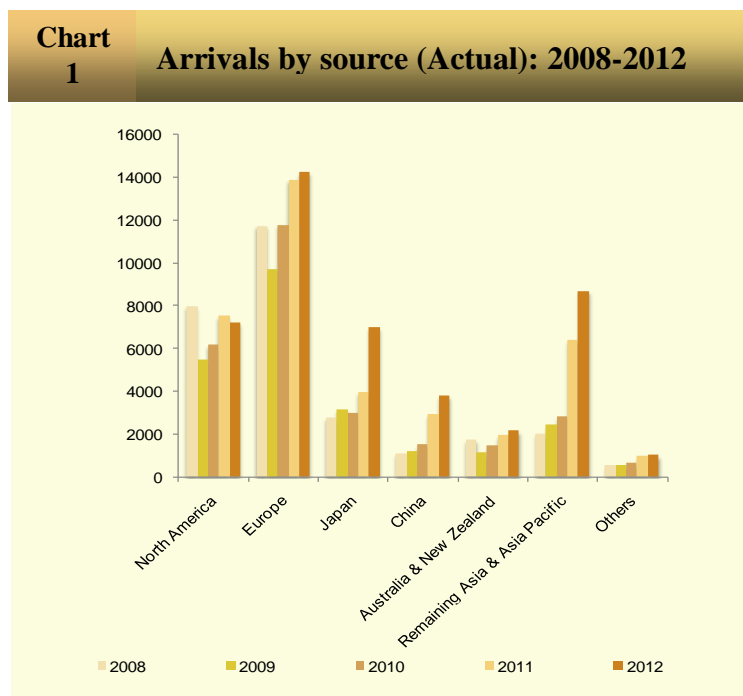
Table 1 Selected Tourism Indicators		2008	2009	2010	2011	2012
Tourist Arrivals		27,636	23,480	27,196	36,765	43,931
Of which: Cultural		23,437	21,076	24,443	28,892.6	43,606
Trekking *		4,199	2,404	2,753	3,466.8	3,216
% Change in arrivals		31.0	(15.0)	15.8	35.2	19.5
Gross receipts ¹		38.8	31.9	35.015	47.7	62.8
% Change in receipts		30.1	(17.9)	9.9	36.2	31.7
Contribution to Government revenue ¹		13.8	11.1	13.3	15.5	17.5
% Change in contribution		29.9	(19.8)	20.3	16.5	13.0

* Includes both trekking only and trek-cultural combination. 1) in millions of USD; Government revenue includes royalty and 2% tax. (Source: Tourism Council of Bhutan.)

With regard to source markets, tourists from Japan dominated the market in terms of numbers (16 percent of total international arrivals in 2012) while the United States dominated the market in terms of bed nights³ (15.8 percent of total bed nights in 2012). The United States was the second largest source for tourists in 2012 with 6,007 visitors. The increased number of tourists from Japan was hugely attributed to the Royal visit of Their Majesties the King and Queen to Japan in 2011. Meanwhile, China continued to be the third largest source of tourists.

In terms of bed nights, USA was followed by Japan (11.2 percent) and Germany (8.7 percent). The average length of stay in 2012 decreased to 6.9 against 7.5 days in 2011. Among

the source markets, tourists from Switzerland and Netherlands had the highest average length of stay at around 11 and 10 days, respectively, followed by Australia at 9.2 days. Tourists from USA stayed for about 8 days. The average length of stay for the top Asian source markets such as Japan, China and Thailand were all below 6 days. According to the TCB, Asian tourists were mostly “cultural tourists” and not “trekkers” since trekking required at least a week.



³ Bed nights measure the duration of stay in the country and have important implications for revenue generation.

From a regional perspective, the European and Asia/Asia-pacific regions have dominated the market and in 2012, these two regions accounted for 32 percent and 49 percent of total arrivals, respectively. Except for North America and the Middle East, where arrivals decreased by 4.2 and 35.9 percent, respectively from 2011, arrivals from all other regions increased in 2012 (Europe: 3 percent, South America and the Caribbean: 24.8 percent, Africa: 1.1 percent, and Asian/ Asia Pacific by 42.3 percent).

According to the UNWTO, **global international tourist** arrivals in 2012 grew by 4 percent crossing the one billion benchmark for the first time in history. Despite economic slowdown around the globe, demand for international tourists remained unaffected throughout 2012. International tourist arrivals reached 1,035 million in a year from 995 million in 2011. Asia and the Pacific recorded the fastest growth across all UNWTO regions, with 7 percent increase in tourist arrivals or 16 million more, followed by Africa with an increase of 6 percent, reaching 50 million for the first time ever. Growth is expected for 2013 between 3-4 percent, with strong prospects for Asia and the Pacific, followed by Africa, the Americas, Europe and the Middle East. International tourism receipts also grew by 4 percent in real terms amounting to a new record of USD 1,075 billion. By region, Asia and the Pacific, the Americas and Africa saw a firm growth at 6 percent and Europe at 2 percent, However, receipts in the Middle East were still down at negative 2 because of continuing political turbulence in the region. Nevertheless, the Middle East still recorded a relative improvement in 2012 compared to the previous year.

Developments, Challenges and Initiatives

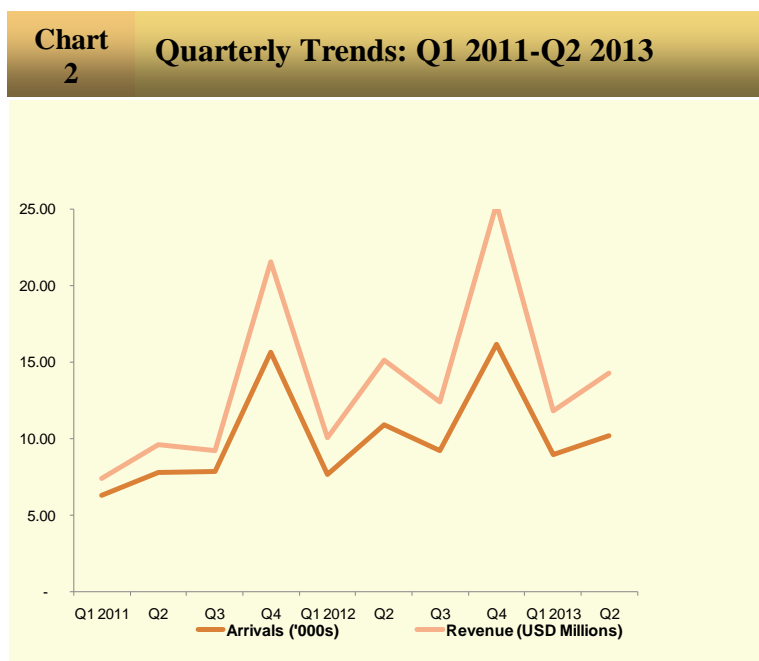
Liberalization of the licensing process in Bhutan's tourism sector was initiated in early 1999, following a unanimous response from Bhutanese entrepreneurs to dilute the monopoly of early operators. Licenses for tour operators had been limited to 33 for a number of years prior to the liberalization. Following liberalization, the number of tour operators has been increasing steadily since the tourism industry is viewed as being very lucrative and also in part because of the ease with which a license can be obtained. During 2012, 190 new licenses were issued for travel agencies (2010:110 and 2011:149). However, only 424 operators were active in 2012 compared to 318 in the previous year. Moreover, the industry continues to be dominated by a few well established tour companies – it has usually been the same ten companies that have accounted for almost half of the business in any given year (calculated as a company's share of the annual bed-nights). In 2012, there were 123 accommodation providers with a capacity of 2,749 rooms offering 5,464 beds per night. As per administrative records, unlike the previous year, '3-star' category of accommodation providers recorded the highest annual occupancy rate with 34.5 percent, followed by '5-star' category with an occupancy rate of 30.5 percent. In total, there were 2,749 hotel rooms (2011: 2,805) with a capacity of 5,464 beds per night supplying 163,290 (2011:167,160) beds per month in the year 2012.

Challenges are faced by the TCB include lack of experienced professionals, proper understanding of the international tourism industry and its market-oriented dynamics in both the government and private sector, low awareness of Bhutan in the global tourism industry and low volume of tourist visiting rural areas.

Several policy initiatives such as the FDI policy, guidelines on External Commercial Borrowings and the Economic Development Policy have been implemented over the years, in order to liberalize and integrate the Bhutanese economy with the rest of the world. Allowing joint venture projects such as the Bhutan Resorts Corporation Ltd (BRCL) and the Bhutan Eco-Ventures Ltd (BEVL) in the hospitality sector marked the early stages of building an enabling environment within the country to boost the local economy through inflows of technology, foreign exchange, and creation of employment. FDI is being sought from high end service providers to create infrastructure and facilities for wellness tourism amongst others. As of June 2013, there were 13 FDI companies operating in the hospitality sector.

In October 2003 Bhutan joined the United Nations World Tourism Organization. The UNWTO is the leading international organization in the field of tourism, headquartered in Madrid with 156 member nations currently. By becoming a member, Bhutan aims to develop its vast potential, and strengthen its ability to withstand external shocks.

One of the key challenges for the tourism sector in Bhutan is that of seasonality. Bhutan is mostly seen and marketed primarily as a cultural destination by international tourists and the tour operators. Bhutan's tourism products have been largely limited to religious festivals and cultural sites – in 2012, 'cultural' tourists made up 99.26 percent of the total and 7.32% were classified under 'trekking' made up of tourists who undertake only trekking activities as well as those who combine a trek with a cultural tour. Consequently, tourism in Bhutan is defined by two peak seasons within a calendar year (the second and last quarters), coinciding with religious festivals in the major towns of Thimphu, Paro, Punakha and Bumthang. Meanwhile, TCB has recently increased the lean season from three months to six months to address seasonality problems and better distribution of tourists.



Regional distribution of tourist within Bhutan is also an important challenge faced by TCB. The geographical locations of the country compounded by accessibility and infrastructure bottlenecks have limited the spread and impact of tourism within the country. Since entry into the country by air has been limited to Paro in the west, through a single airline with concomitant capacity problems while entry via road has again been limited to the border town of Phuntsholing in south-western Bhutan. As a result, tourism activities and benefits have been concentrated mainly in the west-central parts of the country.

In order to ensure that tourism in Bhutan is to be developed in a manner that is sustainable and equitable, various initiatives are being undertaken to address these challenges. Some of the areas that have been focused more on are, to improve the regional spread of tourism and to diversify tourism in order to ensure its sustainability and to smooth out current seasonality in the industry.

Among numerous initiatives to achieve more regional balance and improve accessibility, Gelephu in south-central Bhutan and Samdrup Jongkhar in south-eastern Bhutan were approved as royalty free zones both for entry and exit by road in May 2010. Phuentsholing continued to be the popular option for road traffic, with the one-night royalty free incentive for halts in registered hotels in Phuentsholing. Therefore in order to encourage hotel occupancy and flow of tourists to the south eastern regions, the Government started providing a similar incentive for Samdrup Jongkhar and Gelephu as well.

Entry and exit by air continues to be the preferred choice by the visitors in terms of the mode of access in general. The expansion of its operations network by Druk Air has generally improved air accessibility. Druk Air increased its flights and also opened up new sectors for operations including Singapore and Mumbai in August 2012, and Bagdogra, India, with the expectation to increase flows since tourists are generally interested in combining their trips to Bhutan with trips in nearby Sikkim, Darjeeling and Kalimpong. Moreover on the new flight connection to Singapore, visitors or tourists are no longer compelled to travel through the Bangkok sector to enter Bhutan. With the recent addition of a new Bhutan Airlines, the expectation of increasing tourist arrivals to Bhutan has been optimistic. The new airline started off its first commercial flight from Paro to Bangkok on October 11, 2013, on a daily basis along this route. This has afforded people with more choice of air travel especially since Bhutan Airlines has extended its route to include Paro-Kolkata and Kolkata-Bangkok sectors in December 2013 as well. Besides choice of airline carrier, people are also benefiting from price differences offered in airfare, discounts and other seasonal offers as both airlines find ways to entice customers. For instance, end of 2013, Druk Air offered a 'buy two, get three' and 'buy two, get two' scheme on the Paro-Bangkok sector, in response to customer feedback, specifically for families having three children. Bhutan Airlines also offered a 'buy one, get one free' scheme for the same sector.

Additionally, the opening of domestic air services in Tashigang, Bumthang and Gelephu, helped further enhance accessibility and transportation, while enabling the spread of benefits from tourism to these regions as well. However, the services are still being held up till other auxiliary works including the runway reshaping of Yongphula domestic airport in Tashigang, security fencing in Gelephu domestic airport and other certification issues to start off its scheduled flight operations, are completed. The Gelephu domestic airport is expected to be expanded to serve as a backup airport to Paro International during bad weather and emergency flight diversions.

The potential of nature-based tourism, wellness tourism and MICE tourism are also being explored in Bhutan. In terms of product diversification, the opening up of previously protected areas, reserves and remote communities are aimed to promote Bhutan not just as a cultural but also as a trekking and environmental destination, focusing on community-based and eco-tourism products. The development of home stays/farm houses have also been promoted in an effort to encourage greater community tourism and lodging in various districts. The TCB has plans to encourage more home-stays in rural regions and some of the rural houses in Trashiyangtse have

already been selected as venues for tourists. Similarly, in Phobjikha in Tashiyantse, the best roosting place for the Black-necked Cranes, 20 houses have been identified as suitable home stay locations for tourists. Other sites selected for community-based tourism include the remote Merak and Sakteng in Trashigang and Nabji-Korphu in Trongsa. In addition, construction of local hotels and foreign direct investment hotels in eastern Bhutan are being encouraged through incentives, including tax holidays (up to 15 years), as part of both TCB and the government's efforts towards balanced regional and sustainable development.

Improving tourism infrastructure, capacity and governance and liberalizing the pricing policy are other areas of key focus for authorities. The Royal Institute for Tourism and Hospitality, the first such institute in the country, was established in Thimphu in 2010 to help build capacity in the hospitality sector at an international standard. Druk Air also introduced an online airline reservation system in February 2010 and online visa processing system in July 2010. Other initiatives include proactive marketing campaigns by the TCB, involving collaboration strategies with international tour operators and active participation in numerous international tourism fairs and road shows. All registered hotels were also rated according to the star classification system in July 2010, while from 2012 only hotels that are 3 stars and above will be allowed to accommodate tourists to ensure quality in services provided; 12 "2-Star" hotels were upgraded into 3-Star and above properties during 2012. The newly elected government has pledged to achieve 200,000 tourist arrivals at the end of 11th FYP and plans to promote tourism through support schemes for business association like tour operators, hotels, guides and handicraft associations.

Regional Tourists and Spending Patterns

The highest number of overall tourist arrivals (including business, official and FAM visitors) was recorded in the year 2012 at 105,407 which includes 54,685 international visitors, and 50,722 regional visitors from Bangladesh, India and Maldives. Since regional visitors do not require visas to enter the country, the TCB data on international tourists do not include visitors from these countries. Regional tourists are exempted from the minimum daily tariff and do not require visas, meaning they can spend and consume goods and services at their own discretion. During the year, 43,672 (2011:46,648) visitors were from India, followed by 6,087(2011:5,824) visitors from Bangladesh, and 1,014(2011:761) visitors from Maldives. A majority of them had expressed their satisfaction with the pricing and quality of goods and services during the year.

The TCB is however looking to promote high-end tourists from India and tourists from the region in general since these tourists typically visit Bhutan during the snow-season in winter and can thereby help smooth out some of the seasonality in the industry.

Considering the importance of regional tourists, over the past years, TCB carried out numerous marketing and promotional activities for regional markets, with the focus to try and attract regional tourists during lean seasons. Since 2011, one of India's biggest travel operators, Make My Trip, started selling Bhutan to their high-end clientele that significantly boosted arrivals.

On average, a regional visitor is estimated by the TCB to spend around Nu.33,718 (USD 616.6) for a trip to Bhutan. Depending on the lengths of stay, some 57.2 percent of total respondents (in an exit survey carried out by TCB for 2,892 regional tourists) spent Nu.20,000 or less, for their

Bhutan holiday while some 16 percent spent more than Nu.50,000. Range wise, around 19.2 percent of the total respondents spent between Nu.10,001 to 20,000; followed by 15 percent who spent between Nu.30,000 to 50,000. This indicates that the regional segments should have contributed in excess of USD 31.3 million in tourism receipts of 2012, excluding Druk Air fares. Based on tourism value-chain analysis vis-à-vis spending patterns, the biggest beneficiaries from regional tourist expenditures are the hotels generating 26.8 percent of total spending followed by Druk Air with 19.1 percent. The travel agents' share of earnings from regional tourist spending is through organising sightseeing tours, excursions, and guiding, valued at 5.1 percent exclusively. The transportation sector's earning is estimated to be 10 percent and visitors spend another 7.4 percent on food and beverages.

However, overall tourism earnings including official and business segments, and regional tourism were estimated to be approximately in excess of USD 227 million in 2012 compared to USD 105 in 2011. For instance, the average amount a tourist spends on souvenirs available at the handicraft shops was USD 240.2. Similarly, an average of USD 132.6 was spent on tipping service providers, like guides, drivers, and hotel personnel. The government's foreign exchange earnings from the convertible currency-paying tourists have started increasing annually from the year 2010. For instance, from USD 35 million in 2010, it increased to about USD 48 million in 2011, which further increased by more than 35 percent to about USD 63 million in 2012.

Chart 3 Total Spending by Regional Visitors (Nu)

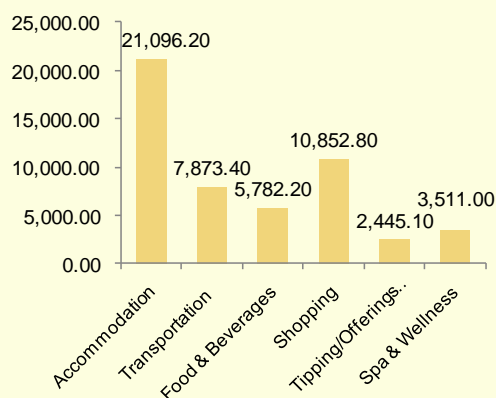


Table 2 Tourist Arrivals and Revenues

Period	2011				2012				2013			
	Absolute		% change		Absolute		% change		Absolute		% change	
	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*
Jan	786	0.7	42.4	46.6	1496	1.3	90.3	89.7	1042	0.9	(30.3)	(29.5)
Feb	1602	1.7	18.0	21.2	1810	2.0	13.0	17.6	2649	2.8	46.4	38.6
Mar	3871	5.0	1.6	(4.9)	4347	6.7	12.3	34.6	5265	8.1	21.1	20.4
Apr	4104	5.5	34.2	24.1	5871	9.2	43.1	68.2	5268	8.4	(10.3)	(8.8)
May	2399	2.9	37.3	36.6	2697	3.6	12.4	23.3	2647	3.5	(1.9)	(2.0)
Jun	1277	1.2	69.6	64.5	2335	2.3	82.9	91.5	2288	2.3	(2.0)	2.7
Jul	1601	1.6	85.7	103.8	1583	1.5	(1.1)	(2.2)				
Aug	2443	2.4	87.9	69.1	2670	2.5	9.3	3.2				
Sep	3792	5.2	21.3	48.4	4976	8.3	31.2	60.6				
Oct	8163	11.9	38.6	33.7	8359	14.5	2.4	21.7				
Nov	5059	7.1	54.9	54.5	5013	7.9	(0.9)	11.4				
Dec	2392	2.5	96.2	81.9	2772	2.8	15.9	14.1				
Total	37,489	47.7	39.2	36.2	43,929	62.8	17.2	31.6				

* In USD millions.

Source : Monthly Statement, Tourism Council of Bhutan. The discrepancies in the monthly/annual total number of tourist arrivals is due to change in trips by some visitors.

Table 3 Source of International Tourist Arrivals by Region (% of total)

	2008	2009	2010	2011	2012
Asia & Asia Pacific	27.2	33.2	32.0	40.3	49.0
<i>of which:</i> Japan	9.9	13.4	10.9	10.5	15.9
China	3.9	4.9	5.5	7.7	8.6
Thailand	2.3	4.2	3.2	6.0	8.1
Australia	5.5	4.1	4.8	4.7	4.4
Europe	42.3	41.3	43.2	37.1	32.4
<i>of which:</i> Germany	6.2	6.8	8.3	6.1	6.6
United Kingdom	10.0	8.4	6.5	7.5	5.6
North America	28.7	23.3	22.6	20.0	16.4
<i>of which:</i> USA	25.1	20.4	19.1	16.6	13.7
South America & Caribbean Islands	1.1	1.2	1.3	1.5	1.5
Middle East	0.4	0.7	0.5	0.9	0.5
Africa	0.3	0.3	0.4	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0

North America = USA, Canada & Mexico.

Source: Tourism Council of Bhutan.

Table 4 Tourism Arrivals by Nationality and Activity 2008-2012

Country of Origin	2008	2009	2010	2011	2012	Change over 2011 (%)	% of total (2012)
Japan	2,745	3,136	2,963	3,943	6,967	76.7	15.9
USA	6,941	4,786	5,189	6,226	6,007	(3.5)	13.7
China	1,069	1,143	1,494	2,896	3,766	30.0	8.6
Thailand	627	975	875	2,235	3,573	59.9	8.1
Germany	1,717	1,587	2,250	2,287	2,880	25.9	6.6
United Kingdom	2,758	1,968	1,772	2,795	2,466	(11.8)	5.6
Australia	1,524	970	1,318	1,773	1,926	8.6	4.4
France	1,402	1,189	1,454	1,585	1,847	16.5	4.2
Singapore	667	708	785	1,349	1,605	19.0	3.7
Malaysia	221	367	356	788	1,307	65.9	3.0
Canada	852	556	786	1,061	999	(5.8)	2.3
Netherlands	915	780	847	933	993	6.4	2.3
Switzerland	597	543	789	781	932	19.3	2.1
Taiwan	114	83	184	891	801	(10.1)	1.8
Spain	803	485	528	727	789	8.5	1.8
Italy	751	759	1,028	1,014	786	(22.5)	1.8
S. Korea	97	49	182	407	630	54.8	1.4
Austria	472	420	505	528	611	15.7	1.4
Belgium	432	364	404	539	505	(6.3)	1.1
Brazil	249	178	229	304	462	52.0	1.1
Russia	245	270	275	291	365	25.4	0.8
Denmark	127	153	412	430	332	(22.8)	0.8
Philippines	72	59	119	128	243	89.8	0.6
Sweden	177	88	137	256	241	(5.9)	0.5
Others	2,062	1,864	2,315	3,312	2,898	(12.5)	6.6
TOTAL ARRIVALS	27,636	23,480	27,196	37,479	43,931	17.2	100.0
<i>Trekking*</i>	<i>4,199</i>	<i>2,404</i>	<i>2,753</i>	<i>3,467</i>	<i>3,216</i>	<i>(7.2)</i>	
<i>Cultural*</i>	<i>23,437</i>	<i>21,076</i>	<i>24,443</i>	<i>28,893</i>	<i>43,606</i>	<i>50.9</i>	
<i>Others(Bird watching,sports,textile etc)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>5,120</i>	<i>4,490</i>	<i>(12.3)</i>	

* Includes those who combined both trek & cultural tour . *Source: Tourism Council of Bhutan*

BHUTAN'S HYDROPOWER SECTOR*

1. Background

Bhutan's hydropower potential is estimated at 30,000 megawatts (MW), of which around 23,760 MW has been estimated as being techno-economically feasible. Presently, a little over 1,480 MW or about 5 percent of that potential has been harnessed.

While the first hydroelectric plant was built in Thimphu, producing 360 kilowatts (KW) of electricity, hydropower earnings have driven economic growth since the first major hydropower plant was commissioned in Chhukha (336 MW) in 1988. Besides Chhukha, there are currently three other major hydropower plants in operation, namely Basochhu with a capacity of 64 MW, Kurichhu with a capacity of 60 MW and Tala with a capacity of 1,020 MW. The Chhukha, Kurichhu and Tala projects were all financed with assistance from the government of India in the form of 60 percent grant and 40 percent loan components. All three projects export a bulk of their production to India. The Basochhu project was financed with assistance from the government of Austria and hydropower from Basochhu is sold to Chhukha.

Bhutan's hydropower sector comprises of:

- **Department of Hydropower and Power Systems** and **Department of Renewable Energy** (both under the Ministry of Economic Affairs) - The government's policy and planning body for the entire energy sector.
- **Bhutan Electricity Authority** (fully autonomous since January 2010) - A regulatory body to regulate the electricity supply industry. The BEA also regulates the domestic pricing of electricity (excepting any long-term agreements that the Bhutan Power Corporation Limited may have signed with domestic companies in order to encourage the growth of the domestic industry).
- **Bhutan Power Corporation Limited (BPC)** - A public utility company mandated with the domestic provision of adequate, reliable and affordable electricity. The BPC is 100 percent owned by Druk Holding and Investments.
- **Druk Green Power Corporation Limited (DGPC)** - A wholly-owned corporate entity of the government placed under Druk Holding and Investments, responsible for the promotion, development and management of Bhutan's hydropower resources. The DGPC was incorporated on January 1, 2008, through the amalgamation of the erstwhile Chhukha, Kurichhu, and Basochhu hydropower corporations, while it took over Tala in April 2009.

* Sources : Bhutan Electricity Authority
 Bhutan Power Corporation Limited
 Ministry of Economic Affairs
 Department of Revenue and Customs, Ministry of Finance
 Druk Green Power Corporation Limited
 Kuenselonline news archives

Hydropower is exported to India at Nu.2 per unit from Chhukha (revised upward from Nu.1.5 per unit from January 1, 2005), and at Nu.1.80 per unit from Kurichhu and Tala. The export tariff for Kurichhu was increased from Nu.1.75 per unit from January 1, 2008 and is now pegged to the Tala export tariff. For domestic sale to the BPC, the rates were fixed at Nu.0.30 per unit for up to 15 percent of the annual generation (royalty energy) and beyond the 15 percent royalty energy, at Nu.1.20 per unit. Rates for royalty energy were revised downwards to Nu.0.13 per unit from August 2010.

The BPC's power tariff for domestic consumers has been structured as follows:

Customer Category	Tariff / Charge (Nu/kWh)			
	1 Jul 2012 - 30 Jun 2013	1 Oct 2013-30 Jun 2014	1 Jul 2014-30 June 2015	1 Jul 2015-30 June 2016
Wheeling (Nu./kWh)	0.111	0.114	0.114	0.114
0-100 kWh (others)	0.85	0.98	1.12	1.28
0-100kWh(rural domestic)	0.00	0.00	0.00	0.00
Low Voltage				
101-300kWh	1.62	1.86	2.13	2.45
300+ kWh	2.14	2.46	2.82	3.23
LV bulk	2.14	2.56	3.07	3.68
Medium Voltage				
Energy charge	1.79	1.98	2.18	2.43
High Voltage				
Demand charge (per month)	115	155	195	235
Energy charge	1.54	1.67	1.81	1.96
Demand charge (per month)	105	130	155	180

Source: Bhutan Power Corporation Ltd (<http://www.bpc.bt/utilities/electricity-tariffs>).

Note: 1 unit = 1kWh; 1 million units (MU) = 1GWh.

(See Box on the next page for a comparison of tariff structures with the neighbouring Indian states of West Bengal and Assam)

Tariff Structures: Comparisons with neighbouring Indian States

Starting October 1, 2013, the government implemented 100-unit free electricity scheme for rural households until 2015/16. According to BPC, the scheme translates to 90 MU (millions unit) of free power annually. The government will have to pay BPC Nu.526 per month for a household annually. However, the government is entitled to 15 percent royalty energy from Druk Green Power Corporation, which is worth 1,049 MU and which is enough to cover the 100-unit free electricity scheme. The scheme has been provided with the hope of improving the quality of rural life and livelihood, and addressing challenges associated with human-wildlife conflict, high dependence on forest resources and rural-urban migration.

As required by Clause 4.1 of the **Tariff Determination Regulation, 2010**, the BPC has revised the power tariff from October 1, 2013 due to the expiry of validity of prevailing tariffs on June 30, 2013. The BPC is expected to incur increasing operation and maintenance expenditures considering the significant expansion of rural distribution networks and the ageing infrastructure base. Clause 3.3 of the regulation states that the tariffs shall reflect, among others, the actual cost of efficient business operation. Hence, the tariff was revised to support planned activities with due regard to the need to recover the allowed costs in a manner that least distorts efficient consumption patterns and consumers' ability to respond to price signals, and in line with the tariff determination principles of the regulation.

In the neighboring Indian state of West Bengal, the **lifeline block**, meant for rural households, has a cap of 75 units with a tariff of Rs 3.19 a unit and at 30 units capped with a tariff of Rs.2.75 a unit in the bordering state of Assam. In Bhutan, the lifeline block has a ceiling of 100 units at Nu 0.98 a unit, the new revised rate for 2013-14. Besides, it is free for rural households if consumption is under 100 units a month.

The cap for **low voltage (LV)** users in West Bengal is 350 units, with tariff averaging at Rs.5.69 a unit. For the same category, the tariff is Rs.4.59 a unit in Assam. In Bhutan, the revised rate for LV users consuming more than 300 units is Nu.2.46 a unit; for LV bulk users, it is Nu.2.56 a unit for 2013-14.

For **medium voltage (MV)** consumers, the tariff is Rs 6.97 a unit in West Bengal, and Rs.3.25 a unit in Assam. In Bhutan, the energy charge in this category is now Nu.1.98 a unit for the current fiscal year, which will reach Nu.2.43 a unit in 2015-16. MV users in Bhutan also pay a demand or power booking charge, which has not been considered when comparing the rates.

