2018

Bhutan RMA AR 2017-18

Royal Monetary Authority of Bhutan (RMA)

ROYAL MONETARY AUTHORITY OF BHUTAN

ANNUAL REPORT 2018

ANNUAL REPORT
2018

STATUTORY REQUIREMENTS

The Royal Monetary Authority (RMA) of Bhutan is pleased to publish the Annual Report 2018 to the Royal Government of Bhutan (RGoB). The Report is also hosted on the RMA's website.

This Report reviews the macroeconomic developments and policy initiatives for the fiscal year 2017/18. An overview on the prospects of the medium term macroeconomic development are also presented in this Report based on quarterly Macroeconomic Framework Coordination Technical Committee's (MFCTC) update.

We would like to thank all who have contributed to the information contained in this Report.

HIS MAJESTY THE DRUK GYALPO AWARDS DRUK THUKSEY MEDAL TO THE GOVERNOR AND THE RMA

Governor Dasho Penjore (left) with His Majesty the Druk Gyalpo after the award ceremony in Haa.

The RMA is humbled and inspired by the recognition bestowed on the Governor, Dasho Penjore, and the institution, by His Majesty the Druk Gyalpo. His Majesty awarded the prestigious Druk Thuksey medal to Dasho Penjore during the 110th National Day Celebration in Haa for his dedicated service—for always being guided by the need to meet the hopes and aspirations of the people of Bhutan. The Druk Thuksey was also awarded to the RMA in recognition of its efforts in addressing youth unemployment, serving farmers and working closely with the Government.

The RMA is inspired by this honour from His Majesty and pledges to serve the *Tsa-Wa-Sum* with renewed passion and dedication.

> "His Majesty the Druk Gyalpo awards Druk Thuksey Medal to the Governor and RMA during the 110th National Day in Haa."

RMA employees receive Civil Service awards 2018

In 2018, 33 officials of the RMA received medals from His Majesty the Druk Gyalpo for their dedicated service to the Nation. Of the total recipients, 19 officials were awarded with Bronze medal for serving 10 years, 7 officials received the Silver medal for serving 20 years, 6 senior officials, including the Governor, received Gold

Dasho Penjore with RMA staff who received the Civil Service Awards in 2018 and RMA new recruits

medal for their dedicated service for 30 years and more. In addition, Mr. Dupsang Tamang, Senior Administrattive Assistant, received life time service award.

RMA receives Global Inclusion awards 2018

The RMA received the country award for Asia and Pacific region during the global inclusion awards 2018. 7th Annual Global Inclusion award ceremony was organized by Child and Youth Finance International, the Argentina's G20 Presidency and Global Partnership for Financial Inclusion (GPFI) with support of the G20-2020 Saudi Secretariat. The awards were held as part of the GPFI forum: "Technological Trends in Digital Financial Inclusion" agenda held from 3-4 July in Riyadh, Saudi Arabia.

His Excellency, Kutshab Tshering Gyaltshen Penjor, Ambassador of Bhutan to Kuwait, accepted the award on behalf of the RMA and Bhutan. The award will go a long way to motivate various stakeholders to further enhance financial inclusion, particularly among the children and the youth - the foundation of our future.

The Global Inclusion Awards presented to RMA in July 2018

FOREWORD FROM THE GOVERNOR

The last year was a historic year for the RMA with the prestigious "Druk Thuksey" (Heart-Son of Bhutan) medal being awarded by His Majesty the Druk Gyalpo during the 110th National Day celebration in Haa on December 17, 2017. I was deeply humbled and overwhelmed to receive the Druk Thuksey which I believe was in recognition of my efforts in serving the country to the best of my abilities and in the interest of the nation as well as a reminder to serve with renewed dedication and sincerity. I was even happier that the RMA as an institution also received the Druk Thuksey which will serve as a constant source of motivation for all the staff to work with humility and in the larger interest of the nation.