High voltage (HV) consumers or factories in West Bengal pay Rs.6.13 a unit, while in Assam it is Rs.4.18 a unit. Bhutanese factories pay Nu.1.67 a unit, starting October this year, not counting the demand charge. This reaches Nu.1.96 a unit in 2015-16.

Chhukha Hydropower Plant (336 MW)

Chhukha was Bhutan's first major hydropower project and is located on the Wangchhu. Being the first time that such a project was undertaken, around four years (1974-1978) were spent on the construction and development of infrastructure. The project was completed at a cost of Nu.2.5 billion and fully commissioned by August 22, 1988.

Basochhu Hydropower Plant (64 MW)

The Basochhu project was constructed with financial assistance from the government of Austria. The two stages of the Basochhu project have a combined installed capacity of 64 MW. The lower stage utilizes water released by the upper stage to generate 32 MW of hydropower. An additional 20 percent flow (i.e. 8 MW) is tapped from the nearby Rurichhu. Construction commenced in November 1997 while both stages were fully commissioned by September 2004.

Basochhu power is supplied through 220 kV and 66 kV transmission lines to the Semtokha central switchyard in Thimphu. Although at present, the power is confined to the western grid only, work is underway to transmit the power to the southern dzongkhags by the BPC. The ultimate objective of the RGOB is to link the western grid to the eastern grid in Gelephu, forming an integrated national power transmission grid.

Kurichhu Hydropower Plant (60 MW)

A run-of-the-river scheme on the Kurichhu in Gyelposhing, Mongar, the project was constructed on the

Chart 1 Chhukha Quarterly Performance: Q1 2011 – Q2 2013

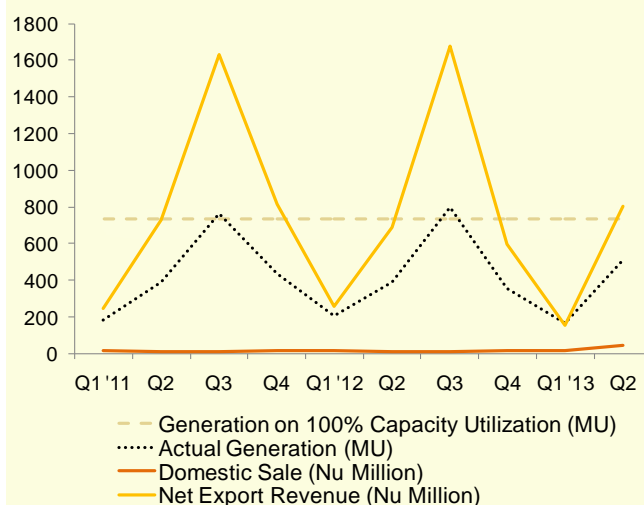


Chart 2 Basochhu Quarterly Performance: Q1 2011 – Q2 2013

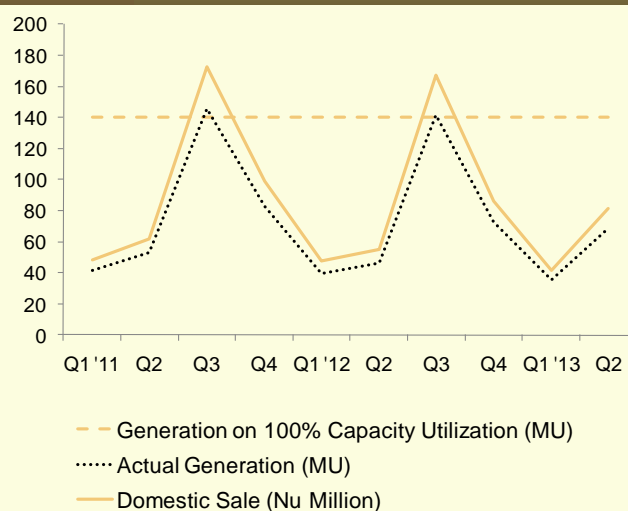
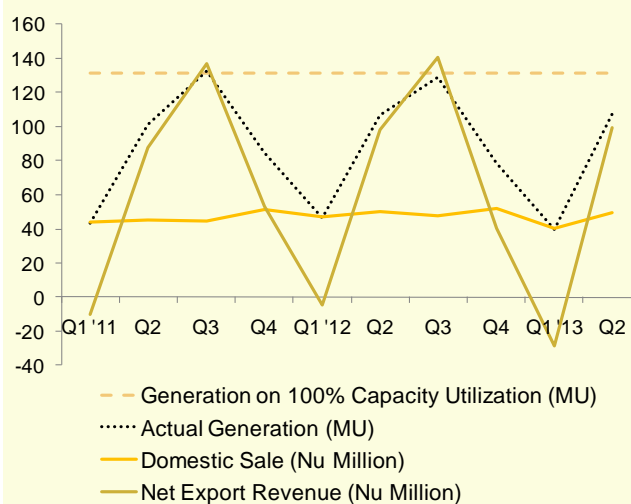


Chart 3 Kurichhu Quarterly Performance: Q1 2011 – Q2 2013

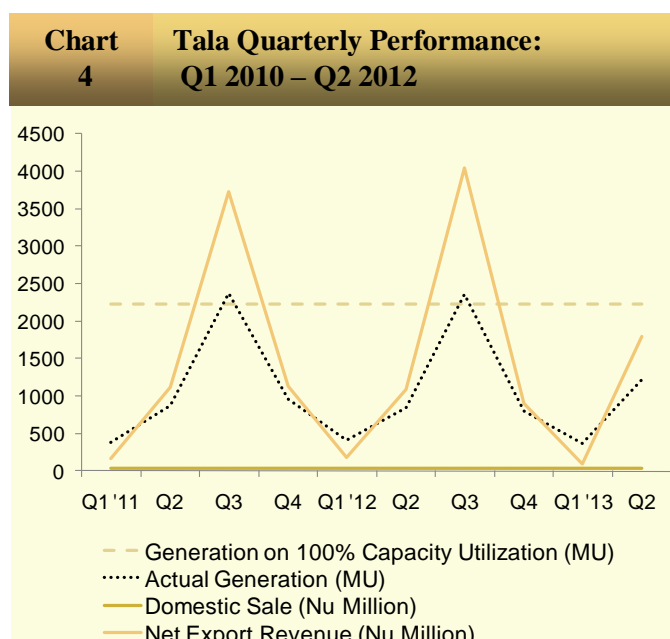


command of His Majesty the 4th King Jigme Singye Wangchuck, to provide electricity to rural homes in the east and to bring about balanced regional development.

The Kurichhu plant supplies power to the eastern transmission grid network, which distributes it to dzongkhags in eastern and central Bhutan. Starting from Gyelposhing where the Kurichhu project is based, the 132 kV line connects substations in Tangmachu in Lhuentse, Kilikhar in Mongar, Kanglung in Trashigang, Nangkhori in Pemagatsel, Deothang in Samdrup Jongkhar, Tingtibi in Zhemgang, and a feeder bay extension in Gelephu. The network was built with a grant from the GOI of Nu.1.8 billion. The Kurichhu project was completed in seven years (1995-2002)

Tala Hydropower Plant (1,020 MW)

The Tala plant is located downstream on the Wangchhu from the Chhukha hydropower plant. Construction commenced in October 1997 and while the project was initially scheduled to be completed in 8 years, several unforeseen obstacles from adverse geological conditions delayed the commissioning of the first unit of the project to July 2006. Works are now currently underway to divert the **Tsibjalumchhu** into the Tala dam to augment the hydropower generation of Tala. The ground breaking ceremony of the Tsibjalumchhu Diversion Scheme was held on June 20, 2012 and the diversion work is going on. The scheme is expected to add 93 GWh of annual energy generation. The contract for the project was awarded to M/s Abir Infrastructure Private Limited of India at a value of Nu.254 million.



2. News and Milestones in the Hydropower Sector

- March 23, 1974:** The government of India and the RGOB signed the agreement for the construction of Bhutan's first major hydropower project at **Chhukha**.
- September 7, 1986:** Bhutan began exporting hydropower to India with the commissioning of Chhukha's first 84 MW hydro-turbine unit. The other three units were commissioned by **August 22, 1988**. Chhukha was inaugurated by His Excellency R. Venkataraman, the then President of India, in the presence of His Majesty the 4th King, Jigme Singye Wangchuck on **October 21, 1988**.
- February 18, 1994:** The contract for the 60 MW **Kurichhu** project was signed between the GoI and the RGOB. Construction commenced on **September 27, 1995**. The first phase (3 units of 45 MW) was completed in **September 2001** and

commercial operations commenced in **November 2001**. The second phase (1 unit of 15MW) was completed in **May 2002**. The project was formally inaugurated on **April 26, 2006**.

- **April 14, 1995:** The financing agreement for the 64 MW **Basochhu** project was signed between the RGOB and the government of Austria. Construction on Phase I (24 MW) started in **November 1997** and Phase I was commissioned in **October 2001**. Phase II (40 MW) started commercial operations on **September 8, 2004** while the project was formally inaugurated on **March 26, 2005**.
- **March 5, 1996:** The contract for the 1,020 MW **Tala** project was signed between the GoI and the RGOB. Works on the project began in **October 1997**. Tala commissioned its first turbine (170 MW) on **July 29, 2006**. The second turbine was commissioned on **October 7, 2006** while all six units were operational from **March 29, 2007**. Tala was officially commissioned in **2008**.
- Effective **July 1, 2002**, the Department of Power under the Ministry of Trade and Industry (now renamed the Ministry of Economic Affairs) was separated into the **Bhutan Power Corporation**, the **Department of Energy**, and the **Bhutan Electricity Authority**. The restructuring was implemented in pursuance to provisions in the Electricity Act 2001.
- **June 10, 2003:** The **eastern transmission grid network** was inaugurated. The network distributes power from the Kurichhu project to dzongkhags in eastern and central Bhutan.
- **September 15, 2003:** The RGOB and the GoI signed the MOU for the preparation of a detailed project report on the **Punatsangchhu** hydropower project. The agreement on the implementation of the project was signed on **28 July 2007**. Construction commenced in **November 2008**.
- **December 2004:** **Tariff** for the export of power to India from Chhukha was revised from Nu.1.5 per unit to Nu.2 per unit, effective from January 1, 2005.
- **January 25, 2005:** The MOU for the preparation of the DPRs for the **Punatsangchhu (Stage II)** and **Mangdechhu** hydroelectric projects were signed between the RGOB and the GoI. The implementation agreements were signed on **April 30, 2010**. Preconstruction works had already commenced in **March 2010**.
- **March 31, 2005:** The agreement for the 126 MW **Dagachhu** hydropower project was signed between the governments of Austria and Bhutan. Construction commenced in **October 2009**.
- **July 28, 2006:** A formal agreement to provide a **systematic framework for cooperation in the development of hydropower projects** was signed between the RGOB and the GoI. The agreement, valid for 60 years and to be reviewed every 10 years, facilitates the supply of funds and manpower from India for the construction of hydropower projects in Bhutan. The **protocol on the tariff for the export of power from Tala** was also signed between PTC India Limited and RGOB – a tariff

of Nu.1.8 per unit was agreed upon, to be increased by 10 percent every 5 years until the loan amount is repaid, after which the increase will be by 5 percent every 5 years.

- **November 11, 2007:** The hydropower corporations (Basochhu, Chhukha and Kurichhu) along with other government-owned companies were brought under the newly created **Druk Holding and Investments**. The DHI is a government holding company with the primary objective of safeguarding national wealth for all times to come.
- **January 1, 2008:** The **Druk Green Power Corporation Limited** was incorporated under the Companies Act of the Kingdom of Bhutan, through the amalgamation of the erstwhile Chhukha, Kurichhu, and Basochhu hydropower corporations, while it took over Tala in April 2009.
- **December 22, 2009:** MOUs were signed with 4 Indian public sector undertakings to prepare detailed project reports on the **Amochhu, Kuri Gongri, Chamkharchu-I** and **Kholongchhu** projects. The governments of Bhutan and India also signed an agreement on consultancy services for the preparation of Bhutan's **national transmission grid master plan**.
- **December 15, 2012:** An MOU was signed between the state of Haryana in India and the RGOB to explore the possibility of trade in hydropower between the two, as well as economic cooperation in other areas such as agriculture, livestock, urban planning and infrastructure development.
- **December 20-21, 2012:** The **agreement** for the development of the four hydropower projects (Bunakha, Kholongchhu, Wangchhu storage and Chamkharchhu I) under **joint venture** mode were finalized and signed during the 10th empowered joint group meeting between relevant Bhutanese and Indian officials in New Delhi, India.
- **April 3, 2013:** The 11th Empowered Joint Group (EJG) Meeting was held between India and Bhutan focusing on the signing of inter-governmental agreements for Sunkosh, Amochu, Kuri-Gongri and joint venture projects of Kholongchu, Chamkharchu, Wangchu and Bunakha reservoir scheme.

3. Hydropower Strategy and Projects in the Pipeline

The RGOB aims to achieve a total installed capacity of 10,000 MW of hydropower by the year 2020. To that end the DGPC's 10 year investment plan formally outlines two modes through which this objective will be achieved – through an inter-governmental (IG) undertaking with the government of India and through joint venture undertakings with Indian public sector companies. Apart from this strategy, the DGPC will also make its own additional investments in medium-sized projects.

3.1 Inter-governmental Undertakings

Except for the composition of grants and loans, the IG model follows the model implemented so far in the construction of the Kurichhu and Tala plants wherein the two

governments establish an authority that gets 100 percent financing from India to undertake the construction of projects.

Six projects have been identified and are at various stages of development or feasibility study under the IG mode: Punatsangchhu I (1200 MW); Punatsangchu II (1020 MW); Mangdechhu (720 MW); Sankosh storage (2585 MW); Amochhu storage (540 MW); and Kuri Gongri (3400 MW). After completion, the projects will be handed over to the DGPC.

Punatsangchhu I will be financed by the GOI as 40 percent grant and 60 percent loan at 10 percent interest to be repaid in twelve equated annual installments. Pre-construction activities commenced in November 2007, while all basic infrastructure works were completed by May 2010. Approved at an estimated cost of Nu./ ₹ 31.1 billion (December 2006 price levels) for generation works and Nu./ ₹ 4.1 million for transmission works up to the Bhutan-India border, the project was expected to be completed by November 2015. However, due to interruptions by geological conditions the completion date was extended for another year. With the adoption of advanced technical process, the conventional base has been replaced by advance Roller Compact Concrete (RCC) base project handling which is of first kind in Asia if implemented. It was not actually started as the rate is not yet finalised. The RCC was first introduced in U.S.A, and in Asia a small one was introduced in Mumbai, India.

It is estimated that 10 percent of the electricity generated from the project will be utilized for domestic consumption, with the remaining 90 percent to be exported to India. It is also expected that the export tariff will be determined as per the intergovernmental agreement, subject to review every 4 years. Given the revised financing modality with a lower grant component, the tariff for Punatsangchhu may be higher than the Tala tariff as it entails a higher cost for the RGOB.

Meanwhile, pre-construction works on the **Punatsangchhu II** and **Mangdechhu** projects commenced in March 2010 and both the projects are scheduled to be completed by the end of 2017. The two projects will be financed through 30 percent grant and 70 percent loan at 10 percent interest. For, Puna II, more than 50 percent of the major works have been completed and is expected to complete as per schedule (December 2017). While a follow up meeting on 11th EJG meeting was held at Delhi between Bhutan and India in April 2013 to speed up the clearance on the Detailed Projects Reports (DPRs) for the country's upcoming seven hydropower projects. The DPRs for Sunkosh and Ammochhu is more or less ready while Kuri-Gongri might take time. Under inter-governmental model, all money, including the loan and the grant comes from GoI, whereas in joint venture, which is commercial in nature, money is raised from the market including the financial institutions in India.

3.2 Joint Venture Undertakings

Under the joint venture mode, the Indian public sector will partner with the DGPC to undertake projects. Four projects have been identified under this mode: **Bunakha** storage (180 MW), **Kholongchhu** (600 MW), **Wangchhu** storage (570 MW) and **Chamkharchhu I** (770 MW). The NHPC limited India, Satluj Jal Vidyut Nigam limited,

Tehri hydro development corporation limited and the national thermal power corporation have been identified as the joint venture partners of DGPC to undertake these projects.

The DPRs for all four projects were more or less completed while the 11th empowered joint group meeting of relevant officials from the two countries occurred on April 3, 2013 in Thimphu. The reassurance was made to accelerate the ongoing construction of hydropower projects to harness the 10,000MW hydropower by 2020. The joint venture agreements were given to GOI for clearance.

Ownership of the JV companies will be on a **50:50 basis** between the DGPC and respective the Indian partners. The projects will pay royalty of 12 percent for 12 years, and 18 percent thereafter, including a concession period of 30 years. During the construction period, the management team of the projects will have one government nominee each of the two governments. The projects will be established under **70:30 debt-equity ratio**. Of the 30 percent equity, the Indian government would contribute the 15 percent, while the DGPC would contribute the remaining 15 percent. However, the DGPC's 15 percent equity would be in the form of a grant from India. The joint venture companies would decide on how to raise the remaining 70 percent debt, with the Indian PSUs expected to take the lead role in raising that money.

Project	Capacity (MW)	DPR Schedule	Construction Schedule	Development Model
1 Punatsangchhu-I	1200	Completed	2008-2016	IG
2 Punatsangchhu-II	1020	Completed	2010-2017	IG
3 Mangdechhu	720	Completed	2010-2017	IG
4 Sankosh Storage	2585	Completed	2013-2019	IG
5 Kuri-Gongri	3400	Pre-feasibility studies underway	2014-2022	IG
6 Amochhu Storage	540	Underway	2013-2019	IG
7 Wangchhu	570	Awaiting endorsement	2013-2019	JV with Indian PSU
8 Bunakha Storage	180	Awaiting endorsement	2013-2019	JV with Indian PSU
9 Kholongchu	600	Awaiting endorsement	2013-2019	JV with Indian PSU
10 Chamkharchhu-I	770	Awaiting endorsement	2013-2020	JV with Indian PSU
11 Dagachhu	126	Feasibility studies completed	2009-2014	PPP (DGPC, NPPF & TPCL)
12 Nikachhu	118	Completed	2014-2017	DGPC PPP
13 Gamrichhu	Gamri I-81 Gamri II-95	Pre-feasibility studies underway		DGPC PPP
14 Rotpashong	1230	Pre-feasibility studies completed		DGPC PPP
15 Khomachhu	363	Pre-feasibility studies completed		DGPC PPP
16 Aiechhu	Alt I-18, Alt II-52 Alt III-54 , Alt IV-30	Pre-feasibility studies completed	Under suspension	DGPC PPP

Source: DGPC, DOE & media. Projects 1-10 will be developed to achieve the government's target generation of 10,000 MW of hydropower by 2020. The rest of the projects are additional investments by DGPC towards its goal of an additional 500 MW of power by 2020.

3.3 DGPC Investments under its Sustainable Hydropower Policy

Apart from developing hydropower projects through financial assistance from India under the IG and JV modes, the DGPC also promotes self-undertaken projects in medium-sized plants to build human resource capacity in the hydropower sector. Under this strategy the DGPC will partner with domestic and external investors to raise financing for and to manage the projects. Several projects have already been identified, including **Dagachhu** (126 MW), **Nikachhu** (208 MW) and **Gamri** (100 MW) projects. Construction on Dagachhu project has already commenced while feasibility studies for the Gamri project is underway and the detailed design and engineering for Nikacchu (Trongsa) are being finalized.

Dagachhu Hydroelectric Project (126 MW)

DGPC is a lead partner in the construction of the 126 MW Dagachhu hydroelectric project. The project was approved at an estimated cost of USD 201.5 million, corresponding to Nu.8.2 billion (2008 price levels and exchange rates), revised to Nu.10.9 billion in June 2010. Due to geological challenges, the project is scheduled to be commissioned by April 2014. The project is being financed on a 60:40 debt equity ratio with three equity stakeholders: DGPC (59 percent), Tata Power Company Limited (TPCL)¹, India (26 percent) and the National Pension and Provident Fund of Bhutan (15 percent). The ADB and NPPF are providing loans of USD 80 million equivalent and Nu.600 million, respectively, used to support the DGPC's share of the debt finance and equity injection. In addition, the Raiffeisen Zentralbank Osterreich AG (RZB) of Austria is providing co-financing through export credit of Osterreichische Kontrollbank AG (OeKB). The project structuring was promoted with technical assistance from the Japan Special Fund, established by the Government of Japan and administered by the ADB while the Austrian government has also provided engineering and technical support for the project.

Dagachhu was approved as a clean development mechanism (CDM) project by the United Nations Framework Convention on Climate Change (UNFCCC) CDM executive board on February 26, 2010, with the crediting period defined from January 1, 2012 to December 31, 2018 (on a renewable basis). Apart from revenue earned from the export of the product itself, another potential source of earnings lie in the amassing and sale of carbon credits. The adoption of technology that allows reduced carbon dioxide emissions in the development of the hydropower plants enables the country to emit carbon dioxide at levels below the standards set by the UNFCCC. The country then earns carbon credits which can subsequently be sold to the developed country signatories of the Kyoto Protocol. While the relatively higher costs of developing such projects can pose an important financial constraint, arrangements such as the UNFCCC's clean development mechanism provide channels for developed countries with emission reduction/limitation commitments to implement emission-reduction projects in developing countries and trade the certified emission reduction credits generated from such projects.

Dagachhu, estimated to generate 500 GWh of electricity annually, will provide 500,000 certified emission reduction (CER) credits for trading. Under the CDM, the clean power generated from Dagachhu will displace power generated by fossil fuel-based thermal

¹ The Tata Power Company Limited is the first private company to invest in Bhutan's hydropower sector under the new hydro-policy

power generation in the eastern Indian power grid. The resulting reduction of greenhouse gases equivalent to CO₂ emissions will be quantified as 500,000 tons every year and 15 million tons over 30 years.

Construction on the project commenced on October 1, 2009 and is scheduled for completion by April 2014. Besides the domestic sale of royalty energy, power from the project will be evacuated to India through a long term power purchase agreement with Tata Power Company Limited.

Cost Escalation of On-Going Projects

Generally, in hydro projects around the world, apart from red tape constraints, a major factor resulting in project delays are geological factors. In Bhutan, poor geological conditions have been one of the main challenges and causes for delay in meeting project completion deadlines. In addition, price increases in major raw materials used during construction, such as steel, cement and fuel, as well as the performance of the Indian economy, Bhutan's major hydropower partner and import market for hydro inputs also impact the cost of construction of hydro projects.

A **DGPC proposal for revision of tariff rates** shows that the completion costs for the three ongoing mega projects – **Punatsangchu I** (1200MW), **Punatsangchu II** (1020MW), and **Mangdechhu** (720MW) – will all rise significantly, subsequently increasing the tariff rates as well.

The completion cost of Puna I increased from Nu.35 billion (2006 price levels) to Nu.94 billion during early 2013. It is not feasible for Puna I to be completed within the scheduled period, 2015, on account of the sinking of the right slope situated above the dam site by as much as five meters in July 2013, leading to stoppage of the dam excavation works.

The cost for Mangdechhu has also increased by 25 percent from Nu.29 billion in 2008 to Nu.37 billion. The Mangdechhu hydroelectric project authority incurred additional financial implications of Nu.780 million due to major changes in the detailed project report (DPR) during execution of the project. Give the sustained rise in prices of steel, cement and fuel, by 2017, when the project is expected to be commissioned, the cost is expected to increase to over Nu.45 billion, with the present inflation rates and without considering any major geological obstacles.

Because of poor geological conditions encountered while constructing the headrace tunnel and due to increases in the cost of labor and materials, the completion cost of Dagachhu (126MW) increased approximately by half as of October 2013 from the initial cost of Nu.8.2 billion. The project is now scheduled to be commissioned in April 2014.

Therefore, as per the proposal for tariff revision, the completion cost for the Puna I may increase from Nu.94 billion to Nu.110 billion, Puna II from currently estimated of Nu.54 billion to Nu.75 billion and Mangdechhu from Nu.37 billion to Nu.48 billion.

In Bhutan, the current methodology to determine electricity rates is based on the cost of supply. The tariff rates are calculated after taking into account the construction and financing cost, and also after providing a return on the equity investment. This is enshrined in the Electricity Act, 2001 and the Tariff Determination Regulation (TDR) 2010 thereof.

Source: Kuensel/The Bhutanese News Archive & DGPC.

4. Hydropower Exports

Hydropower exports (all to India) remain Bhutan's largest export, accounting for 37.1 percent of exports to India and 34.9 percent of total exports (to India and COTI) in 2012/13.

The hydropower sector constituted 9.7 percent of GDP prior to the commissioning of Tala with this ratio surging in 2006/07 and peaking in 2007/08 at 20.5 percent. In tandem with continued slower growth in export earnings and even a fall in earnings in 2009/10 and 2011/12, hydropower export revenue as a percentage of GDP had fallen. However,

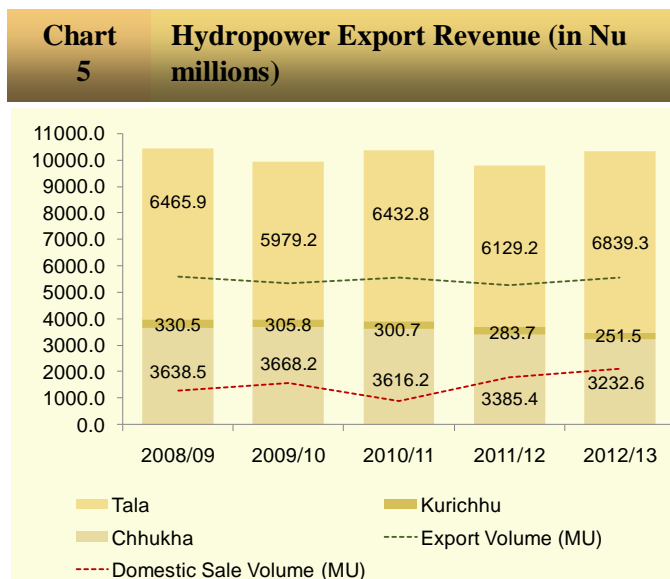
hydropower export earnings in 2012/13 increased by 5.4 percent, amounting to Nu.10.3 billion, from the negative 5.3 percent growth during the previous year. Export earnings of the Tala Hydropower Plant increased by 11.6 percent during the period against negative 4.7 percent during the previous year while that of the Chhukha and Kurichhu hydropower plants fell further to negative 4.5 percent and negative 11.4 percent from negative 6.4 percent and negative 5.7 percent, respectively, in the previous year. Hydropower export earnings as a percentage of GDP was recorded at **10.4 percent** in 2012/13, compared to **11.4 percent** in 2011/12.

Revenue earnings for the government from the hydropower sector (corporate income tax and dividends from DGPC, corporate income tax from BPC plus royalty) in fiscal year 2012/13 amounted to Nu.3.7 billion (2011/12: Nu.3.6 billion) or 17.3 percent of the national revenue for that year, marginally down from 17.5 percent of national revenue for 2011/12 (2010/11:21.9 percent). See Table 2.

5. Hydropower Prospects in the SAARC Region²

Within the SAARC region except for Bhutan, other countries face huge power shortage. Being home to the Himalayas, South Asia has substantial hydropower potential, with Bhutan and Nepal having hydropower potential in excess of their electric power demand in the foreseeable future. Discussions were initiated for building of a SAARC power grid in 1998. The grids of Nepal and Bhutan are already connected with the Indian grids. While India also took initiative to lay an undersea power cable to link its grid with that of Sri Lanka, it could also be possible between Pakistan and India should both countries agree. This grid would help Bangladesh to import more power because then it can turn to Bhutan and Nepal apart from India.

India's peak power demand in FY 2012/13 was 1,44,225 MW while the deficit was 3,261 MW (minus 2.3 percent). In its eastern region, Bihar and West Bengal required 15,409 MU and 42,143 MU during FY2012/13 but fell short by 2,574 MU and 301 MU,



² Sourced from Kuensel news archives and World Energy Outlook 2013.

respectively. Meanwhile, in northern region, the requirements of Arunachal Pradesh and Assam were recorded at 589 MU and 6,495 MU with a deficit of 35 MU and 447 MU. According to the World Energy Outlook, 2013, India is expected to overtake China in the 2020s as a principle source of growth in the global energy demand, with the engine of energy demand growth expected to move to South Asia. India's demand alone is estimated to increase to 283,470 MW by 2021. According to the Bangladesh Power System Master Plan (PSMP) 2010, its generation would reach 39,000 MW by 2030, while the annual peak demand of Nepal in FY 2012/13 is estimated to be 1,094.62 MW compared to 1,026.65 MW during the previous fiscal year. Out of annual peak demand, only 719.6 MW could be supplied. Pakistan during the FY 2012/13, faced a power deficit of 4,000 MW to 5,000 MW, with 65 percent of generation being mixed thermal, and 31 percent from oil-based generation. Sri Lanka during the same period had a deficit of 1,868 MW while Maldives' electricity demand is said to exceed supply by 2015.

Table 2 Export Earnings from Hydropower: 2005/06 – 2012/13(Millions of Nu.)								
Hydropower Plant	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Chhukha Hydropower Plant	2,985.9	3,759.3	3,690.5	3,638.5	3,668.2	3,616.2	3385.4	3232.6
<i>Annual Growth in %</i>	42.8	25.9	-1.8	-1.4	0.8	-1.4	-6.4	-4.5
Tala Hydropower Plant		2,671.1	6,080.2	6,465.9	5,979.2	6,432.8	6129.2	6839.3
<i>Annual Growth in %</i>			127.6	6.3	-7.5	7.6	-4.7	11.6
Kurichhu Hydropower Plant	523.8	473.3	352.4	330.5	305.8	300.7	283.7	251.5
<i>Annual Growth in %</i>	6.2	-9.6	-25.5	-6.2	-7.5	-1.7	-5.7	-11.4
Total Export Revenue	3509.73	6903.81	10123.1	10434.9	9953.24	10349.8	9798.33	10323.4
Annual Growth in %	35.7839	96.7049	46.6312	3.07939	-4.6156	3.98401	-5.3281	5.35924
Chhukha and Kurichhu	3,509.7	4,232.7	4,042.9	3,969.0	3,974.0	3,917.0	3669.1	3484.1
<i>Annual Growth in %</i>	35.8	20.6	-4.5	-1.8	0.1	-1.4	-6.3	-5.0
<i>Share in % to total</i>	100.0	61.3	39.9	38.0	39.9	37.8	37.4	33.7
<i>As % of GDP</i>	9.7	10.4	8.2	7.3	6.5	5.4	4.3	3.5
Tala (Share in % to total)		38.7	60.1	62.0	60.1	62.2	62.6	66.3
<i>As % of GDP</i>		6.6	12.3	11.8	9.8	8.9	7.1	6.9
GDP	36,112.0	40,673.5	49,456.5	54,713.0	61,223.5	72,496.6	85913.0	99455.0
Total Export Revenue as % of GDP	9.7	17.0	20.5	19.1	16.3	14.3	11.4	10.4

Table 3 Summary of Operations: Major Hydropower Plants				
ITEM	TALA	KURICHHU	UPPER STAGE BASOCHHU	LOWER STAGE BASOCHHU
Date Contract Signed	March 5, 1996	February 18, 1994	April 14, 1995	September 13, 2001
Financier	GOI	GOI	Govt. of Austria	Official Austrian Export Promotion Scheme (Govt. of Austria)
Commencement of Construction	October 1, 1997	September 27, 1995	November 6, 1997	March 20, 2002
Date of Completion	March 31, 2007	First Phase (3 units of 45 MW): September 2001. Second Phase (1 unit 15 MW): May 2002	October 31, 2001	September 8, 2004
Energy Capacity upon Completion	1020 MW	60 MW	24 MW	40 MW
Terms of Finance	60% Grant 40% Loan (9% simple interest)	60% Grant 40% Loan (10.75% interest)	37.74% Grant 48.96% Loan 13.69% RGOB	2.80% TA Grant (GoA) 90.70% Soft Loan (GoA) 2.79 % Interest
Initial Budget Outlay and Estimated Cost	Nu.14,080.00 million (at 1993 price levels)	Nu.2,550 million	Euro 25.44 million	Nu.1,421.8 million
Cost of Construction	Nu.43,270 million (Estd. Cost 2006) Nu.42,355 million (cost-to-completion)	Nu.5,600 million (as revised in June 2002) - GOI. Additional RGOB contribution of Nu.40 million	Euro 30.23 million Nu.192.84 million (RGOB) (Total - Nu.1,440 million)	Euro 31.95 million Nu.33.97 million (RGOB) (Total - Nu.1,843.3 million)
Equity Disbursed till date	n.a.	n.a.	n.a.	n.a.
Grant Disbursed Till Date	Nu.25,113.14 million	Nu.3,360 million	Euro 13.08 million (Nu.540 million)	Euro 0.9 million (Nu.47.53 million)
Loan Disbursed Till Date	Nu.16,742.09 million	Nu.2,240 million	Euro 17.15 million (Nu.708 million)	Euro 31.05 million (Nu.1,638.27 million)
Total Funds Utilised Till Date	Nu.41,777.21million (till 30.06.2008)	Nu.5,600 million - GOI Nu.33.24 million - RGOB	Euro 30.23 million Nu.192.84 million (RGOB)	Euro 31.95 million Nu.33.97 million (RGOB)

Source: Respective Hydropower Plants/Project Authorities; Information as of September 2013.

Table 3 contd. Summary of Operations: Major Hydropower Plants				
ITEM	PUNATSANGCHHU-I	PUNATSANGCHHU-II	MANGDECHHU	DAGACHHU
Date Contract Signed	July 28, 2007	April 30, 2011	April 30, 2010	July 20, 2009
Financier	Govt. of India	Govt. of India	Govt. of India	ADB & RZB Loan & DGPC, TPCL, & NPPF
Commencement of Construction	November 11, 2008 (Pre-Construction Activities: November 1, 2007)	December 17, 2011	March, 2012 (Major Packages) and pre-construction works started in 2010/11	October 1, 2009
Date of Completion	November 10, 2015. The deadline extended by one year to 2016 due to sliding hill at the site and also due to change in technical process from conventional base to RCC base (first time in Bhutan)	December 17, 2017	September 17, 2017	Expected on April 8, 2014 (As per revised Schedule)
Energy Capacity upon Completion	1200 MW	1020 MW	720 MW	126 MW
Terms of Finance	40% Grant 60% Loan (10 % interest)	30% Grant 70% Loan (10% interest)	30% Grant 70% Loan (10% interest)	40% Equity 60% Loan
Initial Budget Outlay and Estimated Cost	Nu. 31,074.90 million for Generation Works. Nu. 4,073.20 million for Transmission Works upto Bhutan- India border. (Estimated Dec 2006)	Nu. 37,778.01 million	Nu. 28,963 million	Nu. 8,160 million
Cost of Construction	Not yet finalised	Nu. 37,778.01 million	The revision of estimated cost is under process	Nu. 12,226.74 million (expected)
Equity Disbursed till date	n.a.	n.a.	n.a.	Nu. 4,113.32 million
Grant Disbursed Till Date	Nu. 12,778.60 million	Nu. 3532 million	Nu. 3,115.77 million	Nil
Loan Disbursed Till Date	Nu. 21,081.50 million	Nu. 10,501.4 million	Nu. 6,874.74 million	Nu. 5,334.27 million
Total Funds Utilised Till Date	Nu. 34,035.77 million	Nu. 12,428.28 million	Nu. 8,493.383 million	Nu. 9,866.88 million

Source: Respective Hydropower Plants/Project Authorities; Information as of September 2013.

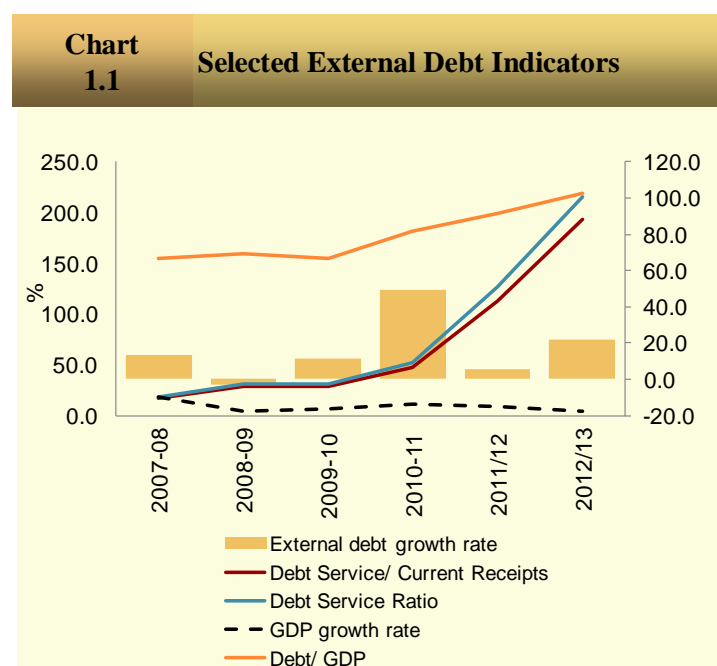
BHUTAN'S EXTERNAL DEBT: A Status Report, FY 2012/13

1. EXTENAL DEBT

Total External Debt

With a 22.0 percent increase from the previous year, the outstanding stock of Bhutan's external debt at the end of June 2013 was USD 1.7 billion. With a 36.7 percent growth in the Rupee debt, 66.0 percent of the total outstanding debt was Indian Rupee denominated debt (which includes the accrued interest on hydro debt) and the remaining 34.0 percent the convertible currency debt.

The present stock of external debt comprises of USD 579.3 million as convertible currency debt and ₹ 67.2 billion of Indian Rupee debt. Additional statistical tables featuring Bhutan's external debt are presented in the Statistical Section.



External Debt Indicators 2012/13

Total Debt (USD millions)	1705.4
Debt /GDP ratio (with accrued interest for hydro loans)	102.4
Debt service ratio	215.6

Primary external debt data are sourced from the Department of Public Accounts, Ministry of Finance (public and publicly guaranteed debt), and from private sector borrowing entities through the RMA's BOP Enterprise Survey. The Department of Public Accounts also furnishes information on budgetary external grants.

In accordance with the internationally accepted definitions of the International Monetary Fund, long-term debt is defined to include external debt with a maturity of more than one year, and short-term external debt refers to external debt with a maturity of less than one year. Public/sovereign external debt represents external debt obligations of the government and is computed with that of debt guaranteed by the government (public guaranteed debt). In this report, private external borrowing refers to external debt guaranteed by and payable by non-government entities (on commercial terms).

As of June 2013, 1.1 percent (USD 6.3 million) of Bhutan's total convertible currency loans constituted long term private commercial borrowings by the Bhutanese private sector. Disbursements towards the Punatsangchhu I hydropower project, which commenced in June 2008, continued to boost Rupee loan inflows. The total amount disbursed in 2012/13 amounted to ₹ 21.6 billion. Meanwhile the total disbursement towards the Punatsangchhu II and the Mangdechhu hydropower projects amounted to ₹ 9.4 billion and ₹ 5.5 billion respectively. An additional ₹ 4 billion through the GOI line of credit and ₹ 5.4 billion through the INR SWAP arrangement with the RBI was availed during the fiscal year to help finance BOP transactions with India.

Table 1.1 External Debt Outstanding: Fiscal Year Position

Item	End of period					
	Rupee/Ngultrum Million			USD Million		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
1. Convertible Currency Debt	23595.1	29546.8	34584.9	527.6	524.7	579.3
<i>Public</i>	23078.2	29055.3	34209.9	516.1	516.0	573.0
World Bank	6462.1	7637.7	10282.4	144.5	135.6	172.2
IFAD	1500.7	1899.0	2145.8	33.6	33.7	35.9
ADB	9078.4	12075.1	13308.5	203.0	214.4	222.9
KFAED	0.0	0.0	0.0	0.0	0.0	0.0
Govt of Austria	4084.2	4784.3	5648.4	91.3	85.0	94.6
Govt. of Denmark	462.6	415.0	355.5	10.3	7.4	6.0
JICA	1490.2	2244.3	2469.2	33.3	39.9	41.4
<i>Private</i>	516.9	491.4	375.0	11.6	8.7	6.3
2. Rupee Debt **	35697.3	49165.6	67228.6	798.2	873.1	1126.1
<i>Hydropower debt</i>	24647.5	32546.3	44369.0	551.2	578.0	743.2
Chukha	0.0	0.0	0.0	0.0	0.0	0.0
Kurichhu	933.3	746.7	560.0	20.9	13.3	9.4
Tala	11161.4	9766.2	7384.3	249.6	173.4	123.7
Punatsangchhu-I	10169.5	15260.5	21596.6	227.4	271.0	361.8
Punatsangchhu-II	1638.0	4113.0	9353.4	36.6	73.0	156.7
Mangdechhu	745.3	2659.9	5474.7	16.7	47.2	91.7
<i>Accrued Interest on Hydro</i>	1635.0	3614.7	6590.4	36.6	64.2	110.4
<i>Other</i>						
GOI Line of Credit	3000.0	6000.0	10000.0	67.1	106.6	167.5
OD Facility	4914.8	5156.0	0.0	109.9	91.6	0.0
RBI Swap			5409.9			90.6
Dungsam Cement Corp Ltd	1500.0	1848.6	859.3	33.5	32.8	14.4
Total (CC + Rupee)	59292.4	78712.3	101813.5	1325.9	1397.9	1705.4
Convertible Currency Debt				527.6	524.7	579.3
As a % of Total Debt				39.8	37.5	34.0
Rupee Debt	35697.3	49165.6	67228.6	798.2	873.1	1126.1
As a % of Total Debt	60.2	62.5	66.0	60.2	62.5	66.0
Exchange Rate						
Ngultrum per USD	44.7	56.3	59.7			

Note: Debt data published by the RMA include the total external debt of the country (public + private). Rupee debt also includes accrued interest on hydropower debt. 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. Previous publications do not include the accrued interest on hydro debt and therefore figures may be different from this publication.

Source: Department of Public Accounts, Royal Monetary Authority of Bhutan & private sector enterprises.

From FY 2010/11, end of period exchange rate used for conversion

Chart 1.2 Composition of External Debt Outstanding (End FY 2012/13)

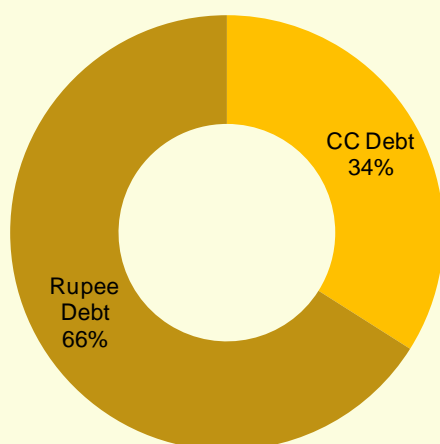
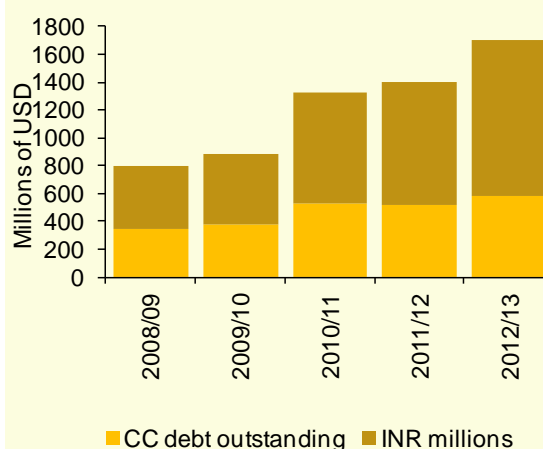


Chart 1.3 External Debt Outstanding



A cumulative amount of ₹ 76.9 billion on account of overdraft availed throughout the year with a corresponding interest cost of ₹ 806.7 million was liquidated during the year bringing the external debt service ratio, a liquidity monitoring ratio to 215.6 percent in 2012/13, from 127.1 percent in the previous year. However, the external debt service ratio excluding the overdraft increased to 18.2 percent from 12.9 percent in the previous year.

Overall debt servicing for FY 2012/13 amounted to USD 22.07 million on convertible currency debt and ₹ 83.6 billion on rupee denominated debt (including the cumulative amount of ₹ 76.9 billion overdraft and the corresponding interest cost of ₹ 806.7 million liquidated during the year).

As of June 2013, Bhutan's total debt outstanding including the accrued interest for hydro debt stood at 102.4 percent of GDP. Total debt without the accrued interest stood at 95.7 percent for the year. The major disbursements were towards hydropower (₹ 6.3 billion for Puna-I, ₹ 5.2 billion for Puna-II and ₹ 2.8 billion for Mangdechhu).

Chart 1.4 Debt Outstanding as % of GDP

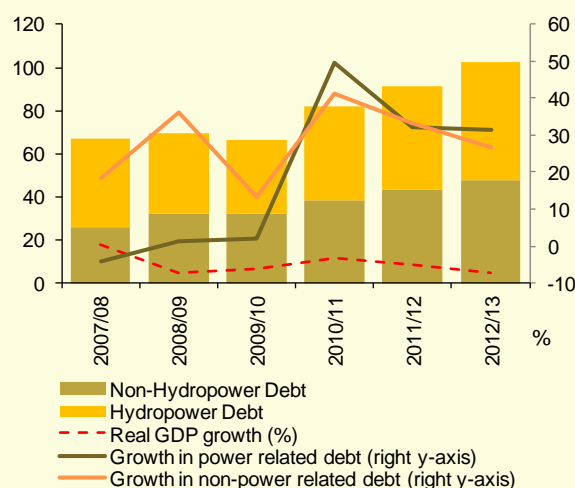


Table 1.2 Selected External Debt Indicators

Year	In Percent						
	Debt Service/ Current Receipts	Interest/ Current Receipts	Debt/ Current Receipts	Debt/ GDP	Convertible Currency Debt/ Total Debt	Rupee Debt/ Total Debt	Debt Service Ratio
1990-91	5.3	2.0	145.2	50.4	59.6	40.4	5.3
1991-92	6.5	2.4	160.2	62.3	61.8	38.2	6.5
1992-93	18.1	4.0	169.9	64.8	55.4	44.6	18.1
1993-94	24.9	16.7	183.5	70.0	58.7	41.3	24.9
1994-95	15.7	11.7	152.4	50.7	59.8	40.2	15.7
1995-96	20.4	7.8	100.5	42.7	69.8	30.2	22.3
1996-97	9.4	6.3	102.6	39.9	72.1	27.9	9.8
1997-98	6.4	2.3	97.5	40.3	68.5	31.5	7.4
1998-99	9.1	1.6	108.4	40.5	65.7	34.3	10.9
1999-00	9.0	3.1	304.7	41.4	56.8	43.2	3.9
2000-01	10.3	3.5	430.0	60.9	50.2	49.8	4.7
2001-02	11.6	3.5	910.8	108.7	67.9	32.1	4.9
2002-03	19.8	7.1	1245.9	86.0	51.0	49.0	7.3
2003-04	9.2	4.0	646.5	95.2	48.5	51.5	7.2
2004-05	16.8	8.1	665.6	94.5	44.8	55.2	12.2
2005-06	8.6	4.5	336.3	96.6	47.3	52.7	7.9
2006-07	3.4	1.8	108.0	78.7	42.6	57.4	3.7
2007-08	16.9	6.2	115.6	66.9	42.7	57.3	18.3
2008-09	28.7	6.2	130.5	69.4	43.5	56.3	30.5
2009-10	28.5	7.3	136.4	66.6	43.4	55.9	30.7
2010-11	47.9	5.8	162.4	81.8	39.8	60.2	51.7
2011/12	113.3	6.9	194.0	91.6	37.5	62.5	127.1
2012/13	193.5	8.7	232.3	102.4	34.0	66.0	215.6

1. Figures for debt service and interest payments are calculated on a cash basis.

2. Current receipts exclude official transfers (grants) and receipts of INGOs.

3. Debt-GDP figures are calculated using calendar year GDP figure (example, CY 2010 GDP figure used to calculate ratios for FY 2010/11. Nu. values of debt are used.

4. Debt Service Ratio is equal to total debt service payments in percent of the total exports of goods and services.

5. Differences in data in this table compared to past published time series data are due to revisions in the balance of payments and GDP data.

2. EXTERNAL DEBT AND THE BUDGET

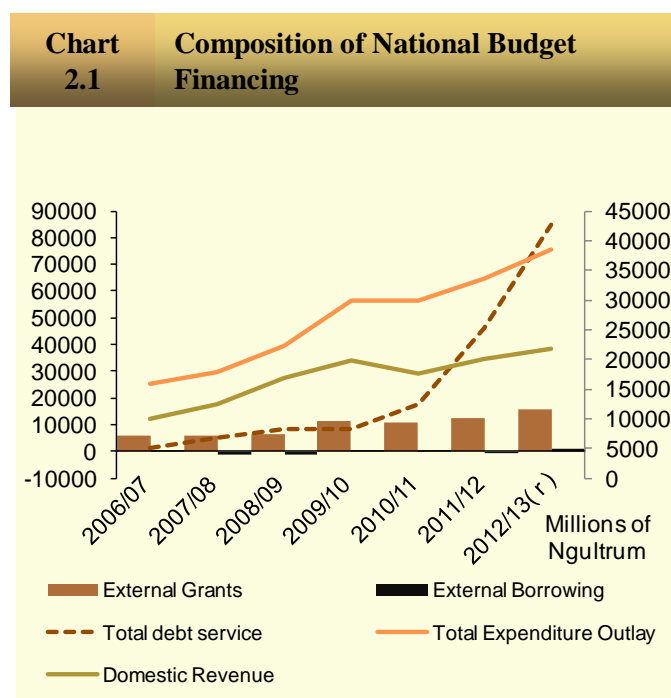
The Royal Government has followed a cautious fiscal approach to development, a cornerstone of which has been the policy to meet current expenditures through domestic revenue collections. On the other hand, a major part of the resource gap to finance capital expenditure has been sought through grants and external borrowings on concessionary terms. During the 9th five year

Financing the Budget Deficit	2012/13 (revised)	2013/14 (estimates)
Fiscal Deficit (-) / Surplus (+)	-956.2	-4233.0
a) Net External Borrowing	919.8	83.8
i. Borrowings	3823.2	2666.6
ii. Repayments	2903.4	2582.8
b) Resource Gap	211.4	4324.5

Source: Department of National Budget.

plan (2002/03-2006/07; extended by an additional year), Bhutan's outstanding external debt grew at an average of 9.1 percent per annum, its growth peaking during 2003/04 and 2005/06. Notably, those years coincided with expanded development activities in the energy sector, where the Basochhu and Tala projects were nearing completion, while others in the education, telecom and urban development spheres were beginning to gain ground.

The revised budget outlay for FY 2012/13 was marked up to Nu.38.6 billion. Of this amount, current expenditures accounted for 48.2 percent and capital expenditures, the residual 51.8 percent (Nu.20.0 billion). Revised estimates for domestic revenue mobilization for 2012/13 was placed at Nu.21.8 billion, more than enough to meet current expenditures totaling Nu.18.6 billion. Furthermore, as in the past, grant aid and concessional loans from India and other bilateral and multilateral sources supplemented domestic revenues to finance a significant portion of the government's capital expenditure.



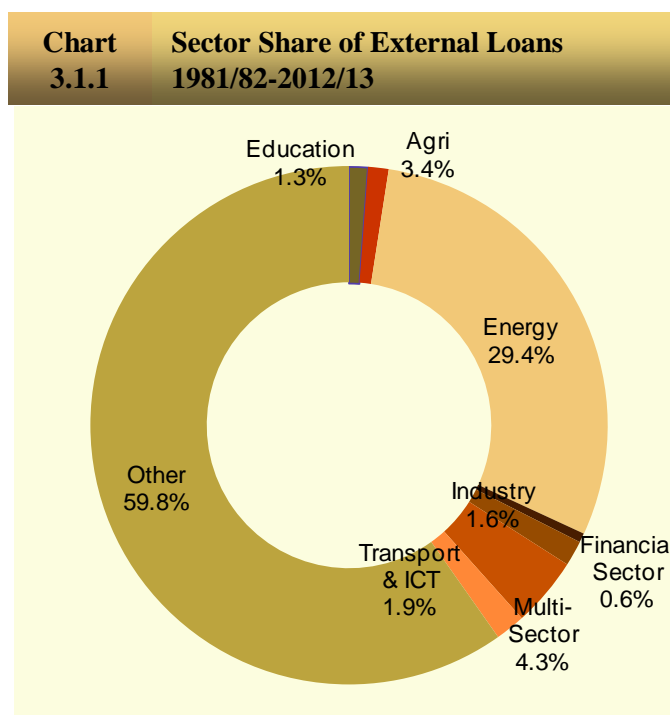
According to budget estimates for FY 2013/14, the total principal repayment is estimated to be Nu. 2.8 billion of which 93.6 percent (Nu. 2.3 billion) will be on account of external loans, with the GOI hydro power loans constituting about 55.4% of the total principal payment.

3. CLASSIFICATION OF EXTERNAL DEBT

3.1. Sectoral Disbursements

Bhutan's first concessional loan can be traced to 1981/82 with the first SDR loan disbursement from IFAD for the development of the Small Farms Project. Debt service payments are still being made on this loan. Since then, an equivalent of USD 772.9 million convertible currency and ₹ 211.0 billion Indian Rupee loans have been disbursed to Bhutan by various foreign governments, international multilateral, bilateral, and private financing agencies.

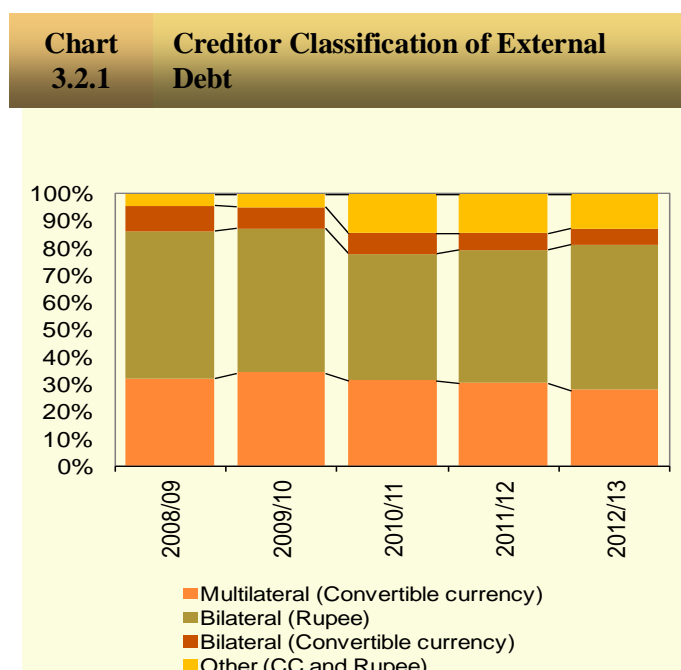
In terms of the sector-wise allocation, as of June 2012, 29.4 percent of the total external loans were disbursed to the energy sector, followed by the multi sector with 4.3 percent. Disbursements in the transport and ICT and the industry sectors accounted for 1.9 and 1.6 percent, respectively. In terms of absolute figures, the highest disbursement, equivalent to USD 283.4 million was accorded to the energy sector during the year, followed by 50.4 million disbursed towards the multi sector of which USD 36.7 million was received on account of the Second Development Policy Credit from the World Bank.



3.2. Creditor Classification

For the year ending June 2013, the GOI was Bhutan's largest creditor with 52.6 percent of overall external debt at Nu. 54.4 billion or 80.9 percent of total Rupee outstanding debt. This is followed by the ADB (Table 3.2.1) with USD 222.9 million, the World Bank with USD 172.2 million and the Government of Austria with USD 94.6 million.

Outstanding debt on account of the RBI Swap stood at USD 90.6 million equivalent. The debt to the convertible currency multilateral debt outstanding has increased over the years to USD 497.8 million or 28.8 percent of total



external debt as of the year 2012/13. A creditor-wise classification of Bhutan's external debt is presented in Table 3.2.1 and 3.2.2.

Table 3.2.1 External Debt Outstanding by Individual Creditor Category

Creditor Category	End of period						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
A. Convertible Currency Debt (USD millions)	308.8	350.4	347.4	385.4	527.6	524.7	579.3
I. Multilateral	210.0	243.2	254.9	304.3	414.4	423.7	472.5
Asian Development Bank	106.3	121.3	118.5	149.7	203.0	214.4	222.9
EFIC (Australia)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	23.6	26.6	26.7	27.8	33.6	33.7	35.9
JBIC/JICA			0.3	18.9	33.3	39.9	41.4
KFAED	0.6	0.2	0.2	0.2	0.0	0.0	0.0
World Bank (IDA)	79.4	95.1	109.2	107.7	144.5	135.6	172.2
II. Bilateral	80.4	91.0	77.9	68.2	101.7	92.3	100.6
Government of Austria	64.2	73.6	64.2	57.9	91.3	85.0	94.6
Government of Denmark	16.2	17.4	13.7	10.3	10.3	7.4	6.0
III. Other	18.3	16.2	14.6	12.8	11.6	8.7	6.3
B. Rupee Debt (INR millions)	18369.9	18948.4	21400.7	22777.9	35697.3	49165.6	67228.6
Government of India	18369.9	17320.2	20483.4	21277.6	27647.5	38546.3	54369.0
SBI and PNB	0.0	1628.1	917.3	1500.3	4914.8	5156.0	0.0
RBI							5409.9
Consortium of Indian Banks					1500.0	1848.6	859.3
<i>(In Percent of Total Convertible Currency/Rupee Outstanding Debt)</i>							
Convertible Currency Creditors							
ADB	34.4	34.6	34.1	38.8	38.5	40.9	38.5
EFIC (Australia)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government of Austria	20.8	21.0	18.5	15.0	17.3	16.2	16.3
Government of Denmark	5.3	5.0	3.9	2.7	2.0	1.4	1.0
IFAD	7.7	7.6	7.7	7.2	6.4	6.4	6.2
JBIC/JICA			0.1	4.9	6.3	7.6	7.1
KFAED	0.2	0.1	0.1	0.1	0.0	0.0	0.0
World Bank	25.7	27.1	31.4	27.9	27.4	25.8	29.7
West LB Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	5.9	4.6	4.2	3.3	2.2	1.7	1.1
Rupee Creditors							
Government of India	100.0	91.4	95.7	93.4	77.4	78.4	80.9
SBI & PNB	0.0	8.6	4.3	6.6	13.8	10.5	0.0
RBI							8.0
Consortium of Indian Banks					4.2	3.8	1.3

Note: Debt data published by the RMA include the total external debt of the country (public + private), and are therefore not comparable to data published by the Ministry of Finance which covers only public debt.