The RMA continued to promote policies to build an inclusive and resilient economy backed by a strong financial system. Several initiatives and polices were launched during the FY 2017/18, such as the Priority Sector Lending (PSL) Guidelines, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Act 2018, the Corporate Governance Rules and Regulation 2018, the Rules and Regulations for Cottage and Small Industries (CSI) Banks in Bhutan 2018, the National Financial Inclusion Strategy (2018-2023) and the National Financial Literacy Strategy (2018-2023).

An important focus area for the RMA continues to be in digitizing the payments and settlement system in the country. The positive externalities of digitization effort not only ensured easy access to essential financial services but also helped to promote the objective of financial inclusion.

Some of the notable accomplishments of the year were implementation of E-Money Issuers Rules and Regulations 2017, implementation of Payment and Settlement Systems Rules and Regulation 2018, development of operating Procedural Guidelines for Bhutan Financial Switch, implementation of Global Interchange for Financial Transactions (GIFT) payment and authorization of payment systems.

On the operational front, the RMA successfully closed its accounts for the FY 2017/18, and submitted a net surplus of Nu. 1.5 billion to the Royal Government of Bhutan (RGoB). The net surplus for FY 2017/18 was a record high reflecting to some measure the efficiency in overall reserve management.

On the macroeconomic front, domestic economic growth was recorded at 4.6 percent in 2017. Headline inflation decreased to a historic low of 2.6 percent in June 2018 from 5.9 percent in June 2017, largely due to a significant fall in prices of both domestic and imported goods.

On the external front, the trade deficit improved from 20.9 percent of GDP to 16.4 percent during FY 2017/18, resulting into a lower current account deficit of 19 percent of GDP. As a result, international reserves remained at a comfortable level sufficient to finance 13 months of merchandise imports.

The medium term growth prospects remain optimistic. Real GDP is projected to grow at an average of 6.5 percent, supported by the commissioning of hydro power projects and the services sector. Inflation is also anticipated to remain at a moderate level, and external imbalance to improve with the current account deficit at 15.6 percent of GDP due to commissioning of major hydro power projects and subsequent reduction in the import for public investment projects.

Against these positive backdrops, the RMA will continue to build sound macroeconomic fundamentals through necessary interventions in the monetary and financial sector. To promote an effective monetary policy transmission and support the existing pegged exchange arrangement, the RMA will be realigning the existing Minimum Lending Rate (MLR) system with the new monetary policy implementation framework which includes the implementation of the policy rate along with standing facilities for the banking sector. The main objective and expected benefits from this new framework are to (i) facilitate monetary policy signaling (ii) maintain an optimal level of liquidity in the banking system (iii) allow banks to enhance their treasury function, leading to reduced liquidity costs and settlement risks, and (iv) support development of the domestic money market.

Besides these conventional demand management functions, the RMA will also work closely with the Government to strengthen the supply side interventions to ensure that the existing financial sector policies translate to generate domestic employment and output.

Engaging the Credit Information Bureau (CIB) is an essential element of developing a modern financial infrastructure to bring discipline in the credit market as well as to promote a culture of being a responsible borrower. To complement the past efforts made through promoting access to finance through PSL and MLR, the RMA and relevant stakeholders are also making a headway in developing other alternative sources of financing.

To further stimulate the economy, the RMA's monetary policy will remain supportive of the development of non-hydro sector, particularly, the CSI sector - a potential driver for economic diversification. To bring in both regional and international experiences and best practices for revitalizing the CSI sector, the RMA in collaboration with both the domestic and international partners will be organizing the 2nd BEFIT conference in 2019, focusing on the following four thematic areas (i) creating an enterprise ecosystem and supporting capacity development through technological upgradation and innovations (ii) addressing challenges in access to finance through both traditional banking channels and alternate source of financing such as crowd funding, angel investors and P2P lending (iii) promoting market access for domestic goods and services and (iv) creating a conducive regulatory and business environment.

To promote a market driven and seamless financial intermediation process, important policy initiatives and economic reforms must be complemented by use of effective modern fintec solutions to generate greater efficiency gains and spur widespread economic and social benefits to our communities. The RMA will continue to modernize the current payments and settlement system and strengthen financial inclusion initiatives. To complement the PSL initiatives, the RMA will also continue to make an effort to promote easy access to finance through alternative financing options.