Source: Department of Public Accounts, RMA & private sector enterprises.

Table 3.2.2 External Debt Outstanding by Creditor Category

Creditor Category	In millions of USD						
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
I. Bilateral (Convertible currency)	80.4	91.0	77.9	68.2	101.7	92.3	100.6
II. Bilateral (Rupee)	415.7	429.5	431.4	469.5	618.2	684.5	910.7
III. Multilateral (Convertible currency)	210.0	243.2	254.9	304.3	414.4	423.7	472.5
IV. Other (CC and Rupee) ¹	18.3	56.5	33.8	45.0	191.6	197.3	221.7
Total External Debt	724.5	820.3	798.0	887.1	1325.9	1397.9	1705.4
Percentage Share of Total External Debt							
Bilateral (Convertible currency)	11.1	11.1	9.8	7.7	7.7	6.6	5.9
Bilateral (Rupee)	57.4	52.4	54.1	52.9	46.6	49.0	53.4
Multilateral (Convertible currency)	29.0	29.6	31.9	34.3	31.3	30.3	27.7
Other (CC and Rupee)	2.5	6.9	4.2	5.1	14.4	14.1	13.0

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.

Source: Department of Public Accounts, RMA & private sector enterprises. 1) Includes CC private non-publicly guaranteed debt and the SBI Overdraft Facility (publicly guaranteed debt).

3.3. External Debt by Currency Composition

Rupee denominated debt continues to comprise over 50 percent of Bhutan's external debt portfolio. Meanwhile the share of other concessional and SDR-denominated debt from the ADB, IFAD and the World Bank remains consistent in its one-third composition of debt.

Table 3.3.1 External Debt Outstanding by Currency

Currency	Percent of Total External Debt					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
SDR	29.6	31.9	32.1	28.7	27.5	25.3
US Dollar	1.0	1.0	0.8	0.4	0.3	0.2
Indian Rupees	57.3	56.5	56.6	60.2	62.5	66.0
Euro	11.1	9.8	7.7	7.7	6.6	5.9
Kuwaiti Dinar	0.0	0.0	0.0	0.0	0.0	0.0
Norwegian Kroner	0.9	0.7	0.6	0.4	0.3	0.2
Yen		0.0	2.1	2.5	2.9	2.4

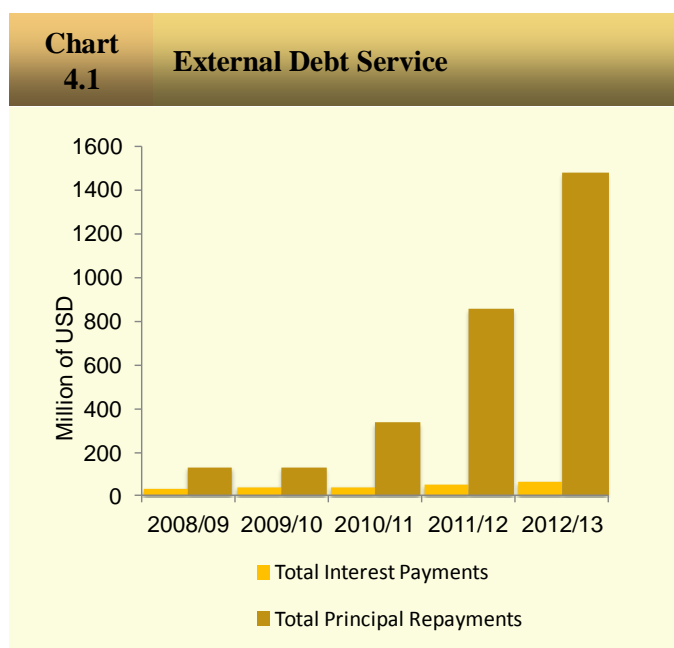
Table 3.3.2 Creditors Ranked by Cumulative Disbursement: 1981/82-2012/13

Millions of USD									
Creditor	Agriculture & Forestry	Education	Energy	Financial Sector	Industry	Multi- Sector	Transport & ICT	Other	Total
Government of India*			1193.0		5.0			210.8	1408.7
Asian Development Bank	5.9	11.9	103.6	23.6	0.8	40.0	49.1		234.8
World Bank	11.5	51.1			7.2	173.2			243.0
KFAED				4.7	23.0				27.7
Government of Austria			100.9						100.9
Government of Denmark							16.9		16.9
IFAD	39.9								39.9
Mitsui & Co. (Japan)							1.7		1.7
EFIC Australia							0.8		0.8
West LB Ltd.							22.6		22.6
Others			47.7		41.4			2722.5	2811.6
Total	57.3	63.0	1445.2	28.3	77.4	213.2	91.1	2933.3	4908.8

* The exchange rate used for conversion is based on the FY average and also the simple average of FY averages for the 15-year group (1981/82 - 1995/96).

4. DEBT SERVICE

The debt sustainability of any country is determined by its ability to service all its foreign debt and publicly guaranteed debt, domestic and external, short-term and long-term, without undermining its macro-economic objectives and long-term development goals. Since the focus of this feature is that of Bhutan's external debt situation, there are several indicators and international benchmarks that assist nations to monitor their debt levels. Moreover, a country's ability to service its external debt will depend on its debt burden, the mix of loans and grants in relation to all projected BOP flows, fiscal revenues and expenditures. However, it is essential to note that both debt and non-debt indicators can be used to estimate a country's level of liquidity and solvency.



Debt servicing (repayment of principal plus interest) on both convertible currency and Indian Rupee debt expanded to an equivalent of USD 1.5 billion in 2012/13 from USD 914.0 million in 2011/12. Owing to the liquidation of the Rupee overdraft the Rupee denominated debt was the key contributor to the overall expansion in total debt service with repayments increasing to ₹ 83.6 billion from ₹ 44.8 billion as of 2011/12. The total Rupee debt service on account of hydropower debt including Tala and Kurichhu amounted to ₹ 4.3 billion.

While the debt service increased largely on account of the interest cost and liquidation of the overdraft, export earnings from goods and services increased by only 8.8 percent. This resulted to an increase of Bhutan's debt service ratio measured as a percent of the export earnings from goods and services to 215.6 percent compared to that of 127.1 percent in 2011/12.

Similarly, overall debt service as a percentage of current receipts (which excludes official transfers and INGO receipts) also increased from 113.3 percent in 2011/12 to 193.5 percent in 2012/13.

Table 4.1 Bhutan's Debt Service Payments by Creditor Category

End of period	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
Creditor Category	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	<i>Millions of USD</i>							
I. Multilateral (Convertible Currency)	2.8	2.7	2.5	2.2	2.7	3.5	4.8	3.7
	2.9	3.0	3.9	4.6	5.8	6.5	6.8	6.9
II. Bilateral Convertible Currency	1.4	3.3	1.7	1.2	5.9	2.2	2.7	3.1
	0.0	0.9	3.4	3.0	3.9	5.9	5.6	5.5
III. Convertible Currency Commercial Debt	1.4	1.3	1.0	0.8	1.8	0.9	0.6	0.4
	0.6	0.9	1.8	0.8	1.9	2.5	2.3	2.5
IV. Rupee Debt	4.8	4.7	38.4	33.5	36.1	40.3	47.6	60.8
	6.1	6.2	66.8	128.6	124.2	324.2	843.7	1462.0
Total Interest Payments	10.4	12.0	43.6	37.6	46.6	46.8	55.6	68.0
Total Principal Repayments	9.6	10.9	75.9	137.1	135.8	339.1	858.5	1476.9
Total Debt Service	20.1	22.9	119.4	174.7	182.4	385.9	914.0	1544.9
	<i>(ratios)</i>							
Debt Service Ratio*	7.9	3.6	18.3	30.9	30.7	51.7	127.1	215.6
Debt Service/Current Receipts**	8.6	3.3	16.8	28.4	27.6	47.9	113.3	193.5
Interest Payments/Current Receipts	4.5	1.8	6.1	6.1	7.0	5.8	6.9	8.7
Debt Service/Gross Reserves	4.1	3.6	18.1	22.6	21.2	42.6	118.7	168.5

Source: Department of Public Accounts, RMA & private sector enterprises.

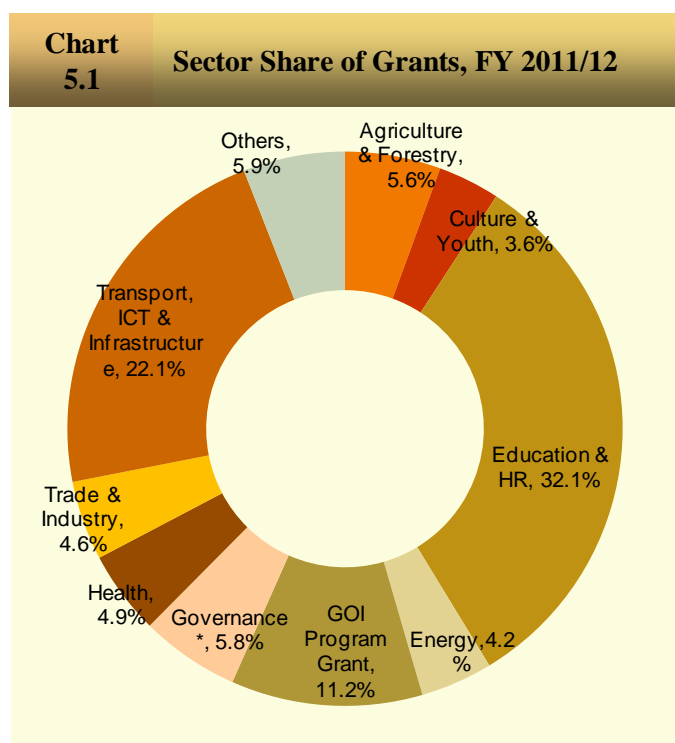
*: Debt service payments as a percentage of total exports of goods and services.

**: Current receipts include receipts from the export of goods and services, income and transfers, excluding official grants and receipts of International NGOs & international organizations. Please note: Inconsistencies may occur due to rounding.

5. GRANT ASSISTANCE

Grant aid from the Government of India and other international donors have traditionally financed on average over one-third of the fiscal outlay. In 2012/13, grant support has reportedly financed 24.4 percent of the total expenditure. The GOI remains Bhutan's largest grant donor at 49.9 percent of all grant inflows for the year 2012/13 (program and budgetary grants, excluding non-budgetary support for the power sector) and 62.3 percent of all cumulative grant disbursements since 1990/91.

For the year 2012/13, 24.1 percent of grants totaling Nu.2.3 billion were received from ADB, followed by the DANIDA with 6.1 percent (570.0 million).



Sectoral analysis indicates that besides the hydropower sector, the health and education, communications and agriculture sectors have been the largest recipients of international grant assistance since 1990. However over the years there has been a discernable yet marginal expansion in the direction of grant aid besides traditional sectors towards trade and industry and autonomous agencies activities, including information technology, good governance and women's empowerment programmes.

During 2012/13, out of the total grant disbursements, the Education and HRD received 32.1 percent followed by the Transport, ICT and Infrastructure with 22.1 percent. The share of grants received by the energy sector during the fiscal year was 4.2 percent.

Table 5.1 Individual Grant Donors: 2002/03-2012/13

Donor	Millions of Nu									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Government of India	2287.2	2370.5	3087.3	3081.2	4671.1	4394.9	6439.5	7882.8	9003.4	4693.4
Asian Development Bank	9.5	4.2	0.9	5.6	21.5	195.9	0.0	522.8	1104.0	2270.9
DANIDA	579.2	432.1	539.0	454.7	462.5	513.1	734.8	448.8	552.7	570.0
World Bank	17.5	35.3	771.2	662.9	42.0	190.5	0.0	371.8	58.4	199.5
Global Environment Facility	0.0	0.0	6.3	38.1	48.4	93.4	78.4	161.2	104.4	87.3
UNDP	115.1	118.1	102.4	109.9	63.8	116.8	124.4	97.1	132.1	118.0
UNICEF	73.6	42.0	43.3	0.0	47.3	69.0	135.2	93.1	92.8	104.0
Govt of Austria	32.7	56.6	61.9	66.0	6.3	212.2	159.0	75.2	124.3	119.9
Swiss Dev. Cooperation	122.5	46.9	71.4	61.0	35.7	70.2	22.2	65.6	90.6	34.4
UN Environmental program	0.9	6.8	13.0	2.1	6.6	12.1	13.1	58.0	55.7	129.4
WHO	22.9	14.7	22.1	26.2	18.4	25.6	24.3	50.5	132.1	103.1
Others	1195.1	660.0	705.6	546.8	508.3	618.7	1178.2	670.9	1006.8	984.5
Total	4456.2	3787.0	5424.3	5054.3	5931.9	6512.3	8909.0	10497.7	12457.2	9414.8
Total	-0.6	-15.0	43.2	-6.8	17.4	9.8	36.8	17.8	18.7	-24.4

Source: Department of Public Accounts.

Table 5.2 Sector-Wise Classification of Grant Assistance: 2002/03-2012/13

Year	Agriculture & Forestry	Culture & Youth	Education & HR	Energy	GOI Program Grant	Governance*	Health	Trade & Industry	Transport, ICT & Infrastructure	Others	Millions of Nu
											Total
2003/04	780.9	75.3	328.6	421.8	1750.0		136.6	30.0	329.6	603.3	4456.2
2004/05	255.9	10.5	303.2	191.4	1750.0		505.6	104.7	218.9	446.3	3786.7
2005/06	521.2	11.2	378.7	255.3	1700.0		566.4	52.4	532.2	1406.1	5423.6
2006/07	388.3	136.5	609.0	292.8	1100.0		849.2	28.5	216.3	1433.6	5054.3
2007/08	572.3	85.9	179.4	34.2	1100.0		795.2	69.8	1327.0	1768.1	5931.9
2008/09	649.5	20.0	1715.7	367.1			281.3	321.6	488.7	2668.3	6512.3
2009/10	309.8	273.8	720.2	979.9	1400.0		271.4	119.2	2565.5	2269.1	8908.97
2010/11	288.2	284.3	1772.9	1248.0	1400.0	2013.4	274.7	187.4	2763.7	265.2	10497.7
2011/12	350.5	386.2	2411.4	903.9	1400.0	411.0	376.5	118.6	5523.1	576.0	12457.2
2012/13	524.5	339.2	3024.4	395.5	1050.0	543.2	458.7	435.8	2084.9	558.6	9414.8
% Share of Total Grants											
2011/12	2.8	3.1	19.4	7.3	11.2	3.3	3.0	1.0	44.3	4.6	100.0
2012/13	5.6	3.6	32.1	4.2	11.2	5.8	4.9	4.6	22.1	5.9	100.0

Note: Sector wise classification revised in 2010/11. * Prior to 2010/11 grants under "Governance" was clubbed under "Others".

Source: Department of Public Accounts.

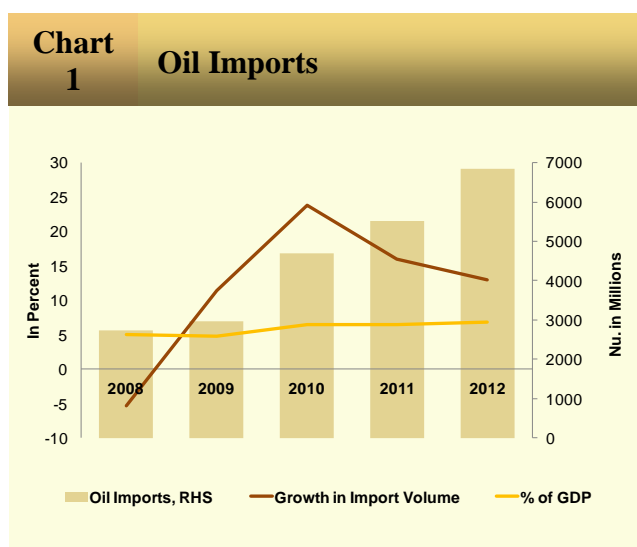
SUMMARY OF PETROLEUM IMPORTS AND PRICES IN BHUTAN

Uncertain volatility in fuel prices has attracted much attention from policy makers worldwide as oil price fluctuations not only upset core macroeconomic variables but also augment poverty in developing nations. Increases in oil prices translate into cost-push inflationary pressures raising production costs and causing supply constraints. Furthermore, inflationary pressures diminish general purchasing power and consequently impact aggregate demand. Particularly, for oil importing countries, oil price hikes immediately affect the prices of goods made with petroleum products and indirectly regulate the costs of transportation and manufacturing. Consumers in the lower-middle income bracket generally suffer a greater impact of oil price hikes and fluctuations.

Following similar trends in other oil importing developing countries, Bhutan's dependence on oil imports has been significantly increasing in recent years as a result of increasing imports of motor vehicles and use of petroleum related goods. The volatility in the prices of petroleum and related products in Bhutan has been a reflection of corresponding price and policy changes in India, which in turn have been influenced by global developments. Unlike in the past, the price hike in India is largely determined by the Government of India lifting the state subsidy on diesel and petrol, allowing for market forces to dictate the prices of oil products. For a developing country like Bhutan, heavily dependent on oil imports, volatile fuel prices continues to remain a concern for policy makers in the country. While Bhutan possesses tremendous potential to harness and generate hydropower, its dependency on fossil fuels continues to pose serious constraints for national policy.

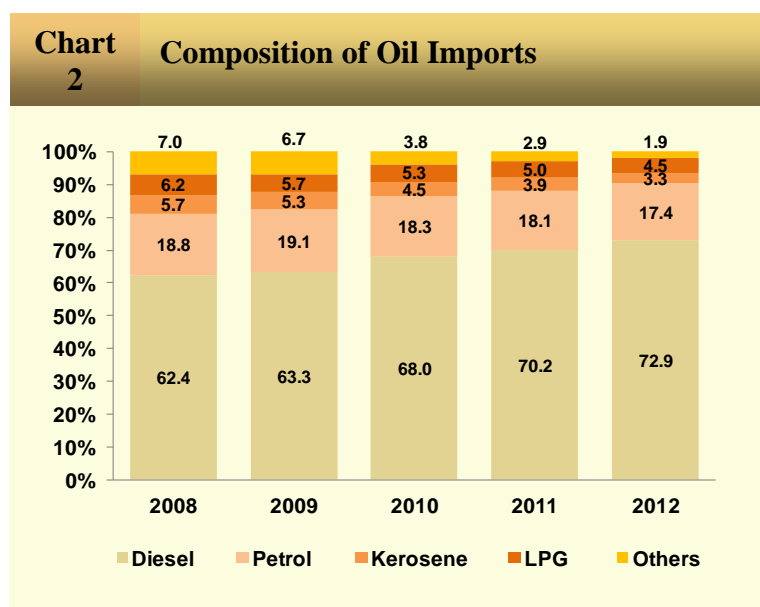
Fuel prices in Bhutan are regulated based on the invoice price, and other cost factors involved in importing the products, such as transportation cost, shrinkage allowance, dealer's commission, depot surcharge, and product transit insurance. In addition, a 5 percent sales tax is also levied. Kerosene and liquefied petroleum gas (LPG) are presently subsidized by the GoI and the current subsidy on LPG cylinder ranges from INR 500 to 550 per cylinder, while the kerosene subsidy is set at INR 34 per liter. Revisions in the price of fuel products at source immediately impact prices in Bhutan although the increase is relatively lower in Bhutan due to special tax concessions.

Bhutan imports most of the finished products of petroleum and related oils (*diesel, petrol, kerosene, lubricating oils, and liquefied petroleum gas*) from India. All petroleum products are imported from the Bharat Petroleum and Indian Oil Corporation Limited, India. The distribution of petroleum products in the country is done through four domestic private dealers (Bhutan Oil Corporation, Bhutan Oil



Distributor, Druk Petroleum Corporation Limited and Damchen Petroleum Distributors). Currently, they operate with 50 outlets across the country. In 2012, the growth in oil imports in terms of volume decreased to 13 percent from 16 percent in 2011. The growth in oil imports in value terms increased to 23.9 percent in 2012 from 17.5 percent in 2011. As a percentage share of oil imports by volume, diesel accounts for 72.9 percent, followed by petrol at 17.4 percent, and LPG at 4.5 percent. The remaining imports were on account of kerosene, furnace oils, ATF (jet fuel) and lubricating oils.

Growth in total oil imports from India during 2012 expanded in terms of both value and volume mainly on account of a large increase in the import of diesel and petrol. Petroleum and related products worth USD 127.9 million (Nu.6.8 billion) were imported in 2012, against USD 118.2 million (Nu.5.5 billion) in 2011. Major petroleum imports comprised of diesel, petrol, LPG, kerosene and furnace oils. However, during 2012, the import of lubricating oils and furnace oils declined both in terms of volume and value, while import of kerosene declined in volume but remained slightly unchanged in terms of value.



The import of major fuel products in 2012 constituted 6.9 percent of GDP¹ while overall fuel imports comprised 16.3 percent of the total merchandise imports from India. The steady growth in domestic demand for petroleum products, coupled with the burden of the growing import bill and negative external trade balance with India, presents numerous policy challenges for the government. Increased demand for diesel and petrol is also evidenced by the growing population using cars and other forms of motor vehicles imported from India and other countries. Import of motor vehicles has been among the country's top ten imports of Bhutan (*See box for details*).

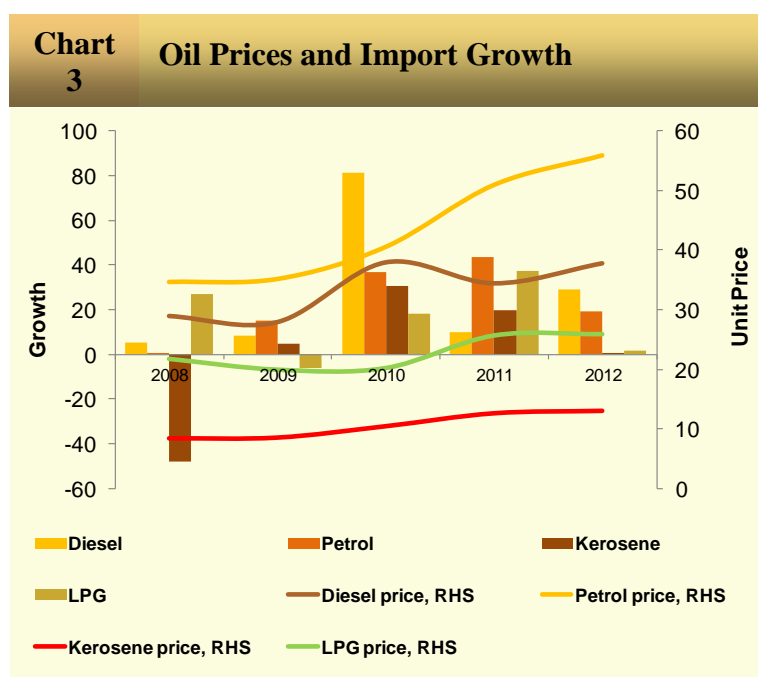
The use of fuel in Bhutan is largely limited to the transport and services sectors while any oil price hikes are transmitted and impact most other imported goods and services. Assessing the impact of oil prices on Bhutan's consumer price index (CPI)², the CPI recorded 5.5 percent for the second quarter of 2013, down from 13.5 percent during the same quarter in 2012. As of June 2013, the **monthly** CPI of *electricity, gas and other*

¹ CY 2012 nominal GDP figure of Nu.99455.05 million, National Statistics Bureau.

² As of May 2013, the NSB released its first Monthly Series of CPI Bulletin in which it has revised the weight of food in the CPI from 31.67% to 39.92%, and correspondingly decreased the weight for non-food from 68.33% to 60.08%. Hence the sub-components of the CPI for this year cannot directly be compared to the previous year's data.

fuels, which constitute 4.5 percent of the expenditure basket, was recorded at 1 percent while the **quarterly** CPI of the same group which constitutes 6.0 percent of the expenditure basket during June 2012 was recorded at 2.5 percent. However, during June 2013, the weightage of fuels and lubricants in the Bhutanese basket of goods and services of the CPI was revised to 3.1 percent from 3.2 percent of previous year. Hence, with this given weightage, the increases in the price of fuels and lubricants had a restrained impact on the country's overall inflation as measured by the CPI. During the period, the monthly CPI of fuels and lubricants was 0.04 percent.

Oil prices in Bhutan vary with the fluctuations in prices in India. Diesel prices went up by Nu.5 per litre over four hikes in 2012, costing Nu.48.9 per litre in Thimphu as compared to Nu.40.6 per litre at the beginning of 2012. Petrol prices have also been raised eight times and dropped twice last year. By December 2012, petrol was costlier by Nu.4 per litre all across the country, compared with January 2012. Following several fluctuations, the prices of petrol and diesel in Thimphu



were the highest at Nu.64.3 and Nu.47 per liter, respectively as of January 2013. With the withdrawal of the subsidy on LPG and kerosene by the GOI on July 1st, 2013, the price for LPG and kerosene were Nu.1196 and Nu.57 per litre, respectively. But with the restoration of the GOI subsidy by the first week of August, prices came down to Nu.504 for LPG and Nu.15.4 per litre for kerosene. Kerosene consumption is highest during the winter season, especially in the urban areas, because of the growing population, firewood scarcity and the lack of provisions for bukharis (wood-fed heaters) in residential buildings. The monthly entitled kerosene quota per person has increased to 50 litres from 10 litres in Thimphu.

By September 2013, due to the depreciation of the Rupee against USD, the price of the petrol went up by Rs.2.4 per litre in India. As a result the price of petrol in Thimphu was also increased to Nu.70.1 a litre, and Nu.52.1 a litre for diesel. This was the eighth hike in the price of fuel since January 2013. Exactly two weeks after the last hike, the price of petrol went up by Nu.1.5 costing Nu.71 per litre in Thimphu. The increase came as a result of increases in global oil prices. As of October 2013, petrol prices dropped by Nu.3.5 per litre. Thus, prices for petrol ranged from Nu.64 to Nu.68.6 per litre and Nu.49.8 to Nu.52.7 per litre for diesel. However, in terms of unit prices (Value/Quantity), the price of diesel, kerosene and LPG are lower compared to petrol.

Box 1: Import of Motor Vehicles

Although the Bhutanese economy experienced volatility in the prices of oil during the year, the import of motor vehicles continued to increase. As of December 2012, the number of motor vehicles registered in the country increased to 67,449 from 62,697 in 2011, recording an increase of 7.6 percent. Furthermore, the number of motor vehicles registered in the country increased to 67,869 as of June 2013. In terms of value, imports of motor vehicles decreased from 2011 and stood at Nu.2.1 billion in December 2012.

As of June 2013, 53.3 percent of total motor vehicles in the country were registered in Thimphu alone, followed by Phuentsholing at 36.2 percent, Samdrup Jongkhar at 5.9 percent and the remaining 4.6 percent in Gelephu. Of these total registrations, 60 percent were medium and light vehicles, with light vehicles recording the highest registrations at around 58 percent. Only about 12.6 percent were heavy vehicles and the remaining were heavy earth moving machines, government pool vehicles and motor vehicles of diplomatic missions domiciled in the country.

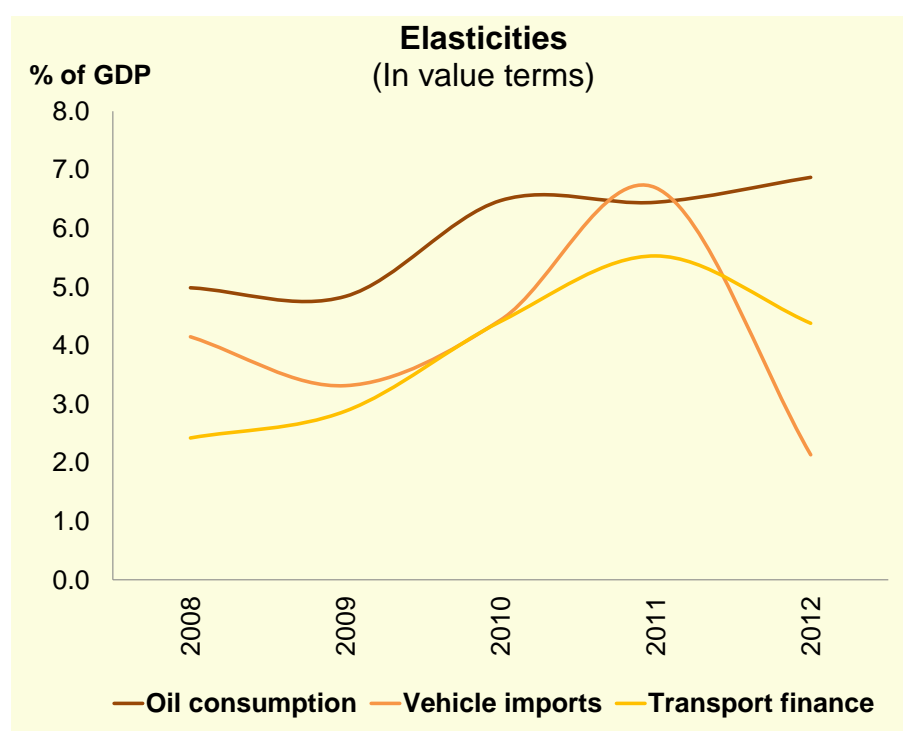
Item	Millions of Nu.					
	2011			2012		
	Total	India	COTI	Total	India	COTI
Import of Motor Vehicles	5729.3	3685.9	2043.4	2123.5	1459.7	663.8
<i>of which:</i>						
1. Passenger Vehicles	3351.8	1438.8	1913.0	1234.0	575.4	658.6
<i>Motor vehicles (for 10 persons or more)</i>	118.4	86.3	32.1	74.4	29.2	45.2
<i>Motor vehicles for passenger transport</i>	3202.7	1322.8	1879.9	1145.0	532.5	612.6
<i>Motorcycles (including mopeds)</i>	30.7	29.7	1.0	14.5	13.8	0.8
2. Heavy Duty Motor Vehicles	2377.5	2247.0	130.4	889.5	884.3	5.2
<i>Tractors</i>	42.2	40.9	1.3	12.3	12.3	0.0
<i>Vehicles for the transport of goods</i>	2157.7	2155.3	2.4	715.6	715.6	0.0
<i>Special purpose vehicles¹</i>	177.0	50.5	126.5	93.1	87.9	5.2
<i>Work trucks²</i>	0.5	0.3	0.2	1.0	0.9	0.1

Source: Department of Revenue and Customs. Does not include the import of vehicle parts. 1) Includes crane lorries, mobile drilling vehicles, fire fighting vehicles, concrete mixers, road sweepers, spraying lorries, mobile workshops, etc. 2) For use in factories, airports etc. includes those for lifting/handling equipment, used in warehouses, docks, airports, short distance transport of goods etc.

As a result of the rise in car imports by 7.6 percent as of December 2012 and a slight growth in population by about 1.8 percent, the people to vehicle ratio in the country remained somewhat unchanged in December 2012 and stood close to 11 percent similar to the previous year. This implies that as of 2012, every 11 individuals in the country own a vehicle, indicating increasing dependence on motor vehicles for transportation. With changes in Bhutan's socio-economic and demographic conditions, the demand for motor vehicles is expected to continue growing despite recent government efforts to decrease the imports of motor vehicles due the fact that motor vehicle consumption and demand is greatly influenced² by real income, price, and access to transport finance.

As of June, 2013, total financial institutions' loans to the transport sector amounted to Nu.3.8 billion, compared to Nu.4.9 billion in June 2012. Of the total credit of the financial institutions, 6.7 percent were allocated to the transport sector.

Trend analysis shows that there is a clear relationship among fuel consumption, vehicle import and transport finance. The elasticities calculated in terms of the percentage of nominal GDP reveals that the fuel consumption elasticity increased slightly from 6.4 percent in 2011 to 6.9 percent in 2012. On the other hand, the elasticities for vehicle imports and transport finance decreased from 6.7 percent and 5.5 percent in 2011 to 2.1 percent and 4.4 percent, respectively in 2012. Generally, the elasticities of fuel consumption, vehicle imports and transport finances are largely influenced by real income, the price of the commodities and market interest rates. The unsustainable level of growth in the above elasticities may in turn have adverse implications for the economy in the current scenario.



The government imposed restrictions on the import of cars in mid-2012 in order to address the problems of increasing imports of motor vehicles and the growing imports bills for fuels. As a result, the vehicle imports elasticity decreased considerably from 6.7 percent in 2011 to 2.1 percent in 2012. The growth in the elasticities of vehicle imports and the transport finance has been greatly influenced by the interventions made by the RMA through streamlining the access to Indian Rupee for motor vehicle imports. Nevertheless, these temporary measures may not be effective in the long run and there is a critical need from the government's side to formulate and implement appropriate policy interventions through fiscal measures, especially on the taxation front. Similarly, more can be done to encourage financial institutions to prioritize lending in productive growth-oriented sectors and authorities to develop better road and alternative public transport facilities, introduce congestion pricing, limit wasteful consumption through taxes, and promote reliance on alternative fuels. Developing urban infrastructure such as pedestrian amenities especially in high population density areas is also essential in light of rapid urbanization.

Table 1 Summary of Bhutan's Import of Major Oil Products: 2003-2012

Quantity/Value	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Diesel (KL)*	48599.0	50934.0	51544.0	52923.0	58892.0	57839.0	65336.0	86930.0	104053.9	122,161.0
<i>Value in millions of Nu.</i>	854.3	1027.0	1266.9	1475.6	1597.5	1679.4	1827.2	3275.8	3582.3	4,618.5
Petrol(KL)	10229.0	11800.0	13795.0	15216.0	16781.0	17393.0	19709.0	23422.5	26761.1	29,094.0
<i>Value in millions of Nu.</i>	261.6	340.0	450.5	570.0	603.2	604.4	694.7	951.2	1364.2	1,626.8
Kerosene (KL)	9706.0	9781.0	12545.0	14370.0	10207.0	5252.0	5427.0	5780.0	5727.0	5,547.0
<i>Value in millions of Nu.</i>	81.0	81.4	105.2	115.8	84.7	44.2	46.4	60.6	72.7	72.7
LPG (MT)	4016.7	4055.0	4472.0	4980.4	5405.5	5724.7	5856.8	6834.2	7410.9	7,470.2
<i>Value in millions of Nu.</i>	56.4	65.9	74.4	90.1	98.2	124.5	116.8	138.2	190.1	193.3
Aviation Turbine Fuel (KL)	1026.0	1080.0	1145.0	801.0	1080.0	828.0	1008.0	1332.0	1455.0	2,070.0
<i>Value in millions of Nu.</i>	19.1	24.5	31.0	27.6	36.9	38.3	32.4	50.1	74.1	121.7
Lubricating Oils (MT)	1461.5	1348.0	3414.0	3934.1	3297.4	3767.8	1096.7	758.1	2287.7	1,170.6
<i>Value in millions of Nu.</i>	84.1	63.3	123.9	135.8	147.0	180.4	126.8	132.3	211.8	200.7
Furnance Oil (MT)	2081.2	1812.0	1656.0	2421.0	2292.0	1892.0	4848.0	2757.0	564.0	12.0
<i>Value in millions of Nu.</i>	28.5	26.8	29.8	51.1	53.3	56.9	119.0	85.2	21.0	0.6
Total volume (KL)	77,119.4	80,810.0	88,571.0	94,645.5	97,955.0	92,696.6	103,281.5	127,813.7	148,259.6	167,524.9
<i>Total value (Nu. million)</i>	<i>1,385.0</i>	<i>1,628.9</i>	<i>2,081.5</i>	<i>2,465.9</i>	<i>2,620.7</i>	<i>2,728.2</i>	<i>2,963.3</i>	<i>4,693.4</i>	<i>5,516.2</i>	<i>6,834.3</i>
<i>(% of Total Oil Imports by Volume)</i>										
Diesel	63.0	63.0	58.2	55.9	60.1	62.4	63.3	68.0	70.2	72.9
Petrol	13.3	14.6	15.6	16.1	17.1	18.8	19.1	18.3	18.1	17.4
Kerosene	12.6	12.1	14.2	15.2	10.4	5.7	5.3	4.5	3.9	3.3
LPG	5.2	5.0	5.0	5.3	5.5	6.2	5.7	5.3	5.0	4.5
ATF(Jet fuel)	1.3	1.3	1.3	0.8	1.1	0.9	1.0	1.0	1.0	1.2
Lubricating Oils	1.9	1.7	3.9	4.2	3.4	4.1	1.1	0.6	1.5	0.7
Furnance Oils	2.7	2.2	1.9	2.6	2.3	2.0	4.7	2.2	0.4	0.01
<i>(% of Total Oil Imports by Value)</i>										
Diesel	61.7	63.1	60.9	59.8	61.0	61.6	61.7	69.8	64.9	67.6
Petrol	18.9	20.9	21.6	23.1	23.0	22.2	23.4	20.3	24.7	23.8
Kerosene	5.9	5.0	5.1	4.7	3.2	1.6	1.6	1.3	1.3	1.1
LPG	4.1	4.0	3.6	3.7	3.7	4.6	3.9	2.9	3.4	2.8
ATF(Jet fuel)	1.4	1.5	1.5	1.1	1.4	1.4	1.1	1.1	1.3	1.8
Lubricating Oils	6.1	3.9	5.9	5.5	5.6	6.6	4.3	2.8	3.8	2.9
Furnance Oils	2.1	1.6	1.4	2.1	2.0	2.1	4.0	1.8	0.4	0.01

Source: POL Section, Ministry of Economic Affairs.

N.B: It is assumed that MT=KL. Figures are based on information submitted by the POL dealers in Bhutan. * Speed, Hi-Speed, Xtra Premium and Xtramile are also included under Diesel

REVIEW OF PERFORMANCE OF BHUTAN'S FINANCIAL SECTOR* (June 2013)

Introduction

This report presents an objective assessment of the performance of Bhutan's financial sector on a peer group basis for the quarter ended June 2013 in comparison to the corresponding quarter of the previous year. The information contained in this report is based on the returns submitted by the financial institutions to the RMA.

The performance of the financial sector has improved through continued expansion in the business, with accelerated growth in credit, enhanced growth in assets, and healthy profitability, during the period under review.

1. Business size and growth.

The total assets of the financial system¹ has expanded by 24.8 percent and stood at Nu.88.4 billion as of June 2013 compared to Nu.70.8 billion during the corresponding quarter last year.

Assets of both banks and the non-bank financial institutions (NBFIs) expanded during the second quarter, 2013. The total assets of the banks² grew by 26.3 percent (from Nu.62.8 billion to Nu.79.3 billion) during the period under review while the total assets for non-banks³ (excluding NPPF) grew by 13.6 percent (From Nu.8.0 billion to Nu. 9.1 billion). The increase in the total assets of the banks was mainly due to the increase in cash and bank balances by 53.0 percent, from Nu.17.2 billion to Nu.26.5 billion. Similarly, non-banks also observed growth in total assets due to the increase in cash and bank balances by 40.5 percent, from Nu.1.3 billion to Nu.1.8 billion.

In terms of asset composition, banks constitute 89.7 percent of the total assets and the remaining 10.3 percent belonged to non-bank financial institutions.

Out of total liabilities of the financial sector, it was observed that capital and reserves increased by 27.5 percent (from Nu.11.8 billion in June 2012 to Nu.15.1 billion in June 2013). Deposit liabilities of banks increased by 24.5 percent, from Nu.47.6 billion in June 2012 to Nu.59.2 billion in June 2013. The borrowing for non-banks also increased by 11.26 percent from Nu.1.24 billion to Nu.1.4 billion during the period under review.

1. The financial system comprises of BNBL, BOBL, DPNBL, T-Bank, BDBL, RICBL & BIL.

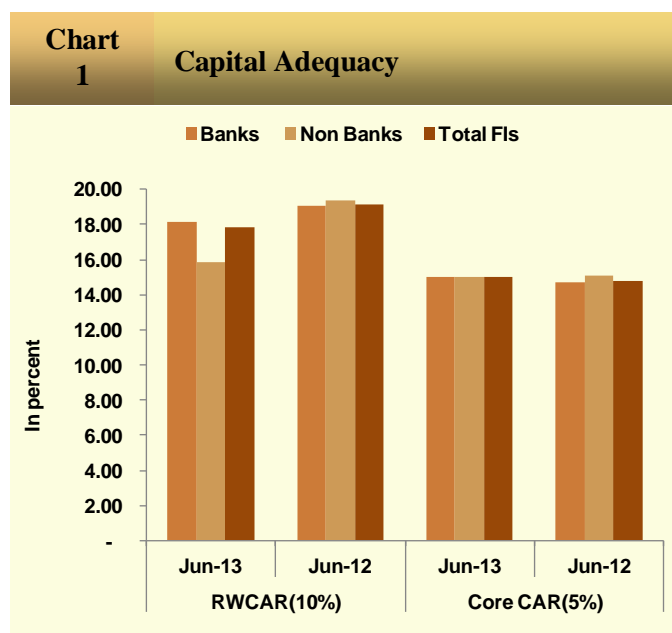
2. Banks refers to BNBL, BOBL, DPNBL, T-Bank & BDBL.

3. Non-banks refer to RICBL & BIL.

* Source: Financial Regulation and Supervision Department (FRSD), RMA. Kindly note that this review is based on the FRSD's classifications and hence some of the data may not be directly comparable with that of the RSD.

2. Capital & Reserves

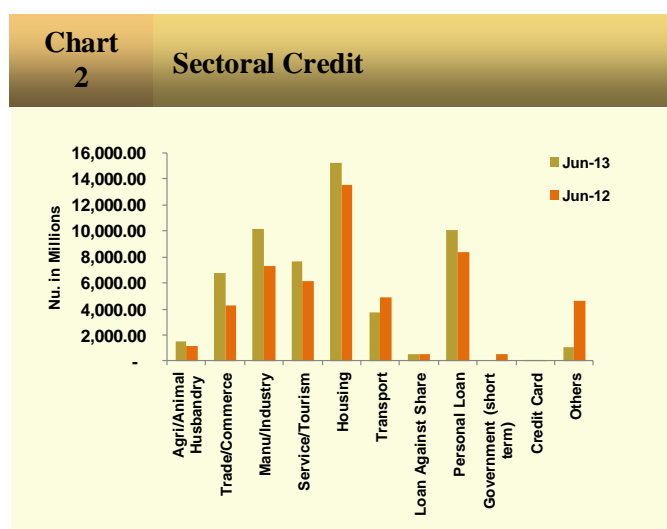
The risk weighted capital adequacy ratio (CAR) of the financial system decreased from 19.1 percent in June 2012 to 17.9 percent in June 2013 although CAR were well above the regulatory requirement. The total risk weighted assets of the financial sector increased by 32.4 percent, from Nu.61.9 billion in 2012 to Nu.81.9 billion in June 2013. With the increase in the risk weighted assets of the banks by 32.2 percent (from Nu. 53.8 billion to Nu. 71.2 billion), the CAR of banks decreased from 19.1 percent to 18.2 percent during the period under review. The RWCAR of non-banks also decreased from 19.4 percent to 15.8 percent.



The risk weighted assets of non-banks had increased from Nu.8.0 billion to Nu.10.8 billion during the period under review. The core capital ratio of the financial sector has increased to 15.0 percent from 14.8 percent during the period under review.

3. Sectoral Credit Analysis (including the credit extension by the non-banks)

The financial institutions continued to play an active role in providing financing to both the household and corporate/private sectors. During the period ended June 2013, the financial sector's total credit increased to Nu.56.8 billion from Nu.51.3 billion in June 2012, or by 10.7 percent. The lending activity was attributable to the strong demand to the housing, manufacturing and personal sector. In terms of sectoral exposures to total loans, 27.0 percent constitutes housing loans, followed by manufacturing/industry and personal with 17.9 percent and 17.1 percent respectively.



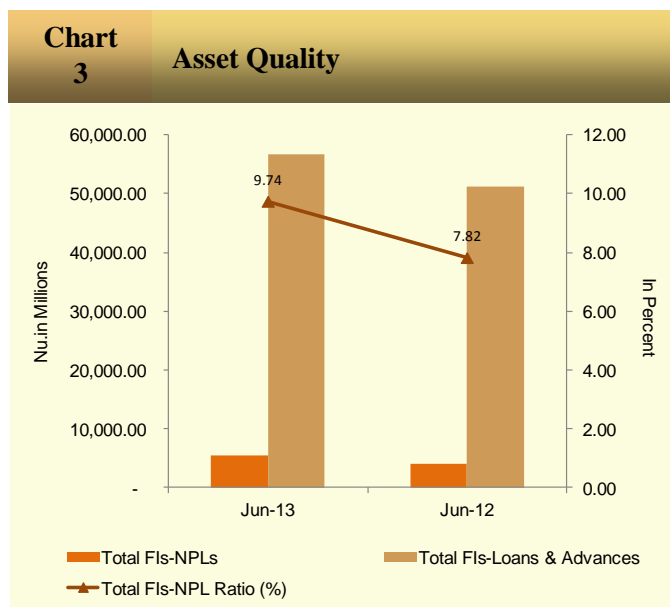
The housing sector's credit increased from Nu.13.6 billion to Nu.15.2 billion (12.2 percent). Credit to manufacturing and personal sector increased from Nu.7.3 billion to Nu.10.2 billion (39.7 percent).

billion (38.6 percent) and from Nu.8.3 billion to Nu.10.0 billion (20.4 percent) respectively during the period under review. In the case of the sectoral growth, the loans to trade and commerce grew by 58.4 percent (from Nu.4.3 billion to Nu.6.8 billion).

Majority of credit are provided by the banks. Out of total credit, 88.6 percent (Nu.50.3 billion) are provided by banks and the remaining 11.4 percent (Nu.6.5 billion) are provided by non-banks.

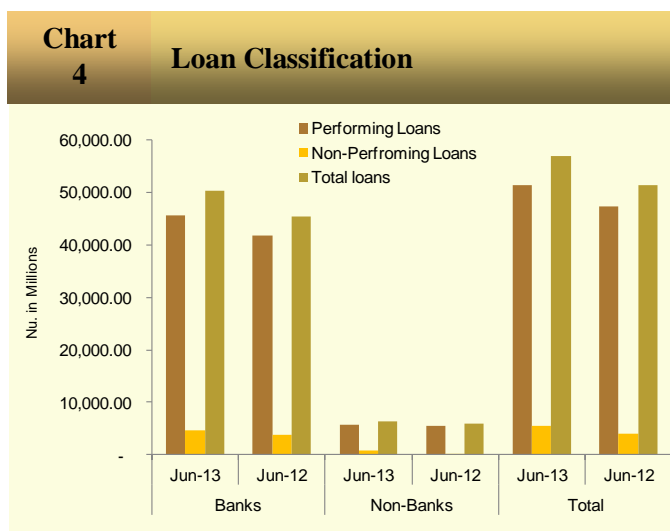
4. Credit Quality (Loans and Advances including the non-banks)

Asset quality continued to pose some concerns as the Non-Performing Loans (NPLs) of the financial sector deteriorated by 37.8 percent. As against the total loans of Nu.56.8 billion within the financial sector, the NPL increased from Nu.4.0 billion in June 2012 to Nu.5.5 billion in June 2013. The NPL to loan ratio stood at 9.7 percent as compared to 7.8 percent during the period under review. The increase in the NPL ratio is due to the increase in the NPL by 37.8 percent as against the increase in the total loans by 10.7 percent. Out of the total NPL of Nu.5.5 billion, doubtful and loss assets comprises of 58.0 percent (Nu.3.2 billion) and the remaining 42.0 percent are substandard assets (Nu.2.3 billion).



5. Consolidated Loan Classification of the FIs

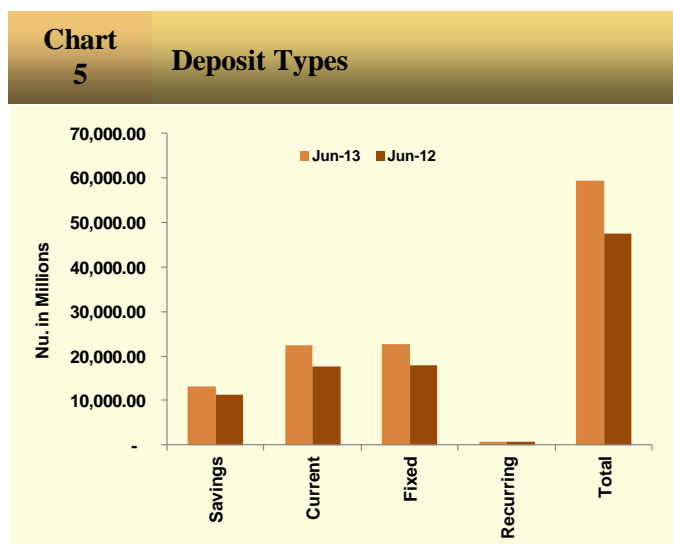
Analysis on asset classification indicates that 90.0 percent of total loans disbursed by the financial sector are performing loans. As against the total loans of Nu.50.3 billion for banks, 91.0 percent (Nu.45.6 billion) are performing and remaining 9.0 percent (Nu.4.8 billion) are non-performing. The NPL for banks increased by 27.8 percent from Nu.3.7 billion in June 2012 to Nu.4.8 billion in June 2013. Similarly, 88.0 percent of the total loans and advances (Nu.5.7 billion) of the non-banks are



performing loans and the remaining 12.0 percent are non-performing loans. The NPL of non-banks has also increased from Nu.0.3 billion to Nu. 0.8 billion during the period under review.

6. Deposits

The total deposit base of the banking sector (including Bhutan Development Bank Ltd.) has increased significantly by 24.5 percent, from Nu.47.6 billion in June 2012 to Nu.59.2 billion in June 2013. The increase in the overall deposit base is mainly due to increase in both the demand and time deposits by 23.3 percent and 26.4 percent respectively. Demand deposits increased from Nu.28.9 billion to Nu.35.7 billion and time deposits from Nu.18.7 billion to Nu.23.6 billion during the period under review.

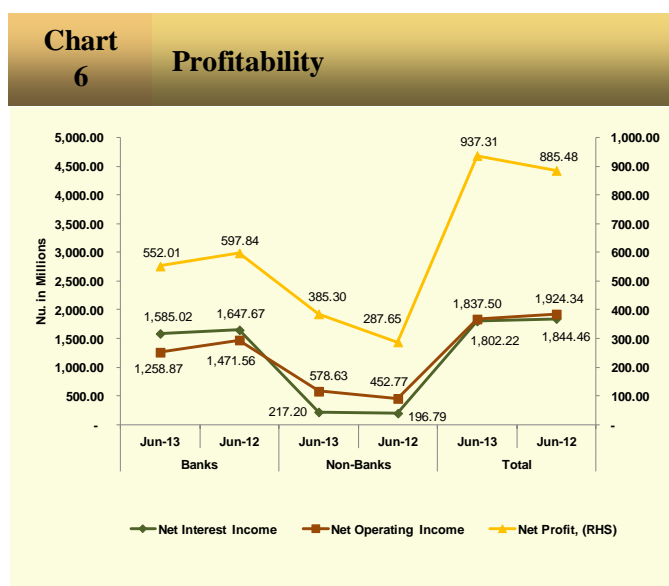


In terms of customer holdings, corporate deposits accounts for 54.4 percent (Nu.32.2 billion) of the total deposits and remaining 45.6 percent (Nu. 27.1 billion) constitutes retail deposits. In other words, corporate deposits continued to dominate the deposit holding pattern of the financial institutions. As a share of total deposits, demand deposits (current and saving) accounted for 60.2 percent and time deposits (fixed and recurring) comprised of 39.8 percent.

7. Profitability

During the quarter under review, the net profit of the financial sector

increased compared to the corresponding quarter of the previous year. The net profit stood at Nu.0.94 billion in June 2013 compared to a net profit of Nu.0.88 billion in June 2012. The net profit of banks decreased to Nu.0.55 billion as compared to the net profit of Nu.0.59 billion in June 2012. However, the net profit for non-banks increased to Nu.0.38 billion in June 2013 from Nu.0.29 billion in June 2012. The net interest income of banks decreased by 3.8 percent (from Nu.1.65 billion to Nu.1.58 billion) and the net operating income also decreased by

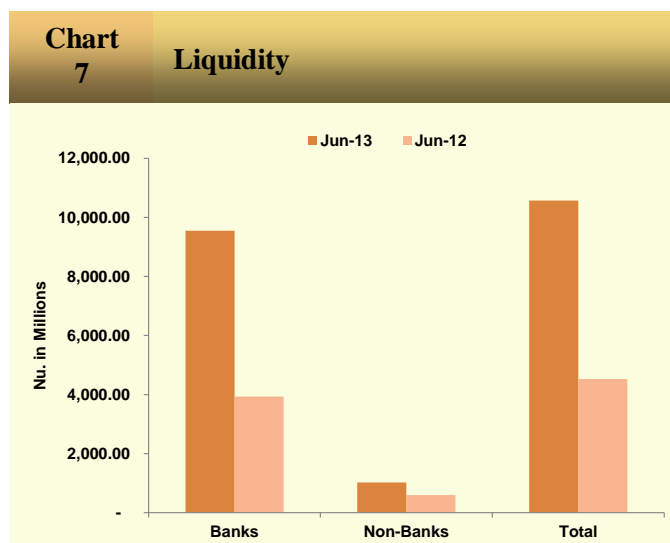


14.5 percent (from Nu.1.47 billion to Nu.1.26 billion). However, the net interest income of non-banks increased by 10.37 percent (from Nu.0.20 billion to Nu.0.22 billion) and the net operating income also increased from Nu.0.45 billion to Nu.0.59 billion during the period under review.

8. Liquidity

On the liquidity front, the financial sector had an excess of Nu.10.6 billion in June 2013 as against the excess of Nu.4.5 billion in June 2012. The statutory liquidity position of the banks stood at 34.4 percent (14.4 percent above the regulatory requirement of 20.0 percent) in June 2013 as compared to 27.5 percent in June 2012. The increase is due to the growth in quick assets of the banks by 58.0 percent (from Nu.14.4 billion to Nu.22.8 billion). Similarly, the non-banks' SLR position stood at 23.8

percent as compared to 19.1 percent in June 2012. The quick assets of non-banks have increased by 40.5 percent (from Nu.1.3 billion to Nu.1.8 billion).



V. SANKAR AIYAR & CO.

CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Royal Monetary Authority of Bhutan

1. Report on the Financial Statements

We have audited the accompanying financial statements of Royal Monetary Authority of Bhutan ("the Authority"), which comprise of the Balance Sheet as at 30th June 2013, the related Statement of Income & Expenditure, Statement of Changes in Equity and a summary of Significant Accounting Policies and other Notes on Accounts for the year then ended annexed thereto all of which we have signed under the reference to this report, in terms of the Letter of Appointment No RAA(SA-20)/CFID/2012/3512 dated 15th November, 2012, issued by the Royal Audit Authority of Bhutan .

2. Management's Responsibility for the Financial Statements

These financial statements are the responsibility of the Authority's Management. The responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the generally accepted auditing standards and in keeping with the auditing and reporting requirements relative to specific laws, rules and regulations. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



4. Opinion

In our opinion and to the best of our information and according to the explanations given to us, said financial statements give the information required by the Royal Monetary Authority Act of Bhutan, 2010, and read with By-laws, 2000 of the Authority in the manner so required and give a true and fair view:

- a) In the case of the Balance Sheet, of the state of affairs of the Authority as of 30th June 2013;
- b) In the case of Statement of Income & Expenditure , of the deficit for the year ended on that date; and
- c) In the case of Statement of Changes in Equity of the Authority, the effect of changes in the equity for the year ended on that date.

5. Report on other legal and regulatory requirements

As stipulated in the letter of appointment of the Royal Audit Authority, we have also set out in **Annexure-I**, certain matters as "Minimum Audit Examination and Reporting Requirements", to the extent applicable, as stipulated in Schedule XIV to the Companies Act of the Kingdom of Bhutan and a Management Report set out in **Annexure-II** highlighting certain issues for Management's attention and consideration.

Further to our comments in the Annexure referred above, we report that:

- (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) In our opinion, proper books of account as required by law have been kept by the Authority so far as appears from our examination of those books;
- (c) The financial statements dealt with by this report are in agreement with the books of account;
- (d) The financial statements dealt with by this report have been compiled on the basis of Generally Accepted Accounting Principles.

For V. Sankar Aiyar & Co.
Chartered Accountants
ICAI Firm Regn. No. 109208W



31-
(V. Rethinam)
Partner
M.No 10412

Place: *New Delhi*
Dated: *31-08-2013*

ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF INCOME & EXPENDITURE FOR THE YEAR ENDED 30th JUNE, 2013
(Amount in Nu. Ch.)

	Current Year	Previous Year
Income		
Interest on Foreign Investment	1,026,066,012.55	806,120,624.25
Interest on Rupee Investment	4,290,408.00	6,916,856.00
Interest on Staff Loans	765,384.36	825,320.46
Interest on Domestic Investment	132,331.78	41,377.52
Interest on Ways and Means Advance from RGoB	40,820,326.41	11,947,484.46
Royalty from Commemorative Coins	862,741.26	641,838.48
Gain or Loss on sale of Foreign Currencies	82,217,057.10	19,835,261.64
Commission and Fees	8,239,230.05	5,497,456.64
Income from other sources	2,544,975.05	66,208,232.55
Other Income	2,923,394.75	2,920,925.80
Total Operating Income	1,168,861,861.31	920,955,377.80
Expenses		
Interest expense on foreign Deposits	51,524,292.50	53,405,758.07
Commission and Fees paid-Foreign Banks	3,637,881.17	2,284,919.12
Commission and fees paid- Domestic Banks	-	91,075.71
Security Printing and Minting	69,414,792.14	44,376,754.65
Salaries ,allowances and other staff cost	71,151,733.57	57,165,412.04
Staff Superannuation Fund	4,474,159.93	11,732,494.42
Director's fees & expenses	710,881.00	372,622.50
Auditors' fees & expenses	266,501.00	243,364.00
Rent & Insurance	321,880.00	420,930.00
Electricity, Water and other Charges	881,492.10	946,561.32
Postage & Telecommunication	4,914,123.67	3,988,750.14
Remittances of Notes and Coins	2,205,931.00	963,969.00
Stationery & Supplies	1,458,887.81	1,343,404.10
Publications	461,090.00	685,905.00
Agency & Contractual Services	11,149,568.00	4,903,531.00
Miscellaneous expenses	4,517,917.40	26,033,328.84
Depreciation (Refer Sch 2)	21,241,019.37	28,995,502.98
Repairs & Maintenance	2,645,753.68	2,871,256.20
Write off - Fixed Assets	-	301,333.07
Total Operating Expenses	250,977,904.34	241,126,872.16
Surplus / (Deficit)	917,883,956.97	679,828,505.64
Less:		
Transfer to Special Reserve	17,450,695.63	13,174,862.18
Cost of Monetary Policy Tools (Ref. Note no. 14 of Sch.3)	1,221,460,810.89	683,522,170.77
Prior Period Adjustment	-	10,162,998.16
Net Surplus / (Deficit) Transferred to Balance Sheet	(321,027,549.55)	(27,031,525.47)

As per our report of even date



For V. Sankar Aiyar & Co
Chartered Accountants
ICAI FRN. 109208W

(V. Rethinam)
Partner
M.No 10412

Place: *New Delhi*
Dated: *31.08.2013*

[Signature]
Chairman

[Signature]
Director

[Signature]
Director

[Signature]
Director

[Signature]
Director

[Signature]
Director

**ROYAL MONETARY AUTHORITY OF BHUTAN
BALANCE SHEET AS AT 30TH JUNE,2013**

(Amount in Nu. Ch.)

CAPITAL AND LIABILITIES	30-Jun-13	30-Jun-12
Capital and Reserves		
Capital	800,000,000.00	800,000,000.00
General Reserve	1,651,940,924.98	1,972,968,474.53
Revaluation Reserve	11,303,053,836.54	8,159,840,089.20
Special Reserve (Return on Deposit of Kuwait Central Bank)	251,885,871.83	234,435,176.20
Other Reserves	243,249.74	6,822,454.91
Total Capital and Reserves	14,007,123,883.09	11,174,066,194.84
Foreign Liabilities		
Due to Banks	923,294,861.75	920,542,094.10
Due to Government	150,064,832.51	160,144,760.09
Due to International Institutions	8,978,152,209.77	3,385,395,186.37
Interest Accrued	31,970,047.81	26,042,912.50
Overdraft Accounts	-	5,173,294,184.37
GOI Standby Credit Facility	10,000,000,000.00	6,000,000,000.00
Total Foreign Liabilities	20,083,481,951.84	15,665,419,137.44
Domestic Liabilities		
Currency in Circulation	7,389,728,968.00	7,345,437,068.00
Due to Banks	16,607,647,412.82	9,397,672,686.60
Due to Government	586,796,060.89	623,544,816.31
Due to other Financial Institutions	415,000.00	615,000.00
Other Liabilities	2,018,964,894.62	1,688,284,856.36
Total Domestic Liabilities	26,603,552,336.33	19,055,554,427.27
Total Capital and Liabilities	60,694,158,171.26	45,895,039,759.55
ASSETS		
Foreign Assets		
Cash in Hand	460,977,328.17	344,617,994.18
Balances with Banks -India	3,289,840,901.80	100,000.00
Balances with Banks -Abroad	1,483,944,580.33	2,252,465,974.94
Term Deposits -India	7,200,000,000.00	-
Term Deposits -Abroad	42,166,669,596.74	40,458,903,702.91
Long Term Investment Securities -Abroad	1,042,858,090.89	1,039,664,847.81
Accrued interest on Foreign Investment	408,290,584.60	186,518,010.48
Total Foreign Assets	56,052,581,082.53	44,282,270,530.32
Domestic Assets		
Cash in Hand	35,363.00	1,326,641.00
Balances with Banks	2,223,942,352.87	182,223,465.52
Advance to Government	1,900,000,000.00	956,521,860.76
Other Financial Assets	13,514,016.75	18,812,457.01
Accrued Interest	29,374.51	9,149.44
Total Domestic Assets	4,137,521,107.13	1,158,893,573.73
Non Financial Assets		
Fixed Assets (Refer Sch 2)	95,643,490.26	111,498,622.95
Inventories	151,935,803.11	152,860,989.06
Other Assets	216,476,688.23	149,516,043.49
Equity Contribution	40,000,000.00	40,000,000.00
Total Non Financial Assets	504,055,981.60	453,875,655.50
Total Assets	60,694,158,171.26	45,895,039,759.55

Significant Accounting Policies -Sch.1
Notes on Accounts -Sch.3



As per our report of even date

For V. Sankar Aiyar & Co
Chartered Accountants
ICAI FRN. 109208W

(V. Rethinam)
Partner
M.No 10412

Place: *New Delhi*
Dated: *31-08-2013*

Deen Shunji
Chairman

[Signature] Director
[Signature] Director
[Signature] Director
[Signature] Director



**SPECIAL
SUPPLEMENT**

POLICY BRIEFS



POLICY BRIEF

No. PB13.01

**Foreign Exchange Reserve Management: Current Practices and
Emerging Issues for Bhutan**

August 2013

Royal Monetary Authority of Bhutan

This Policy Brief was prepared in the interest of transparency and disclosure, to enhance understanding among policymakers. The Brief aims to shed light on Bhutan's current system of reserve management and highlight current challenges and emerging issues that require close collaboration among policymakers to safeguard the sustainable use of Bhutan's limited reserves.

EXECUTIVE SUMMARY

The Constitution of Bhutan provides the overarching framework on the level of foreign exchange reserves that Bhutan must maintain, while the RMA Act of Bhutan 2010, vests the power of ownership and management of the reserves with the RMA. The credibility of a central bank lies in the fact that it is a permanent institution with a long-term vision and goals for sustainable economic development tied to its mandate of monetary and financial growth and stability. Therefore, the Government has accorded this authority to the RMA through the enactment of the RMA Act, in light of its ability to consider the broader macroeconomic interests of the nation at large; and the Government's continuing support in the RMA's effective control and execution of its mandate is critical for successful policy intervention.

While the broad goals and objectives of reserve management have been set in consultation with the Government and enshrined in the law, operational independence is vital for the RMA in order to facilitate day-to-day management of reserves and implementation of reserve management strategies, including the choice of instruments of reserve management. While determining the level of comfort accorded by convertible currency (CC) reserves, the RMA takes into consideration additional parameters after fulfilling the Constitutional requirements, such as back-up of Ngultrum in circulation outside banks. The overall discretionary powers as enshrined in the RMA Act of Bhutan 2010 to make these assessments and decisions lie with the RMA Board of Directors.

Following the sale of USD 200 million in December 2011, it was suggested in various fora that the RMA should revisit its reserve management policy to make the sale of CC reserves as a standard operating procedure given the larger demand for Rupees for economic transactions. In June 2013, the RMA sold another USD 200 million in order to position for upcoming payment obligations. However, the events of 2012 highlighted Bhutan's lack of domestic productive capacity to generate sufficient foreign exchange earnings. Reserves have been largely built from decades of official aid and assistance (grants and concessional loans) rather than export performance. Therefore, the use of reserves will only be resorted to as a last line of defense.

More importantly, the Rupee shortage has underscored the need to build domestic capacity to meet internal demand for goods and services. Without risking a slowdown in economic activity, authorities must work together to seek a balance and more sustainable solution to financing foreign exchange transactions in the midst of rapid urbanization and development plans. Both budgetary and non-budgetary fiscal activities will always have a corresponding impact on the reserves, both as inflows and outflows, in addition to the spillover impact from development projects transmitted through financial sector credit. Ultimately, fiscal policy tools will be most effective to address both demand-side and supply-side constraints.

Meanwhile, as part of the RMA's efforts to continuously improve reserve management practices, the RMA received technical assistance from the International Monetary Fund in July 2013 to review and improve reserve management policies and operations.

I. General Background – Global Practices

Defining foreign exchange reserves

While a uniform or standard definition of foreign exchange reserves is not available, most countries have adopted the definition suggested by the International Monetary Fund for policy and operational purposes:

Reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs; intervention in exchange markets to affect the currency exchange rate; and other related purposes (confidence in the currency and the economy; basis for foreign borrowing).

Managing reserves

Irrespective of who formally owns a country's foreign exchange reserves, it is usually the **central banks** that manage the reserves, in order to support a range of policy objectives (some of which are listed below). Reflecting the nature of these objectives, central banks place a high premium on liquidity while reserve management is usually guided by the principles of **safety, liquidity and return** (unlike fund managers who attempt to maximize returns subject to their clients' investment mandate).

Foreign exchange reserves are held for a number of reasons:

- ✓ For exchange rate policy (to support the exchange rate under fixed exchange rate regimes or for foreign exchange market interventions, even under floating rate regimes, to manage volatility, shocks and destabilizing speculation, and maintain investor confidence).
- ✓ To meet the objectives of monetary policy.
- ✓ To manage the impact of government transactions.
- ✓ To preserve confidence in the country's ability to honor external obligations and carry out external transactions as well as to limit external vulnerability during crisis, including national disasters or emergencies. The use of reserves is then often resorted to only as a last line of defense.

Determining an appropriate level of forex reserves

While the need to increase reserve holdings for precautionary motives has heightened with the global financial crisis, there is no consensus on what constitutes an adequate level of reserves. **Traditional measures such as three months of imports or full cover of short-term debts or 20 percent of broad money** have relevance and the attraction of simplicity but are arbitrary, focus only on a particular aspect of vulnerability and give disparate results. Moreover, most countries have been found to maintain reserves well above levels suggested by the traditional metrics.

The IMF has tried to assess reserve adequacy through the development of new metrics by country category (emerging markets and low-income economies) complemented by cross-country regression analyses, scenario analyses and engagement with country authorities. However, the IMF acknowledges the limitations of simple across-the-board assessments of reserve adequacy across countries, highlighting the need for judgment and detailed country information for a full assessment at the individual country level. In the end, **the optimal level of reserve holdings for a country depends on the shocks it faces, calibrated against the costs of holding reserves.**

For low-income countries, given the importance of terms of trade shocks, the focus has been on **current account based measures** of reserve adequacy such as the ratio of reserves to imports. Optimal reserve levels are higher (6 to 8 months of imports) for fixed exchange rate regimes, commodity exporters, and for fragile states, reflecting their greater vulnerability to exogenous shocks. **However, determination of optimum levels is also influenced by a country's overall policy framework, such as a strong fiscal position.**

II. Bhutan's Current Foreign Exchange Management Mechanism

As per Chapter VI, Section 108, 111, and 114 of the RMA Act of Bhutan 2010, **"The Authority shall be the owner, depository and manager of the official external assets of Bhutan"** and **"the RMA shall use its best endeavors to manage the external reserves to maintain safety, liquidity and yield, in that order and maintain the external reserves at a level adequate for the international transactions of Bhutan or as may be required by law"**. The RMA is also empowered to adopt appropriate policy guidelines for decisions regarding the allocation and composition of reserves in accordance with international best practices.

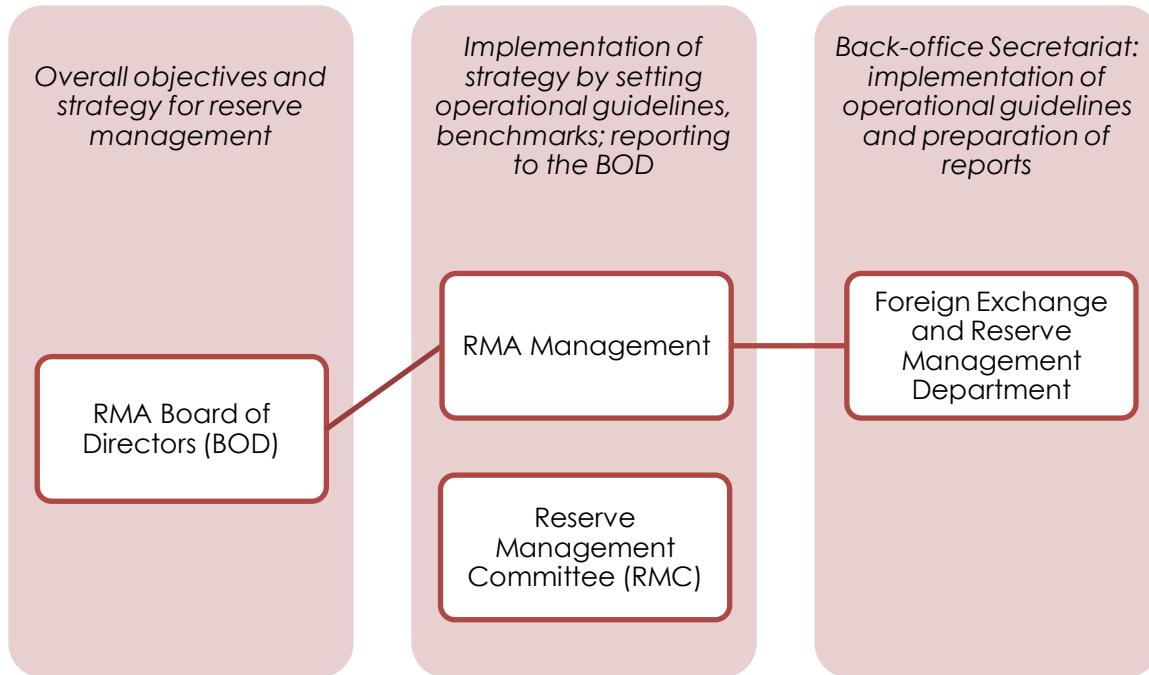
Bhutan's international reserves are comprised of reserve assets of the RMA and the commercial banks. These reserve assets are maintained in: (i) Indian Rupees (INR) and (ii) convertible currencies (CC includes major international currencies like the USD, Euro, Yen) held as (a) currency/cash in hand; (b) deposits held abroad in India and other countries; and (c) Bhutan's SDR holdings and reserve tranche (Bhutan's quota) with the International Monetary Fund.

The Constitution of Bhutan provides the overarching framework on the level of foreign exchange reserves that Bhutan must maintain: as per Article 14, provision 7, *"A minimum foreign currency reserve that is adequate to meet the cost of not less than one year's essential import must be maintained."* **While bearing in mind the constitutional requirement, the RMA's reserve management policy is further guided by the principles to safeguard the exchange rate peg with the Indian Rupee (backing of domestic currency by external assets), to defend against emergencies and disasters, as an investment fund, and to service foreign exchange liability and debt obligations.**

In accordance with those principles, a minimum of 40% of reserves are maintained in the form of liquid assets (cash, overnight or current account deposits) at all times. Similarly, a maximum of 60% of reserves are invested in: (i) financial products offered by credible international financial institutions and professional asset managers abroad; and/or (ii) gold and other precious metals.

The RMA Board of Directors, which includes the Finance Secretary as the Vice-Chairperson, is the highest decision making body on issues related to reserve management. The Governor is entrusted with the day-to-day management of reserves and is assisted by the Reserve Management Committee (RMC) and the Foreign Exchange and Reserve Management Department of the RMA. While the governance structure for reserve management is a standard three-tier (*Chart 1*), decisions surrounding reserve management are broadly two-tiered (*Annex: Table 1*) between the RMA Management (Governor + Deputy Governors) and the RMA Board. However, there are instances where RMA consults with the Government through the fiscal authority, i.e., the Ministry of Finance.

Chart 1. Reserve Management – Governance Structure



The RMC is chaired by the Deputy Governor and comprised of senior staff from the Banking Department, Research and Statistics Department, and the Foreign Exchange and Reserve Management Department (Secretariat). Chapter VI, Section 113 of the RMA Act of Bhutan 2010 states that if Bhutan's level of reserves have declined or is likely to decline to a level that jeopardizes the mandated adequacy of reserves, the Authority shall report to the Government and Parliament reasons and recommendations.

In the interest of transparency and accountability and in line with Section 112 and 113 of the RMA Act of Bhutan 2010, the RMA continues to report regularly on the development of the external reserves through its regular publications and report submissions to the Cabinet as and when required. Information for submission to Parliament is thus transmitted through the Ministry of Finance and Cabinet thereof. The RMC is also responsible for the submission of monthly surveillance reports to the Board of Directors on the deployment, currency composition and investment of reserves.

III. Reserve Management – Emerging Issues & Challenges

In line with international best practices, the RMA has absolute control over Bhutan's international reserves and the decision of the RMA's Board with regard to management and control of reserves is binding. Nevertheless, in a democratic setting and to promote transparency and accountability, the RMA continues to carry out regular joint consultations with the Ministry of Finance.

The credibility of a central bank lies in the fact that it is a permanent institution with a long-term vision and goals for sustainable economic development tied to its mandate of monetary and financial growth and stability. Therefore, the Government has accorded the responsibility for reserve management to the RMA, through the enactment of the RMA Act, in light of its ability to consider the broader macroeconomic interests of the nation at large. **The Government's continuing support in the RMA's effective control and execution of its mandate is critical for successful policy intervention.**

That said, the system of coordination and line of control between the RMA and the RGOB should be systematic and clear on the issue of reserve management. By international practice, the central bank usually has sole authority in setting the overall objectives for reserve management. In Bhutan's case, to strengthen the institution of democracy, the **broad goals and objectives of reserve management have been set in consultation with the government and enshrined in the law.** However, **operational independence** is vital for the RMA in order to facilitate day-to-day management of reserves and implementation of reserve management strategies, including the choice of instruments of reserve management.

Notably, as custodian and manager of reserves the RMA is severely constrained in its mandate to the extent of the amount of foreign exchange reserves available for management. It is widely acknowledged that Bhutan's reserves have been largely built from decades of official aid and assistance (grants and concessional loans) rather than export performance. As illustrated in Chart 2, the majority of both current account and capital account inflows in Bhutan's balance of payments (India and other countries) are dominated by public-sector related inflows.

However, given current supply-side constraints in the economy, these inflows of CC and INR are insufficient when pitted against requirements to meet international payment transactions (imports of goods and services from abroad). The events of 2012 also highlighted that the country lacks domestic productive capacity to generate sufficient foreign exchange earnings. As a result, the RMA had to undertake unconventional measures to control and meet the demand for Rupees including availing of a costly overdraft facility (ODF). However, these measures are at best short-term and should only be treated as the last line of defense. **More importantly, RMA's measures will be ineffective unless stronger long term fiscal and real sector interventions are phased in soon.**

Chart 2. Major Sources of International Reserves

International reserves are built up from CC & INR Inflows received by the public (government) & private sector (corporate and individuals). Balance of payments inflows are dominated by ODA inflows and in recent years, short-term INR borrowing (ODF).

Because of increasing demand for Rupees to meet payments obligations (imports & debt service), reliance on short-term INR borrowing (ODF) has escalated, as highlighted below.

ODA & ODF INFLOWS (FY 2011/12)	EXPORT & FDI INFLOWS (FY 2011/12)
<p><i>Budgetary grants: 20.8% of Current Account inflows;</i></p> <p><i>Hydro grants: 2.3% of Capital inflows;</i></p> <p><i>Concessional loans: 21% of Capital inflows;</i></p> <p><i>INR ODF/GoI LoC inflows: 75.7% of Capital inflows).</i></p>	<p><i>Hydro exports: 19.5% of Current Account inflows;</i></p> <p><i>Non-hydro exports (goods): 40% of Current Account inflows;</i></p> <p><i>FDI inflows: 1% of Capital inflows.</i></p>

Chart Note: Current Account inflows refer to total inflows related to current account transactions in Bhutan's balance of payments (BOP) with both India and other countries (exports of goods and services, income receipts and current transfer receipts (grants etc.)). Capital inflows refer to total inflows related to capital and financial inflows in Bhutan's BOP Capital and Financial Account (FDI, capital grants, concessional and non-concessional debt inflows).

The RMA undertaking huge overdraft at high commercial rates is:

- (i) **First and foremost, not advisable as it places additional burden on the limited reserves since the cost of servicing that debt is substantial and also involves pledging of equivalent CC reserves.**
- (ii) **Second, the practice of availing debt to service debt is not only unsustainable and dangerous but destroys the credibility of the central bank institution.**
- (iii) **Third, undertaking overdraft to finance consumption expenditure of various sectors of the economy raises serious concerns because it further deteriorates the external sector through the trade account** as Bhutan is an import-dependent economy. While borrowing to finance investment in productive ventures is good for the economy, borrowing for direct consumption entails a direct drain on reserves with no promise of future earnings. The overdraft inflates the central bank's balance sheet liabilities reflecting the state of a deteriorating economy.

The government is the largest economic sector in the country and through the use of fiscal policy tools, is in a better position to intervene both on the resource mobilization front as well as initiating expenditure control. Should Bhutan need to continue resorting to the overdraft, it is advisable that this short-term policy tool and its cost of debt servicing be managed by the fiscal authorities.

The importance of phasing in longer-term fiscal and real sector policy measures cannot be emphasized enough. As a developing country, it is inevitable that for the foreseeable future, Bhutan will continue to depend on imports fueled by industry and improvements in living standards for core development activities. This will undoubtedly place increasing pressure on our reserves.

At the same time, the Rupee shortage has underscored the need to build domestic capacity to meet internal demand for goods and services. Without risking a slowdown in economic activity, authorities must work together to seek a balance and more sustainable solution to financing foreign exchange transactions in the midst of rapid urbanization and development plans. Budgetary and non-budgetary fiscal activities will always have a corresponding impact on the reserves, both as inflows and outflows, in addition to the spillover impact from development projects transmitted through financial sector credit towards auxiliary sectors.

Ultimately, fiscal policy tools will be most effective to address both demand-side and supply-side constraints, and could include further fiscal consolidation (*raising taxes and reducing the fiscal deficit*); import-substitution especially to enhance self-sufficiency in agricultural produce; incentives for private sector development and diversification; promotion of export-oriented sectors; as well as pacing investments in hydropower development given the substantial spillover impacts on other sectors.

Investments in the hydropower sector remain essential to overall socio-economic development in Bhutan. Nevertheless, while it has been stated that with the completion of pipeline hydropower projects (10,000 MW vision by 2020), Bhutan will enjoy comfortable inflows of Rupees to finance its balance of payments, the reality is that in the build up to the commissioning of the projects, **Bhutan is already up-fronting future hydropower earnings through current imports of goods, services, workers' remittances and the servicing of short-term debt.** This time lag in the transmission of associated flows was experienced with the Tala project.

Following the sale of USD 200 million in December 2011, it was suggested in various fora that the RMA should revisit its reserve management policy to make the sale of CC reserves as a standard operating procedure given the larger demand for Rupees for economic transactions. **In line with the mandate and powers of the RMA Board and the existing reserve management guidelines, the RMA shall use the reserves as a last line of defense as and when necessary with due consultations with the Ministry of Finance.** This shall include the sale of CC reserves to build Indian Rupee reserves as and when overall reserve levels are comfortable; this was carried out on June 26, 2013 when the central bank sold another USD 200 million from CC reserves (Section IV).

However, while determining the level of comfort accorded by CC reserves, the RMA takes into consideration additional parameters, after fulfilling the Constitutional requirement (such as back-up of Ngultrum in circulation outside banks and CC reserves pledged for the overdraft). The overall discretionary powers as entailed in the RMA Act of Bhutan 2010 to make these assessments and decisions lie with the RMA Board.

IV. Bhutan's International Reserves: Status Report¹

As of the 4th quarter of 2012 (December-end), Bhutan's gross CC reserves totaled USD 873.8 million. However, it is essential to look at the net INR reserve position because as of 2012 end, Bhutan's net INR reserve position (including outstanding obligations on the overdraft facility) totaled negative ₹ 10.3 billion. In addition to the exhausted limit of ₹ 6 billion (June 2012) under the GoI Standby Credit Facility (SCF), ₹ 11.2 billion was outstanding under the SBI and PNB overdraft facility with a corresponding pledge of USD 290 million against our CC reserves.

By the end of the 1st quarter of 2013, while the net INR reserve position improved slightly, it remained negative at ₹ 1.3 billion (on account of INR ODF with the SBI outstanding at ₹ 3.5 billion). **As of 22 June 2013, gross CC reserve position totaled USD 924.5 million (Table 1), while net INR position was negative at ₹ (12.2 billion) with the outstanding ODF balance with the SBI at ₹ (9 billion).** Between June 24 and 26, 2013, total inflows amounting to ₹ 9 billion helped to liquidate the costly ODF, freeing up pledged CC reserve assets (USD 190 million).

On June 26, 2013, the RMA sold USD 200 million from Bhutan's international reserves against Indian Rupees at the prevailing exchange rate of ₹ 59.65 per USD for a total of ₹ 11.93 billion. The transaction was effected on June 28, 2013. The RMA's decision to sell USD 200 million was based on the following:

- (i) **Favorable exchange rate conditions:** With the strengthening of the USD against the Indian Rupee, the Rupee had fallen to an all-time low exchange rate of ₹ 59.65 to the USD. Compared to the previous quarter Mar-end 2013's exchange rate of ₹ 54.13 to the USD (a difference of 20 bps), Bhutan earned an exchange rate gain of ₹ 1.1 billion at the time of the sale. Taking advantage of these developments and the exchange rate gain helped offset interest expenditure incurred by the RMA on the ODF, GoI line of credit and the SWAP for the FY 2012/13 (amounting to INR 1 billion).
- (ii) **Outstanding and upcoming Rupee obligations:** Although Bhutan received Rupee inflows associated with hydropower flows and the excise duty refund from India during June 2013, given uncertainty surrounding future Rupee inflows and outstanding Rupee obligations (Kurichhu and Tala hydropower debt and RBI SWAP repayments) estimated at ₹ 6.9 billion for the remainder of 2013 (July-December), selling CC reserves helps position Bhutan to make these payments including other BOP transactions on imports of goods and services as and when they fall due.
- (iii) **CC reserve levels comfortable before sale:** After setting aside (i) USD 448.9 million reserve coverage for essential imports; (ii) USD 31.9 million in outstanding payments due on new aircraft for DACL; and (iii) backup of currency in circulation estimated at USD 112 million (2012 average), Bhutan had an approximate CC reserve surplus of USD 141.7

¹ Source: Foreign Exchange and Reserve Management Department (FXD), RMA. Figures for the month ending June 30, 2013 are provisional.

million plus USD 190 million from CC reserves pledged against the ODF prior to the sale of USD 200 million as of June 22, 2013.

Part of the proceeds from the sale of CC reserves was invested in Rupee term deposits in India @ 7.25% p.a. Following the sale, gross international reserves totaled USD 825.3 million as of June 30, 2013.

Table 1. Reserve Position as of June 30, 2013

Particulars	
1. CC Reserve Position (USD millions)	724.8
<i>Royal Monetary Authority</i>	687.7
<i>Commercial Banks</i>	37.1
2. Net Rupee Position (INR millions)	5,997.0
<i>Of which, RMA holdings (Gross amount of ₹ 10,764.5 minus outstanding RBI SWAP of ₹ 5,409.9 million @ 5.5% p.a. due in September 2013)</i>	5,354.6
<i>Of which, Commercial Banks' Holdings</i>	642.4

Source: Foreign Exchange and Reserve Management Department, RMA.

After netting off CC reserves pledged against the ODF, maintaining the constitutional reserve requirement of 12 months of essential imports, and maintaining reserves as backing for Ngultrum in circulation, **as of June 30, 2013 Bhutan had an estimated CC reserve surplus of USD 132.1 million** (Table 2). This also takes into consideration Bhutan's upcoming payment obligation of USD 31.9 million that will fall due over the course of 2013 and 2014 (to be financed from CC reserves) towards the purchase of DACL's new airbus aircraft.

Table 2. Surplus CC Reserve Position as of June 30, 2013

Particulars	Millions of USD	
A. Total gross CC reserves		724.8
B. Liabilities against CC reserves		31.9
<i>Outstanding payment for new DACL aircraft</i>	31.9	
CC reserves available (A-B)		693.0
<i>(less) Back-up for Ngultrum in circulation (2012 calendar year average)</i>	6,066.6 (Mill Nu.)	112.0
<i>(less) Reserve requirement for essential imports</i>		448.9
Estimated surplus CC reserve balance		132.1

Source: Foreign Exchange and Reserve Management Department, RMA.

A summary of interest expenses towards the ODF, SCF and now the SWAP from the year 2012 till June 2013 are presented in Table 3. During the 4th quarter of 2012, the RMA incurred ₹ 159.9 million as debt service in interest towards the ODF and SCF. Given that the RMA has recently availed of ₹ 5.4 billion under the INR SWAP with the RBI (March 25, 2013), repayment on the SWAP shall fall due in six months time on September 25, 2013. For the first half of 2013, interest payments towards the ODF, SCF and SWAP totaled ₹ 685.8 million.

Table 3. Summary of Interest Expenditure on the ODF, SCF and SWAP

Particulars	2012 - 2013 (INR millions)					
	Q1 (Mar'12)	Q2 (Jun'12)	Q3 (Sept'12)	Q4 (Dec'12)	Q1 (Mar '13)	Q2 (Jun'13)
Interest on ODF with SBI and PNB	66.2	198.7	145.0	198.8	278.1	131.9
Interest on SCF	37.4	37.4	76.1	75.6	77.0	123.8
Interest on SWAP	-	-	-	-	-	75.0
Total	103.6	236.1	221.1	274.4	355.1	330.7

Source: Foreign Exchange and Reserve Management Department, RMA. Please note that interest payments on the PNB ODF commenced during Q2 2012.

Recent information on transactions pertaining to inflows and outflows of INR which contribute to the majority of INR reserve flows in the past year are presented in Table 2 in the Annex along with a quarterly time series of Bhutan's reserve position during 2012-2013 (Table 3) plus an update of the Government of India Standby Credit Facility and ODF Timeline (Table 4).

ANNEX – ADDITIONAL TABLES

Table 1. Reserve Management: Current Decision Making Matrix

Reserve Management Decision (s)	Level of Decision Making		(+) Reporting Requirement/Other Requirement
	RMA Board	RMA Management ¹	
Sale of reserves (CC to INR)	√		Consultation with the Ministry of Finance
Sale of reserves (between CC)		√	
Opening of new bank deposits abroad	√		
Investment in new financial and debt products	√		Ministry of Finance when government/sovereign guarantee and legal opinion is required (e.g. case of the SWAP agreement. Further decision making by the BOD for the rollover of the SWAP.)
Enhancement of debt products ²		√	Submission of information to the BOD.
Renewal of debt and other investments		√	
Transfer of funds between deposits		√	

¹ The RMA Management consists of the Governor and the 2 Deputy Governors.

² Debt products include the overdraft facility.

Table 2. Summary of Major INR Inflows/Outflows: June 2012-June 2013 (INR Millions)

Particulars	Apr-Jun '12	Jul-Sept '12	Oct-Dec '12	Jan-Mar '13	Apr-Jun '13
Inflows	20,661.3	14,649.0	11,463.3	18,843.0	20,845.4
Commercial banks	10,573.4	4,801.8	4,118.9	2,815.6	4,082.1
Gol grants	9,413.2	6,675.3	2,458.1	5,971.1	16,230.7
Gol LoC & SWAP with RBI	0.0	0.0	0.0	9,409.9	0.0
Hydro-project export proceeds	674.7	3,171.9	4,886.3	646.4	532.6
Outflows	16,914.5	14,293.1	16,717.8	13,219.1	18,493.0
Industry	2,961.1	2,852.7	2,701.1	2,823.0	3,385.7
Hydro projects	2,224.1	3,282.7	4,576.0	1,872.6	5,916.9
Construction materials	3,436.8	1,257.2	1,598.1	1,484.2	1,598.2
<i>Hardware items</i>	-	244.7	865.7	819.0	959.6
Groceries	2,405.7	1,401.8	1,485.4	1,687.4	1,806.9
Govt & corporations	1,848.3	768.5	1,427.5	745.9	1,241.1
Garments	1,031.0	593.9	210.1	282.0	68.5
Remittances	180.7	801.3	740.7	507.2	575.6
Card Payments	261.1	444.0	545.0	566.1	632.3
Vehicles	388.9	221.8	235.6	150.4	195.2
<i>Auto spare parts</i>	-	120.6	220.4	150.4	172.9
Fuel	1,653.7	1,703.9	1,919.5	1,957.0	2,015.9
Vegetables	-	6.1	13.9	11.3	16.9
Interest expenses	236.1	221.0	274.4	355.1	330.7
<i>ODF</i>	198.7	145.0	198.8	278.1	131.9
<i>Gol LoC & SWAP</i>	37.4	76.0	75.6	77.0	198.8
Others	286.9	738.2	990.2	776.8	709.2
Net Rupee Flows (+/-)	3,746.8	355.9	(5,254.5)	5,623.9	2,352.4

Notes:

1) Quarterly data flows sourced from the FXD, RMA.

2) (-) = data not available.

3) Hydropower projects data for December 2012 includes the Tala debt repayment of INR 2.5 billion.

4) All flows pertain to transactions only carried out through the banking system (RTGS) and therefore exclude all INR transactions in cash issued over the banking counters.

Table 3. CC and INR Reserves, 2012-2013

Particulars	(USD/INR millions)					
	Q1 (Mar'12)	Q2 (Jun'12)	Q3 (Sep'12)	Q4 (Dec'12)	Q1 (Mar'13)	Q2 (Jun'13) (prov)
1. Total reserves	769.1	770.0	798.4	898.8	957.3	825.3
Gross CC reserves	747.6	742.9	754.9	873.8	916.3	724.8
Gross INR reserves	1,082.6	1,516.3	2,372.9	1,366.1	2,233.4	5,997.0
2. Net INR position	(5,805.5)	(3,639.7)	(7,403.8)	(10,295.3)	(1,250.2)	5,997.0
3. Gross reserves coverage (months) of total imports (goods)	8.6	9.6	9.7	10.9	11.6	11.0
4. Gross reserves coverage of total imports (goods & services)	7.6	8.5	8.6	9.7	10.3	9.7
5. Gross reserves coverage of essential imports		20.6				22.1

1) Gross reserves figures are sourced from the RMA Monthly Bulletin. Net INR reserve position figures are inclusive of the ODF and sourced from the FXD, RMA. Reserves data as of Q2 2013 are provisional figures from the FXD, RMA.

2) Reserve import coverage (goods and including services) in months, source: RMA Monthly Bulletin. The essential import figure of USD 448.9 million (2012) was used.

Table 4. Timeline: Overdraft Facility and Gol Standby Credit Facility

1993	Gol SCF – INR 100 million
1994	Gol SCF enhanced to INR 250 million
1998	SBI ODF – INR 800 million
1999	Gol SCF of INR 250 million liquidated
2003	SBI ODF enhanced to INR 2 billion
2007	SBI ODF enhanced to INR 4 billion (sold USD 25 million)
2009 (Mar)	Gol SCF – INR 3 billion (fully utilized)
2010 (Jul)	SBI ODF enhanced to INR 5 billion
2011 (Jun)	SBI ODF enhanced to INR 6 billion
2011 (Jul)	SBI ODF enhanced to INR 7 billion
2011 (Aug)	SBI ODF enhanced to INR 8 billion
2011 (Dec)	Sold USD 200 million to liquidate SBI ODF – INR 8 billion
2012 (Mar)	SBI ODF enhanced to INR 10 billion
2012 (May)	PNB ODF limit of INR 2 billion
2012 (Jun)	PNB ODF enhanced to INR 5 billion
	Additional Gol SCF of INR 3 billion; fully utilized
2013 (Jan)	Sold USD 36.84 million (<i>World Bank Development Policy Credit II</i> received as budgetary support to RGOB); fully utilized
2013 (Mar)	INR SWAP with RBI – INR 5.4 billion; fully utilized
	Additional Gol SCF – INR 4 billion; fully utilized
2013 (Jun)	Sold USD 200 million



POLICY BRIEF

No. PB13.02

The Current Account Deficit: Lessons & Policy Implications

August 2013

Royal Monetary Authority of Bhutan

This Policy Brief was prepared in conjunction with Policy Brief 13.01 (Foreign Exchange Reserve Management) and aims to crystallize recent developments in Bhutan's external sector into insights for targeted policy interventions. The Brief highlights urgent policy imperatives, both on the fiscal and real sector fronts, to tackle structural imbalances in the Bhutanese economy.

EXECUTIVE SUMMARY

The tremendous pressures faced last year on the Rupee reserves were the result of our growing internal and external imbalances. These imbalances in turn reflect our underlying economic fundamentals of high dependency on imports, grant aid and debt. The Rupee shortage is not a currency crisis issue but that of an external sector imbalance where large and persistent current account deficits resulting from structural constraints are displaying signs of becoming unsustainable.

The March 2012 Government Rupee Task Force *Report on Balance of Payments with India and the Rupee Shortage* highlighted the lack of diversification and inability of the economy to generate adequate resources to meet rising demand with subsequent over-dependence on the external sector. The spillover impacts of government expenditure and investment in large projects, private consumption and rapid credit expansion were identified as some of the key factors driving Bhutan's external imbalances.

While Bhutan has historically experienced persistent trade and subsequently current account deficits, the deficits were more than adequately financed by grant aid and concessional borrowings. As a result, reserves have been building up over the years. However, domestic productive capacity has not kept pace with increasing aggregate demand. Consequently, import growths have far exceeded export performance, exerting severe pressures on Bhutan's limited international reserves. To ease these pressures, the government and the RMA had to resort to unconventional measures such as sale of convertible currency reserves and short-term Rupee borrowings through the overdraft facility to tide over short-term requirements. However, such measures are costly and unsustainable in the long-run and must be replaced by stronger measures to address underlying structural weaknesses in the economy to improve domestic supply and external foreign exchange earning capacity.

Achieving internal and external balance requires the use of both fiscal and monetary policy as well as other sectoral policies. On the monetary front, the RMA has done all that it can to cool external demand in the near-term, while safeguarding the health of the financial system. Of a total of 36 recommendations cited in the Rupee Task Force Report, the RMA has successfully implemented all 11 immediate to short-term "monetary" measures. However, to the extent that fiscal policy remains dormant, monetary policy will be ineffective. The government is the largest economic sector in the country and through the use of fiscal policy and other sectoral policy tools, is in a better position to intervene both on the resource mobilization front as well as initiating expenditure control.

Therefore, the policy imperative today is to phase in targeted long-term policy measures (both demand and supply side management, fiscal and otherwise) in the real and fiscal sectors to promote and boost domestic productivity and employment. Economic policies need to channel investments in productive sectors, diversify the economy and build the domestic supply and production base. Further, until such time investments in productive sectors such as hydropower are completed and begin to earn dividends, we must be prudent in the next two years and exercise austerity fiscal measures to curtail the import of non-essential goods. Though budgetary figures appear balanced and contained, it is the off-budgetary trends (hydropower) that have considerable bearing on external pressures. Therefore, careful pacing of hydropower investments to deal with spillover shocks to the economy may also be needed. Even when looking ahead, optimistic growth projections have to be interpreted with caution since the growth is largely hydro-driven. Past experiences indicate that hydropower development creates temporary incentives in other sectors inducing additional demand despite severe domestic supply constraints, ultimately translating into increased imports of goods and services.

Additionally, some introspection will be useful to assess whether past capital investments have yielded desired returns and whether adequate efforts/effective investments have been made under the national development plans (FYP) towards providing a conducive/enabling environment for the development of the private sector since the latter has been emphasized as the engine of economic growth.

Fiscal policies must be activated and other supporting policies reviewed and synchronized. While the Ministry of Finance and the RMA are responsible for policies that have a major bearing on the direction of the economy, there are other important stakeholders including the line ministries, and the Gross National Happiness Commission with numerous cross-cutting policies that can impact the growth and development of the Bhutanese economy. Sound macroeconomic management necessitates the synchronization and coordination of complementary sectoral policies under the guiding development principles of a forward-looking national development plan. Otherwise, competing policies risk diluting the overall impact while wasting national resources.

Once longer-term measures that address the structural weaknesses are implemented, the RMA can gradually phase out its temporary measures of restricting Rupee access for construction and motor vehicle imports. In the meantime, the RMA will continue its efforts to correct challenges associated with past rapid credit growth and the build-up in asset-liability mismatches of the banking sector, while supporting financial institutions in their operations to meet sanctioned loans.

I. Understanding *Internal and External Imbalances*

Determining an appropriate mix of macroeconomic policies to correct imbalances in the economy is often at the heart of sustainable development planning for any country, and achieving internal and external balance are the two key objectives of macroeconomic policy.

First, an **internal balance** is a situation where domestic output (*as measured by the GDP*) is close to its potential and inflationary pressures are low and non-accelerating. This is a scenario where investments in the local economy are sufficiently financed through domestic savings, and domestic demand for goods and services are sufficiently met through the domestic output of goods and services. An internal imbalance may occur when there is low inflation but negative growth; or high real growth coupled with high inflation.

On the other hand, an **external imbalance** occurs when a country's external current account¹ position in its balance of payments cannot be sustained through capital and financial flows. While a negative current account deficit does not readily imply an external imbalance, external imbalances occur when a country finds it increasingly challenging to source sustainable flows of capital to finance its external trade and economic transactions.

Bhutan's economic imbalances are characterized by the presence of excess domestic demand with inflationary pressures and a current account deficit. Internal imbalances in Bhutan, compounded by lack of economic diversification, have exacerbated external pressures through the trade and current account. **Our imbalances reflect underlying economic fundamentals of high dependency on imports (of both goods and services, including a large expatriate labour force), grant aid and debt.**

Since the current account deficit also mirrors the domestic savings-investment gap, the tremendous pressures faced last year on the Rupee reserves have been a reflection of our growing internal and external imbalances. Gaps in meeting domestic demand for goods and services as well as financing for consumption and investment are sourced from India and other countries. While the overall balance of payments has been positive and international reserves have grown over the last few decades, this was primarily possible through the steady and large inflow of grant aid and concessional official development assistance (ODA) as opposed to export performance.

¹ In the balance of payments, the current account is the sum of the trade balance (export of goods minus import of goods), flows associated with trade in services, international income flows (such as interest payments on debt and interest earned on investments abroad), and budgetary grants and workers' remittances etc.

II. Highlights from 2012: A Recap of the Rupee Transmission Process

In December 2011, taking advantage of favorable exchange rate conditions, the Royal Monetary Authority (RMA) in collaboration with the Royal Government sold USD 200 million from Bhutan's international reserves as a **last line of defense** to finance the nation's balance of payments (BOP) transactions with India (largely payments related to the import of goods and services).

In January 2012, under the directives of the Prime Minister, a multi-sector Rupee Task Force chaired by the Secretary of the Ministry of Finance was formed to study the origin and factors responsible for the Rupee problem and to formulate policy measures and interventions. The RMA participated both at the technical and policy committee levels. In March 2012, the **Report on Balance of Payments with India and the Rupee Shortage** was completed and presented to the Cabinet².

Findings from the Task Force Report highlighted the **lack of diversification and inability of the economy to generate adequate resources to meet rising demand with subsequent over-dependence on the external sector**. This demand-supply mismatch as reflected in the balance of payments is marked by high growth in imports (for both consumption and investment) from India vis-à-vis insufficient Rupee earnings.

Specifically, **the spillover impact of government expenditure and investments in large projects, private consumption and rapid credit expansion were identified as some of the key factors driving Bhutan's external sector imbalances**. While government project-related imports are generally financed with external funding, auxiliary hydropower related imports for capital equipments (leasing of heavy machinery and vehicles), construction (housing colonies), retail and trade, as well as general private consumption through the banking transmission channel (credit expansion) impacted Bhutan's Rupee position considerably.

Therefore, contrary to certain perceptions, **the recent Rupee shortage is not a currency crisis issue but that of an external sector imbalance where large and persistent current account deficits resulting from structural constraints are displaying signs of becoming unsustainable**. This phenomenon is not unique to Bhutan but also occurs in other neighboring countries including India, which is currently facing a large current account deficit situation.

Moreover, while the occurrence of trade and current account deficits is not new for Bhutan, in the past, inflows associated with ODA (grants and concessional loans) from India and other countries adequately financed deficits and ensured nominal growth in overall reserves. Unfortunately, this phenomenon has watered-down over

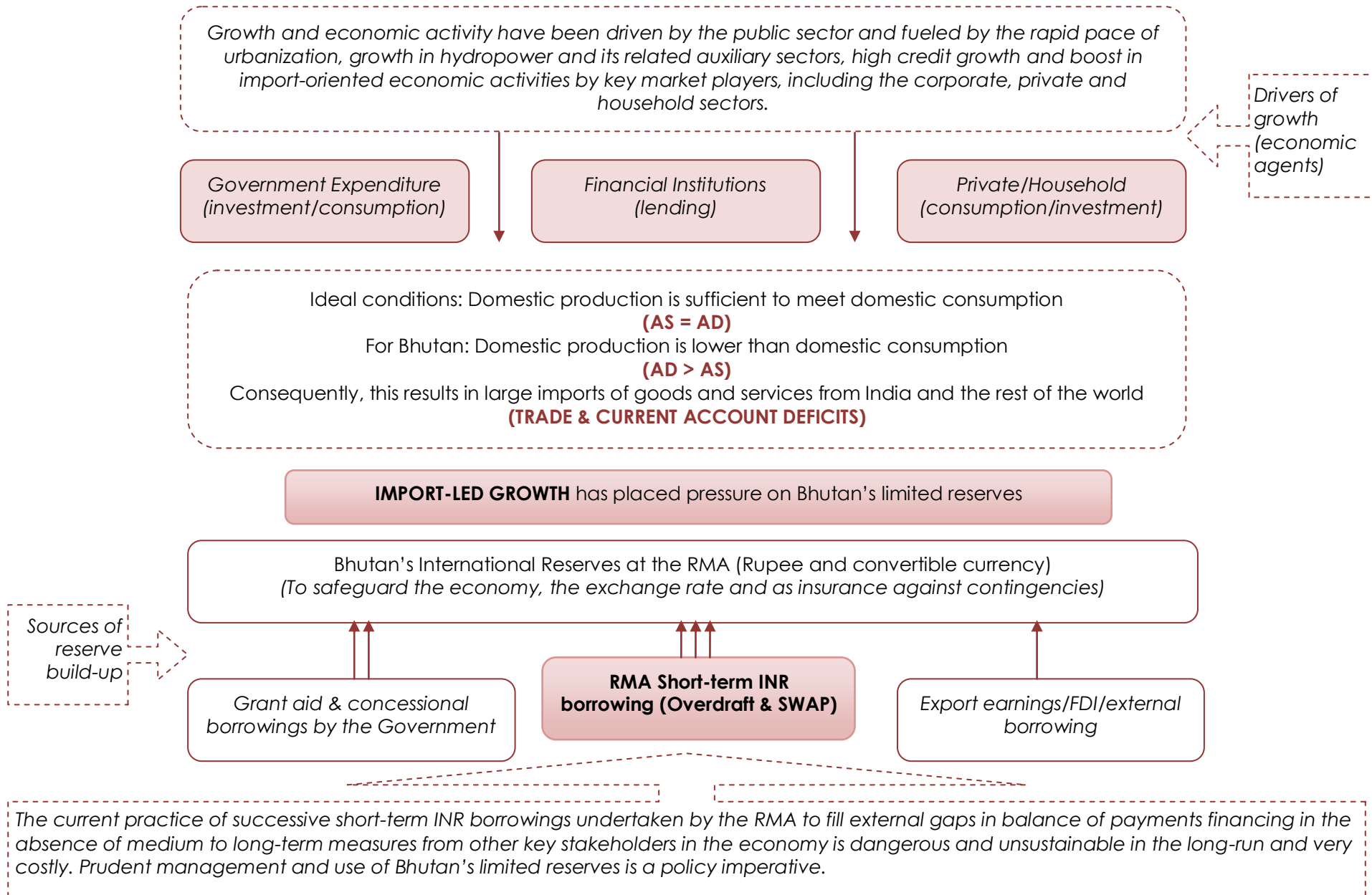
² The Rupee Task Force report is available online at: www.cabinet.gov.bt

the years and Bhutan experienced a negative overall balance of Nu.5.5 billion in FY 2011/12 (i.e. reserves decreased by Nu.5.5 billion).

The multiple transmission effect of the trade and current account on Bhutan's international reserves is briefly illustrated in *Chart 1* as follows:

- (i) In an ideal economic environment absent of imbalances, domestic production (aggregate supply, AS) is sufficient to meet domestic demand (aggregate demand, AD) for goods and services for consumption and investment.
- (ii) Overall economic activity in Bhutan is driven by developments in the public sector (government consumption and development activities such as hydropower development and urbanization). The spillover impact of such development on the growth of Bhutan's auxiliary retail, construction, transport and industrial sectors to support it have been substantial. Besides public sector growth, household and private consumption have also expanded over the years in tandem with improvements in living standards and access to finance. Nevertheless, **due to internal imbalances, growth in Bhutan has been import-driven**, and large and growing levels of imports and payments have widened Bhutan's trade and current account deficits over the years.
- (iii) Growth and economic activity (*investment and consumption*) by the private and public sectors are financed either through domestically raised funds or resources derived from outside the country. While government spending is mostly financed through external ODA, government and corporate deposits form the majority of financial institutions' loanable funds, and the general public and private sector rely heavily on borrowing bank capital for economic transactions. **Regardless of the source of finance, since the pool of resources exceed Bhutan's international payments (mostly to India), large and sustained import levels without corresponding improvements in foreign exchange earnings continue to place severe pressures on Bhutan's limited international reserves. To ease these pressures, the government and the RMA had to resort to short-term Rupee borrowings to tide over short-term requirements.** This however, is a temporary measure that will not be sustainable in the long-run and must be replaced by stronger measures to address underlying structural weaknesses in the economy to improve domestic supply and external foreign exchange earning capacity.

Chart 1. Multiple Transmission Effect of the Rupee Problem on International Reserves



III. The Issue of Exchange Rate: Free and Unlimited Convertibility

Since the introduction of the Ngultrum in 1974, it has been pegged at par with the Indian Rupee and over the years, this exchange rate system has helped increase Bhutan's economic engagement with India with whom Bhutan shares a Free Trade Agreement and an open, porous borders. Over the last 4 decades, the Bhutanese public was provided the **de-facto informal facility of free and unlimited convertibility** between the two currencies to allow the economy to import goods and services necessary for consumption, investment and growth. Free and unlimited access to Indian Rupee (in cash and through the banking system) was considered a necessary exchange arrangement measure in the past to support overall development.

However, increasing challenges associated with the changing structure of the Bhutanese economy, improvements in general living standards and income levels, coupled with the increasing propensity to consume given our domestic capacity to earn has deepened our dependence on external development assistance and borrowing. In the past, development activities were limited, the population size was small and investment volumes were negligible. **From the early 1990s, with rapid urbanization and growth in the economy, Bhutan had to seek additional external financing options commencing with the Government of India line of credit in 1993 and the overdraft facility from 1998.**

Widening external imbalances have made the streamlining of our exchange arrangement within the current exchange rate system while safeguarding our close bilateral trade relations with India, inevitable. **As a “conventional peg³” exchange rate system, Bhutan is not required under the law to continue the practice of free and unlimited convertibility between the Ngultrum and the Indian Rupee.** Measures taken by the RMA during 2012 reflect this and were implemented to emphasize that the **Indian Rupee is a foreign currency that needs to be earned.** This was the rationale behind some of RMA's demand-side exchange policy measures introduced and implemented in 2012 to streamline the use and access to Indian Rupees to rein-in external demand (Annex 1).

³ Under the International Monetary Fund classification of global exchange rate regimes, Bhutan is classified as having a conventional peg arrangement which, unlike a currency board, is not required to ensure free and unlimited convertibility between the local currency and the currency to which it is pegged.

IV. The Scope of Economic Policy: Fiscal vs. Monetary Policy

Achieving internal and external balance requires the use of both fiscal and monetary policy. While fiscal policy involves the use of government spending and raising of revenue; monetary policy tries to influence the cost (interest rates) and availability of money in the economy. Chart 2 illustrates key fundamental differences between fiscal and monetary policy.

Policy instruments under both policies can be either expansionary or contractionary in nature, with the former used to boost GDP and growth and the latter to rein in domestic and external demand and ease inflationary pressures (economic overheating).

Compared to monetary policy, fiscal policy is more long-term in nature and its transmission is directly linked to consumption, investment and economic output (domestic supply capacity). Fiscal policy tools can be helpful in managing domestic demand (and spending); changes in taxes (and/or subsidies) have a direct influence on the availability of disposable income either stimulating or reducing demand (either consumption or investment). Changes in government spending can have a similar impact either through **fiscal consolidation** (reduction in expenditure, debt and raising of revenues) or through increased spending that increases the flow of funds in the domestic economy.

On the other hand, monetary policy works largely via its influence on aggregate demand in the economy and has little direct effect on supply dynamics compared to fiscal policy. Monetary policy affects spending, saving, and investment behavior of individuals and firms, and policy tools target short to medium-term interventions by the central bank to influence the cost and availability of money in the economy (interest rate and liquidity conditions) as intermediated through the financial sector (bank and non-bank financial institutions). These are aimed at moderating the flow of credit to spur growth while ensuring financial stability. **The role and socio-economic objectives of monetary policy is complementary to that of fiscal policy, i.e. to support the domestic economy via access to finance.**

In Bhutan's case, given the low level of domestic productive capacity (supply-side constraints), the impact of both domestic money and credit flows in the economy result in external imbalances, where domestic demand translates into external demand for goods and services, placing pressure on foreign exchange reserves to finance transactions.

Chart 2. A Comparison of Fiscal and Monetary Policy

	FISCAL POLICY	MONETARY POLICY
Policy Maker	Government (MoF)	Central Bank
Definition	Use of govt expenditure and revenue collection to influence the economy	Control of the supply of money often targeting a rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.
Mechanism	Managing the level of demand in the economy to achieve objectives of price stability, full employment & economic growth	Managing the supply of money to influence outcomes such as economic growth, exchange rate, inflation and unemployment.
Policy Tools	Taxes (<i>direct & indirect</i>), subsidies, government expenditure & investments	Interest rates, reserve requirements, open market operations, foreign exchange management
Timeframe/Scope	Medium to long-term; demand/supply-side management	Short to medium-term; demand-side management
Transmission	<ol style="list-style-type: none"> Increases in Government expenditure (<i>current & capital</i>) creates additional demand Raising taxes/ reducing subsidies lowers disposable income and therefore consumption levels 	<ol style="list-style-type: none"> Influences availability of foreign exchange for international payments; Influences domestic credit to finance <i>demand</i>

While the Ministry of Finance and the RMA are responsible for policies that have a major bearing on the direction of the economy, there are other important stakeholders including the line ministries, and the Gross National Happiness Commission. Similarly, **numerous cross-cutting policies impact the growth and development of the Bhutanese economy**, including but not limited to labor and employment, trade and investment, policies related to hydropower, tourism, agriculture and other key economic sectors; national development plans, etc. The Economic Development Policy 2010 was formulated as the apex policy for economic development of the country and the guiding document for all ministries and agencies to stimulate economic growth.

It is imperative to note that tools of economic policy are not limited to fiscal and monetary policy alone. Sound macroeconomic management necessitates the synchronization and coordination of complementary sectoral policies under the guiding development principles of a forward-looking national development plan. Otherwise, competing policies risk diluting the overall impact while wasting national resources.

V. Brief Macroeconomic Outlook for Bhutan⁴: 11th FYP (2013/14 – 2017/18)

Buoyed by the hydropower sector, growth in the Bhutanese economy is projected to average 12.4% over the 11th five year plan period. Growth is expected to peak in the last year of the Plan at 24%, with the commissioning of the Punatsangchhu I, II and Mangdechhu hydropower projects. Further, works on seven new hydropower projects are also expected to commence from FY 2014/15 onwards with concomitant growth in the construction sector. As a result of hydropower and related ancillary developments, the secondary sector is expected to grow at a much faster pace (averaging 18.4%) compared to the tertiary/services sector (averaging 9%). Meanwhile growth in the agriculture sector is projected to improve only nominally to 1.8% over the plan period from the 1.5% average growth over the 10th Plan.

The impact on the external sector of a hydropower-led growth that is being envisaged for the 11th Plan is that of a rising current account deficit, from 29.7% of GDP at the start of the Plan, peaking in FY 2015/16 at 34.8% of GDP driven by increased imports especially related to the hydropower projects. The trade deficit is expected to widen to 33.6% of GDP in FY 2015/16 before narrowing to 18.7% of GDP in FY 2017/18 with the start of hydropower exports by Puna-I, II and Mangdechhu.

For the most part, trade and current account deficits are expected to be financed by net capital and financial inflows in the form of hydropower grants as well as other government loan disbursements. However, because of continued pressures on the Rupee BOP front in the first few years of the plan, Bhutan's BOP and international reserve position, while expected to remain positive, is projected to fall from USD 852.1 million as of FY 2012/13 to USD 673.7 million at the end of FY 2013/14 before increasing to USD 1 billion at the end of the 11th FYP (FY 2017/18).

⁴ For an overview of Bhutan's key balance of payments projections, please see Annex 2. These projections are based on the multi-sector Macroeconomic Framework Coordination Technical Committee (MFCTC) updates as of June 2013 and are subject to change in the next round of revisions. The policy arm of the committee is chaired by the Secretary of the Ministry of Finance.

VI. The Next Five Years: Risks and Challenges

While Bhutan's economic outlook appears robust for the medium-term, hydropower-led growth is expected to raise income and living standards and projected inflationary pressures in neighboring India will exert fall-through price pressures in Bhutan, with large spill-over pressures deteriorating the trade and current account. With high credit growth in the past and growing external debt, this could nudge overheating pressures to resurface.

Pressures on international reserves pose significant challenges. The current account deficit has been traditionally financed by ODA in the form of grants for investment and concessional loans. **One of the overall goals of the 11th Plan is that of self-reliance and a gradual phasing out of ODA.** In line with this goal, ODA flows into the country, especially from countries other than India are projected to decline over the Plan period.

In addition, **on the Rupee front in FY 2013/14, a BOP financing gap with India of INR 8.1 billion is projected, driven in part because INR 3 billion on the Government of India line of credit and INR 5.4 billion from the RBI's Indian Rupee SWAP arrangement are due for repayment.**

Unless short to long-term measures are put in place to curb the trade and current account deficits, **the phasing out of ODA from countries other than India implies that during the plan period Bhutan will have to meet part of its external obligations through its reserves.**

Some reprieve is expected in the final year of the plan with the commissioning of three hydropower projects. However, **in the near term, gaps are expected in the financing of our BOP transactions, consequently involving draw-downs in our international reserves as an alternative, albeit unsustainable source of finance.** While there is no a priori definition of what constitutes a "sustainable" level of the current account deficit, it is becoming clear that constantly resorting to drawdown in reserves and availing commercial short-term Rupee debt to finance BOP transactions on a regular basis is not a sustainable solution.

Bhutan will need more predictable flows of long-term financing to replace costly and ad-hoc short-term Rupee debt to finance BOP transactions, particularly with India. And should Bhutan need to continue resorting to the overdraft facility, it is advisable that this short-term policy tool and cost of servicing this debt be managed by the Ministry of Finance.

Financing through measures such as the SWAP and overdraft facility (ODF) are at best short-term, and the RMA undertaking huge ODF at high commercial rates should only be resorted to as the last line of defense for the following reasons:

- (i) First and foremost, it places additional burden on our already limited reserves since the cost of servicing that debt is substantial and there is a corresponding pledge on convertible currency (CC) reserves.
- (ii) Second, the practice of availing debt to service debt is not only unsustainable and dangerous but destroys the credibility of the central bank institution.
- (iii) Third, undertaking overdraft to finance consumption expenditure of various sectors of the economy raises serious concerns because it further deteriorates the external sector through the trade account as Bhutan is an import-dependent economy. While borrowing to finance investment in productive ventures is good for the economy, borrowing for direct consumption entails a direct drain on reserves with no promise of future earnings. The overdraft inflates the central bank's balance sheet liabilities reflecting the state of a deteriorating economy.

Referring to Section II and as cited in the Task Force Report, **as an import and aid driven economy, Bhutan will continue to face numerous challenges associated with structural macroeconomic weaknesses and short-term Rupee pressures are expected to remain.** Correcting external imbalances will take a very long time and the adjustment will be painful. Addressing these challenges require long-term measures and the collective effort of all stakeholders. Whereas countries such as India possess recourse to substantial foreign exchange inflows through FDI and investments by international financial institutional investors, Bhutan relies heavily on ODA which can be highly unpredictable.

The Task Force Report predicted that some contraction in the economy may take place during policy adjustments. Similarly it was suggested that the “government would need to be mindful of the implications of fiscal expansion on fueling aggregate demand in the economy and this should be an important lesson when drawing up the 11th FYP. Growth driven by high government spending spurred on by heavy imports and large inflows of donor funds is not sustainable in the long run.”

VII. Policy Imperatives for the Government

On the monetary front, the RMA has done all that it can to cool external demand in the near-term, while safeguarding the health of the financial system⁵. Of a total of 36 recommendations cited in the Rupee Task Force Report, the RMA has successfully implemented all 11 immediate to short-term “monetary” measures recommended by the Task Force. When it comes to coordination between fiscal and monetary policy, however, **to the extent that fiscal policy remains dormant, monetary policy will become ineffective.**

The RMA thus recommends to the Royal Government that until long-term investments in productive sectors (such as hydropower) are completed and begin to earn dividends, **we must be prudent in the medium-term and exercise austerity fiscal measures to curtail the import of non-essential goods corresponding to improvements in domestic economic conditions.** Unless effective fiscal measures are introduced immediately by the newly elected government, no amount of hydropower income will be sufficient to meet external payments. Present earnings from hydro exports are already insufficient to meet payment obligations. In 2011, total import of fuel and motor vehicles amounted to Nu.5.5 billion and Nu.5.7 billion, respectively, compared to hydropower export earnings of Nu.9.8 billion. Details on major INR inflows and outflows since 2012 are featured in RMA's Policy Brief PB 13.01.

The policy imperative today is to phase in targeted long-term policy measures (both demand and supply side management, fiscal and otherwise) in the real and fiscal sectors to promote and boost domestic productivity and employment. Economic policies need to **channel investments in productive sectors, diversify the economy and build the domestic supply and production base.** Simultaneously, the RMA would then be able to phase out its temporary measures of restricting Rupee access for construction and motor vehicle imports in line with the new government's fiscal response. Till then, the RMA remains vigilant of the prudent management of limited foreign exchange reserves, while monitoring trade and credit flows.

To reiterate, **RMA's measures will be ineffective unless stronger, long term fiscal and real sector interventions are phased in by the newly elected government. The government is the largest economic sector in the country and through the use of fiscal policy and other sectoral policy tools, is in a better position to intervene both on the resource mobilization front as well as initiating expenditure control.** Ultimately, fiscal and sectoral policy tools will be most effective to address both demand-side and supply-side constraints. Given the extensive spillover effects of government expenditure and investment on the rest of the economy, policy measures could

⁵ Please refer to Annex 1 for an overview of policy measures taken by the RMA from 2012 until present.

include further **fiscal consolidation** (raising taxes⁶, rationalizing current expenditure, and reducing the fiscal deficit); import-substitution especially to enhance self-sufficiency in agricultural produce; incentives for private sector development and diversification; promotion of export-oriented sectors; as well as pacing investments in hydropower development given the substantial spill-over impact to other sectors.

In the same manner, authorities need to conduct a careful assessment of development plans, targets and incentives provided to ensure that allocation of funds and ODA have been successful, that policies are well synchronized and coordinated to boost domestic growth and employment in line with the overarching national plan and the Economic Development Policy.

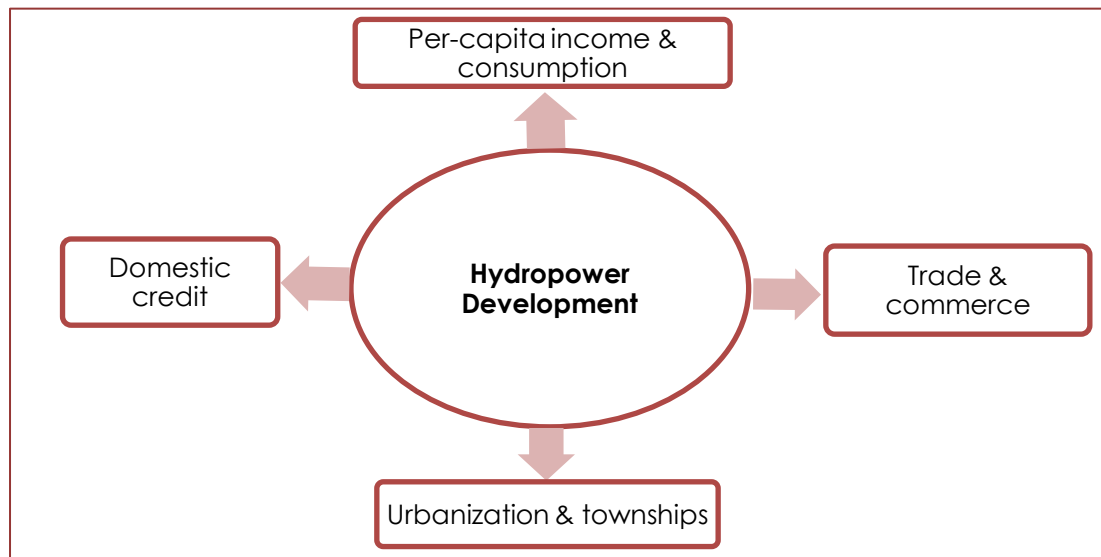
⁶ Bhutan is currently one of the least taxed economies in the region with tax revenue constituting 15.7% of GDP (FY2011/12).

VIII. Hydropower Development: Implications and Recommendations

The hydropower sector is often cited as a panacea to Bhutan's Rupee problem. It is believed that Bhutan will enjoy comfortable inflows of Rupees to finance its BOP trade and current account deficits with the completion of pipeline hydropower projects (10,000 MW vision by 2020). Macro-projections covered in Section V tell a different story. **While investments in the hydropower sector still remain essential to overall socio-economic development, the reality is that these investments have a very long gestation period and in the build up to the commissioning of the projects, Bhutan is already up-fronting future hydropower earnings** through current imports of goods, services, workers' remittances and the servicing of short-term debt. This time lag in the transmission of associated flows was experienced with the Tala project.

Moreover, as outlined in Chart 3, **the onset of hydropower investments in Bhutan has created temporary incentives in the economy for certain market players**, including the financial institutions, local contractors and businessmen. This has been evidenced by the rapid growth in credit (especially towards construction and transport), expansion in the volume of trade and commerce and the development of townships and catchment urbanization on the periphery of the hydropower projects.

Chart 3. Hydropower Spillover Channels



Overall, **hydropower development has created additional demand in the economy despite severe domestic supply constraints, translating into larger imports of goods and services from India and abroad**. These constitute external shocks to the local economy and must be addressed when:

- (i) negotiating terms and conditions for financing and revenues for new hydropower projects; and

- (ii) by seeking access to alternative and concessional pro-cyclical financing facilities (excluding the ODF and line of credit) needed to deal with short-term mismatches in hydropower flows.

Following from above, **with increased focus on hydropower sector development, Bhutan witnessed a steady increase in per-capita income**, rising from USD 1,179.7 in 2000 to USD 1,833.7 in 2011, expected to increase further to USD 5,214⁷ by 2018 with the full commissioning of Puna I, Puna II and Mangdechhu I hydropower projects. Total final consumption (food and non-food) of the average household in Bhutan has simultaneously grown at higher levels, placing increasing pressure on Bhutan's external sector through the demand for more imports.

According to the National Statistics Bureau's Bhutan Living Standard Survey (BLSS) 2012, the average nominal monthly household consumption expenditure in Bhutan rose to Nu.18,367 in 2012 from Nu.13,823 in 2007, pushing per-capita household consumption expenditure by 46.8% from Nu.2,755 in 2007 to Nu.4,043 in 2012. Food-related consumption accounts for at least 80% of total consumption expenditure, and except for certain foods, more than half of food-related expenditure of households are on items produced/imported from abroad. Meanwhile, in terms of value 98% of non-food items consumed are purchased and produced/imported from abroad.

On the other hand, the average nominal annual per capita household income for Bhutan in 2012 was Nu.45,538, of which roughly 57% of household income was sourced from wages and salaries. With easy access to finance from the financial sector, bank loans are the most common source of funds for the average household and 30% of urban households in 2012 had availed credit from the financial system. This has resulted in the large accumulation of household debt (loans) by the private and household sector.

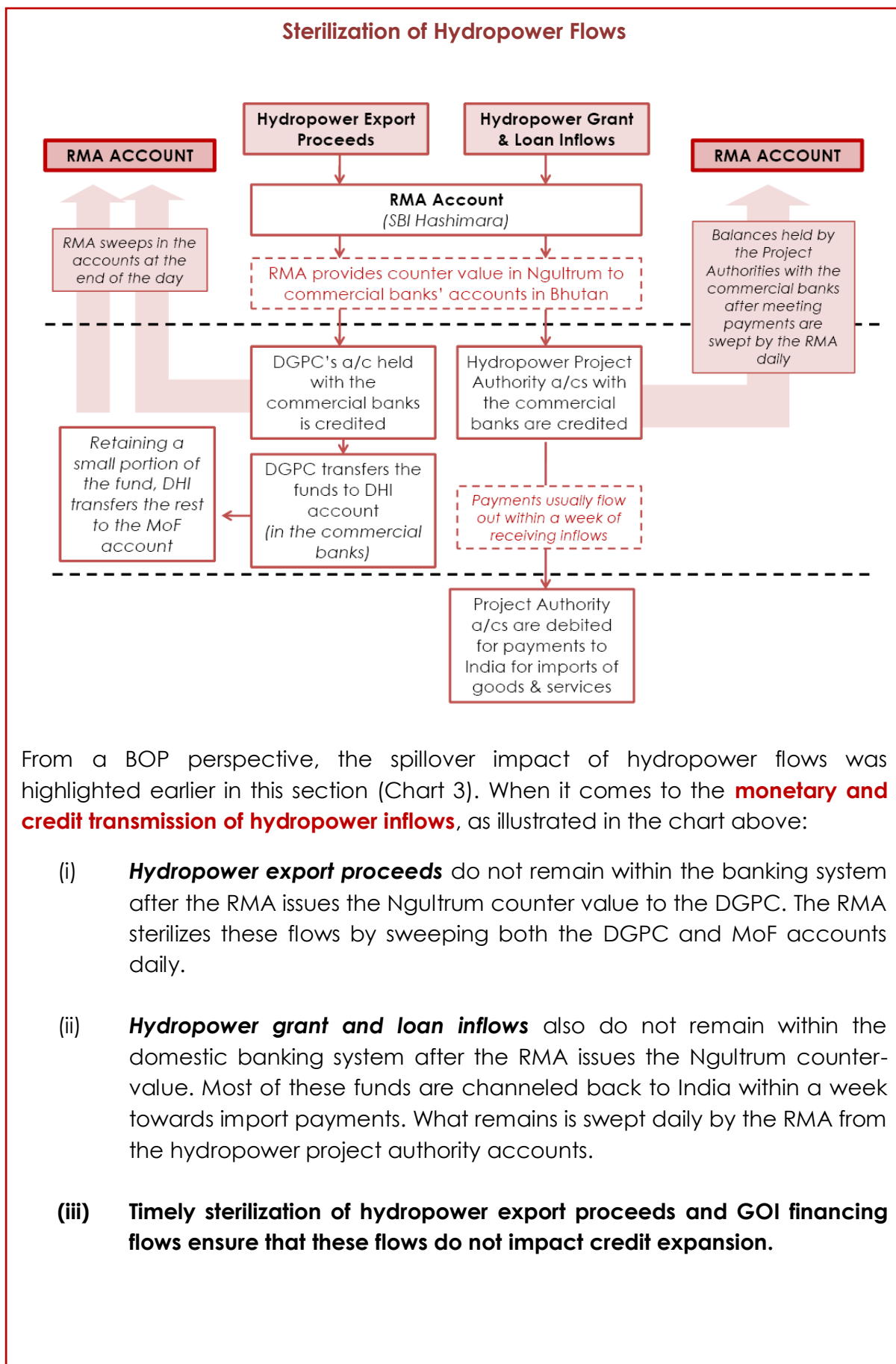
In its capacity as advisor to the Royal Government, the RMA has cautioned the Government that while the future benefits of hydropower are evident, the upside risk to the commissioning of Bhutan's pipeline hydropower projects is our pending graduation from LDC status. Bhutan's national per capita income rose to over USD 1,800 with the commissioning of the Tala project in 2007 and further to over USD 2,200 in 2010 with the commencement of works on the Puna projects. With the expected commissioning of Puna I (2017/18) and Puna II and Mangdechhu (2018/19), Bhutan's per capita income could more than double (in tandem with a spurt in real GDP growth by 17.4% in 2016/17 and 24% in 2017/18) and Bhutan may gradually be lined up to graduate from LDC status, **thereby closing access to concessional borrowing and grant windows.**

⁷ Source: MFCTC, MoF files (May 2013).

When Maldives crossed the USD 4,000 per capita income threshold in 2011, it lost its LDC status and since then has faced severe economic conditions. The process has implicitly commenced; Bhutan was recently placed in a higher category of World Bank (IDA) financing, implying shorter repayment periods and higher interest rates for select portfolios. Therefore, **policy makers should be mindful of the distortion created by hydropower sector on GDP growth; attention should be focused on balancing progress in non-hydropower sectors.**

Although these projects are self-liquidating, there are also downside risks associated with the ambitious hydropower project investments, namely that of huge spillover impact to the construction, trade and transport sectors (catering to new townships surrounding the hydropower project), with corresponding deterioration in Bhutan's external account due to the large imports required for those sectors. However, once the power projects are constructed, with the out-migration of personnel, townships can potentially grow deserted unless suitable alternative uses are planned.

Lastly, it is also critical that hydropower development be complemented by development in other priority sectors, including agriculture to support balanced economic growth. According to the 2012 Labor Survey, over 62% of Bhutan's labor force is currently employed in the agriculture sector (increasing from 61% in 2011 and 59.6% in 2010) despite the fact that the agricultural sector's share to GDP in real terms has declined steadily over the years at an annual average rate of 6.1% since 2000. **Since the hydropower sector is largely capital intensive in nature (accounting for 4% of the labor force), harnessing meaningful employment opportunities in alternative sectors are essential and must be identified for development during the 11th FYP.**



Annex 1. Overview of Policy Measures Taken by the RMA: 2012-June 2013

Even after the 2011 and 2013 sale of reserves, Bhutan continues to face short-term Rupee external account pressures today. The past year however provided authorities with the opportunity for collective remedial action, institutionalization of policy reform and mechanisms to address challenges associated with overheating (*i.e. high growth, inflationary pressures, current account and fiscal deficits and growing external debt*). The RMA, in line with the Task Force recommendations and in collaboration with the RGOB implemented numerous short to long-term demand-side monetary policy, currency exchange and macro-prudential measures to rein-in external demand and tackle structural imbalances in the economy.

Throughout, the RMA has engaged extensively in creating public awareness through consultative campaigns with important stakeholders such as the RGOB and its line ministries, financial institutions, BCCI and private sector representatives, educational institutes, international organizations, representatives from the Parliament and the National Council, and the media.

Medium to Long-Term Measures

1. **Improved Use and Management of Indian Rupees:** Due to the past unlimited convertibility of the Bhutanese Ngultrum into Indian Rupees, Indian Rupee outflows have become unsustainable. Since March 2012, the RMA has introduced a new and improved system of INR Management in the country to discipline access to and use of the INR, including the following measures: **(i) Discontinued issue of INR in cash across bank counters; (ii) Encouraging the use of credit/debit and pre-paid cards for travel expenditure in India; (iii) Treatment of the INR as a foreign currency and streamlining access to and use of INR under a framework of INR Guidelines.**
2. **While INR cash transactions have been curtailed, INR transactions via the banking channel continue to be largely unlimited** though subject to the submission of proper evidence and documentation (*e.g. pro-forma invoice, travel documents, import/export license, service contracts etc.*) in the interest of legitimacy and transparency.
3. Moreover to ease Rupee pressures and to encourage Rupee inflows and retention in the country, as prescribed by the RMA under the **Operational Guidelines for Indian Rupee Transactions** (issued May 1, 2012), local industries with the capacity to earn Rupees through the export of goods and services are now permitted to **operate INR denominated foreign currency deposits with one of the authorized banks in Bhutan. 10% of their export earnings can be retained in these Rupee accounts and used for payments to India.**
4. As of March 2013, the RMA has also **(i) lowered the international credit card limit from USD 3,000 p.a. to USD 1,000 p.a., and (ii) lowered the transaction limit on point-of-sale (POS) machines in India (through debit cards) from INR 1 lakh per month to INR 15,000,** since INR outflows from these channels were escalating.

5. Commercial banks' continue to be provided with **Rupee working balances** by the RMA to meet operational transactions. As and when required, their working balances are replenished by the RMA to facilitate cross-border payments.
6. **Revised Foreign Exchange Regulations 2013:** Exercising the powers conferred by Section 117 of the RMA Act of Bhutan 2010, the new **Foreign Exchange Regulations, 2013** was endorsed by the RMA Board of Directors and now supersedes the Foreign Exchange Regulations, 1997 (*a copy of the Regulations is accessible on the RMA website*) including all related past notifications, circulars and guidelines. In line with the RMA Act, this Regulation empowers the RMA to make regulations or establish limits, prescribe rules and procedures and issue notifications, orders, guidelines and clarifications with respect to foreign exchange transactions and impose administrative penalties for any contravention thereof.
7. **Development and synchronization of IT Systems for INR Trade Flows:** Effective from June 2012, the RMA in collaboration with the DRC and the commercial banks have designed and installed a software system to monitor trade flows. The software will assist the relevant authorities to **monitor Indian Rupee inflows of sales proceeds from exports and movements of imports based on import payments in line with the 91-day stipulation for flows and improve enforcement of foreign exchange regulations.** By encouraging payment transactions to be routed through the banking channel, this system promotes greater tax disclosure, safety and transparency; while also improving data quality for Bhutan's balance of payments statistics with India.
8. **Improvements in the Payments and Settlement System (PSS):** Similarly, in line with the introduction of the Electronic Fund Transfer and Clearing System (EFTCS), the RMA launched the **Point-of-Sale (POS) Integration System** in July 2012, launching the inter-connectivity of all POS terminals across different banks in Bhutan. This will benefit foreign visitors, and promote cashless transactions that will enhance convenience and safety for both customers and merchant businesses, while promoting revenue disclosure and transparency.
9. **Institutionalization of Alternative Monetary Policy Tools:**

Till recently, the RMA had limited monetary policy instruments at its disposal and relied heavily on the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as sole instruments of monetary policy management. To address these constraints, the RMA introduced new monetary policy tools in March 2012 to **cool down immediate aggregate demand for Indian Rupees through controls on credit while safeguarding financial sector soundness.**

(I) Lender of Last Resort Facility: From March 2012, the RMA introduced the **RMA Short-Term Liquidity Adjustment Window (RSTLAW)** to provide short-term liquidity to liquidity-deficient banks to meet daily operational requirements and short-term outstanding liabilities but not for long-term lending activities.

(II) Policy Rate: The **Policy Rate** was introduced in March 2012 by the RMA. It is the rate at which the RMA lends short-term funds to the commercial banks

under a single lending facility through the Repo window, thereby **influencing domestic credit via the cost of loanable funds of financial institutions and their final lending interest rates**. The Policy Rate shall be determined by the RMA from time to time, in line with domestic macroeconomic developments.

- (III) Introduction of the Base Rate: In order to strengthen the management and transmission of monetary policy, the RMA in collaboration with the financial institutions has introduced a system of the **base rate** (September 2012) **to indirectly manage and influence domestic credit growth**. The base rate will ensure the minimum rate below which it will not be viable for financial institutions to lend and help bring about greater transparency in loan pricing, lending discipline while strengthening monetary policy transmission. The base rate system is implemented in accordance with the Operational Guidelines issued by the RMA (*accessible on the RMA website*).

Short-Term Measures

10. **Cash Reserve Ratio**: In order to address the tight banking sector liquidity situation since March 2012, the RMA carried out 2 rounds of **CRR reduction to enable the commercial banks to meet their committed loan obligations**. The CRR was reduced first from 17% down to 10% in March 2012, and then subsequently further down to 5% in June 2012. Consequently, with this twin-reduction in CRR, the RMA released a total of Nu.5.99 billion to the commercial banks.
11. However, there continues to be a huge **asset-liability mismatch** (*using very short-term deposits to lend long-term*) in the banking system which still poses challenges for liquidity management. Banking sector liquidity has been tight due to (i) relentless growth in **Indian Rupee imports**, necessitating an equivalent drain on local currency liquidity in the banks; (ii) a **reduction in general deposit levels** held with banks due to volatility and withdrawals by corporate entities as well as direct inter-corporate transactions bypassing financial intermediaries; as well as (iii) **heavy reliance on bank-loan capital to finance public and private sector investments** rather than tapping alternative finance, including the capital market.
12. **Prudential Regulation Provision Revisions**: The RMA revised several prudential provisions pertaining to loan provisioning and gestation periods in November 2012 to mitigate accumulation of NPL in the FIs balance sheet as well as to ease their liquidity stress in the following manner:
- (i) **Loan provisioning on standard loans** have been reduced from 1.5% to 1%;
 - (ii) **Loan provisioning on sub-standard loans** has been reduced from 20% to 15%;
 - (iii) **Asset classification on doubtful loans** has been revised from "181-365 days" to "181 days to 18 months";
 - (iv) **Asset classification on loss loans** has been revised from "more than 365 days" to "more than 18 months".

- (v) **Gestation period for personal housing/construction** has been raised to a maximum of 3 years;
- (vi) **Gestation period for hotel construction** has been raised to a maximum of 5 years; and
- (vii) **Gestation period for the manufacturing and service sector** has been raised to a maximum of 5 years.

13. **More recently, with effect from June 1, 2013**, the RMA Board made amendments to the **RMA Prudential Regulations on Risk Weights**, identifying sector portfolios with increasing loan exposure trends and risks. In order to provide adequate capital buffer against potential credit and liquidity risk arising from these sectors, the RMA has **raised risk weight percentages** as follows:

- (i) Service and Tourism – 200%
- (ii) Housing – 200%
- (iii) Transport – 200%
- (iv) Personal – 200%
- (v) Others – 200%

These amendments have been implemented with the additional conditions:

- (i) Loans for education and loans against fixed deposits shall be excluded from the “personal” loan category;
- (ii) Loans to the entrepreneurship development program (EDP) shall be excluded from the “other” loan category;
- (iii) Education loans shall be disbursed directly to educational institutes;
- (iv) Financial institutions shall not be allowed to sanction loans for the purchase of land unless the purchase of land is for investment/project purposes.

The regulations although issued, are currently being examined to ensure that its objective is met i.e. to inculcate “responsible lending” in the FIs as well as to ensure that lending in these sectors is commensurate with the FI’s capital strength. The amended regulations will be finalized by end of August 2013 and its implementation will be carried out on a staggered basis.

14. **INR Currency SWAP Arrangement with RBI**: From March 2013, the RMA in collaboration with the Royal Government, entered in a Rupee Currency SWAP agreement with the RBI for a total of **INR 5.4 billion at 5.5% p.a.** for the duration of 6 months (3 month period with an additional 3 months rollover). Such financing provides **short-term relief to meet immediate balance of payments transactions**. The Swap will fall due in September 2013.
15. **INR Overdraft Facility (ODF)**: Similarly, in the meantime, the RMA will continue to rely on other **short-term borrowings as a backstopping line for balance of payments funding**. The events of 2012 have taught us that Bhutan lacks domestic productive capacity to generate sufficient foreign exchange earnings. As a result, the RMA has had to undertake unconventional measures to control the demand for Rupees including availing of a costly overdraft

facility. At the peak of the Rupee problem, the RMA enhanced the ODF from the SBI to INR 10 billion (SBI, at an interest rate of 10% p.a.) in March 2012; thereafter, the RMA also availed of an additional INR 2 billion from the Punjab National Bank (at an interest rate of 10.5% p.a.) in May 2012.

Annex 2. Bhutan's Balance of Payments Outlook: 11th FYP

OVERALL BALANCE OF PAYMENTS	2013/14	2014/15	2015/16	2016/17	2017/18
			Projections		
<i>In Millions of Nu</i>					
Current account	-33841.5	-38451.8	-49810.4	-49915.5	-39851.8
Trade balance	-31940.4	-38684.4	-48049.8	-47906.2	-33209.3
Exports	36017.1	40974.7	45038.9	60852.2	89439.0
Imports	67957.6	79659.1	93088.6	108758.4	122648.3
Services	-3796.7	-2428.5	-3261.7	-3868.9	-2874.1
Credit	7045.9	10035.3	12151.6	14813.7	18164.3
Debit	10842.6	12463.7	15413.3	18682.6	21038.5
Income	-5577.5	-6137.4	-6946.8	-8040.8	-12647.0
Credit	950.6	995.4	1042.4	1091.7	1143.5
Debit	6528.1	7132.8	7989.2	9132.6	13790.5
Current transfers	7473.1	8798.4	8447.8	9900.4	8878.6
Credit	11331.3	13211.6	13317.4	15393.2	14618.3
<i>o/w Budgetary Grants</i>	7809.5	9447.1	9291.3	11085.0	10005.8
Debit	3858.2	4413.2	4869.6	5492.8	5739.7
Capital and financial account	26988.7	42997.3	50676.9	58696.1	60799.6
Capital transfers	11461.1	12748.0	16112.1	19020.1	19254.5
Foreign direct investment	670.8	1100.9	1807.2	3641.8	5363.5
Other Investment	14856.8	29148.5	32757.6	36034.2	36181.6
Foreign Aid (RGOB loans net)	23641.1	29585.0	33102.7	41271.6	40467.5
Other Loans (net)	-8671.0	-345.8	-317.2	-5220.4	-4285.7
Net Errors and Omissions	0.0	0.0	0.0	0.0	0.0
Overall balance	-6852.8	4545.6	866.4	8780.7	20947.8
o.w . Rupee Overall Balance	-8069.3	1465.9	3077.0	9964.3	22740.9
o.w . CC Overall Balance	1216.5	3079.7	-2210.6	-1183.6	-1793.1
Total Reserves	41455.5	46001.1	46867.5	55648.2	76596.0

Memorandum items:	2013/14	2014/15	2015/16	2016/17	2017/18
Current account balance (% of GDP)	-29.7	-30.2	-34.8	-29.1	-18.7
Gross international reserves (USD millions)	673.7	714.7	696.1	790.1	1039.6
Reserve Cover of Essential Imports in Months	20.1	20.3	18.8	20.3	25.4

Source: MFCTC Projections revised as of June 2013.

READERS' FEEDBACK ON THE ANNUAL REPORT

Dear Reader:

We would appreciate any and all comments, or suggestions, that you might have regarding the content and format of the Annual Report. Please feel free to contact us at the following address:

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Research and Statistics Department
Royal Monetary Authority of Bhutan
P.O. Box 154
Thimphu
Bhutan

You can also email us at: rma.rsd@rma.org.bt

Please visit our website www.rma.org.bt for information on the RMA and all our publications.

The *RMA Publication User Survey* is also attached at the end of this report and can be accessed online on the RMA website. Your valuable feedback will be most appreciated.

Thank you.

ROYAL MONETARY AUTHORITY PUBLICATION USER SURVEY

We would be thankful if you could take a few minutes to answer the following questions to help improve the quality and accessibility of RMA's Quarterly Selected Economic Indicators (SEI) and Annual Report publications.

Q1. Are you a frequent reader of RMA Publications?

Yes () No ()

Q2. How do you usually gain access to RMA publications?

Website () Hardcopy () Others, please specify () _____

Q3. Which section of the RMA publications do you find most useful?

Economic Review ()
Administration and Operations ()
Statistical Section ()
Annexure Feature Reports () (*featured in the RMA Annual Report*)

Q4. On a scale of 1 to 5, where 1 = "extremely dissatisfied" and 5 = "extremely satisfied", how would you rate your level of overall satisfaction with RMA Publications?

1 () 2 () 3 () 4 () 5 ()

Q5. RMA publications are comprehensive in covering all Bhutan macroeconomic issues. Please indicate whether you:

1) Strongly disagree 2) Disagree 3) Undecided 4) Agree 5) Strongly Agree

Q6. Do your clarifications get resolved after going through our publications?

Yes () No () To some extent () Never ()

Q7. Do you regularly share information from RMA publications with others?

Yes () No () Sometimes ()

Q8. How likely is the chance that you will recommend RMA Publications to other users?

Excellent () Good () Fair () Poor () None ()

Q9. If you have any additional comments and/or suggestions to improve the quality of RMA publications, please write them here.

Thank you very much! On completing this survey, kindly send it to the Research and Statistics Department, Royal Monetary Authority of Bhutan, by email, fax or post.

The questionnaire can also be accessed and filled online at www.rma.org.bt.