As Bhutan and India celebrates the 50th Year of Diplomatic Relations this year, the RMA and the National Payments Corporation of India will implement a historic connection of the Bhutan Financial Switch and the National Financial Switch of India, to further strengthen the economic and financial linkages between the two countries. The integration will complement financial services delivery, and act as one of the key drivers to enhance digital financial inclusion through affordable provisioning of such financial infrastructure not only within Bhutan but also across the border.

The RMA is fully committed to collaborate with the Government to further accelerate the economy through economic diversification as envisioned in the 12th FYP. As we welcome the new year, the RMA remains optimistic and steadfast in serving the *Tsa-Wa-Sum* with renewed energy and dedication. I am confident that the Year 2019 will continue to bestow us with greater success, prosperity and well-being.

Tashi Delek!

(Dasho Penjore)
Governor

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RMA'S VISION, MISSION, VALUES AND ORGANIZATIONAL STRUCTURE

OUR VISION

A trusted, progressive and resilient Central Bank

Strategic Pillars

1. Reinforcing stable and inclusive economic growth.
2. Maintaining the stability and integrity of the financial system
3. Advancing innovation and financial technology
4. Fostering organizational excellence

OUR MISSION

Reinforcing stable and inclusive economic growth

Maintaining stability and integrity of the financial system

Advancing innovative financial services and technology

Our Values

S -Sincere
M -Mindful
A -Astute
R -Resilient
T -Timeless

OUR VISION

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

- A Trusted, Progressive and Resilient Central Bank

OUR MISSION

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

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

OUR VALUES

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

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

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

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

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

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

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

STRATEGIC PILLAR 1:

REINFORCING STABLE AND INCLUSIVE ECONOMIC GROWTH

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

STRATEGIC PILLAR 2:

MAINTAINING STABILITY AND INTEGRITY OF FINANCIAL SYSTEM

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

STRATEGIC PILLAR 3:

ADVANCING INNOVATION AND FINANCIAL TECHNOLOGY

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

STRATEGIC PILLAR 4:

FOSTERING ORGANIZATIONAL EXCELLENCE

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

As per the RMA Act 2010, Section 33, the Board constitutes seven members with three from the RMA (Governor and two Deputy Governors) and remaining from the Government. The Governor is the Chairman of the Board.

The Board is responsible for the formulation of policies and corporate governance of the Authority. All functions are carried out under the general supervision of the Board supported by the RMA's Executive Committee. The Department of Internal Audit and Governor's Office report directly to the Governor, while other departments report to their respective Deputy Governors.

Board of Directors

CHAIRMAN

Dasho Penjore was appointed as the Governor of the RMA in December 2015. Dasho started his career in the RMA in 1987 and served as the Deputy Managing Director from 2003 to 2006. In 2006, he was appointed as the Chief Chamberlain to His Majesty the Druk Gyalpo and was conferred the Red Scarf and title of "Dasho" in 2008 for his distinguished service to the Nation. Before he was appointed as the Governor, he was the Chief Executive Officer of the National Pension and Provident Fund (NPPF) . Dasho holds a Master's degree in Economics from the Northwestern University, Boston, USA.

His Majesty awarded the Druk Thuksey (Heart-son of Bhutan) medal to Dasho Penjore during the 110th National Day Celebration on December 17, 2017 for his dedicated service to the Nation.

MEMBER

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

MEMBER

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

MEMBER

Mr. Tashi is Zimpon Wogma (Deputy Chamberlain) under His Majesty's Secretariat. Mr. Tashi is a certified IDI/ INTOSAI Training Specialist. After completing his Bachelors of Commerce degree from Sherubtse College in 1993, he pursued his studies at the Chartered Institute of Management Accountants in London and obtained an Advanced Diploma in Management Accountants.

MEMBER

Mr. Sonam Tenzin is the Director of Department of Trade, Ministry of Economic Affairs. He served as the Executive Director of the newly established Office of the Consumer Protection from January 2014 to January 2016. He holds a Master's Degree in Management Studies (MMS) with specialization in Finance and Accountancy.

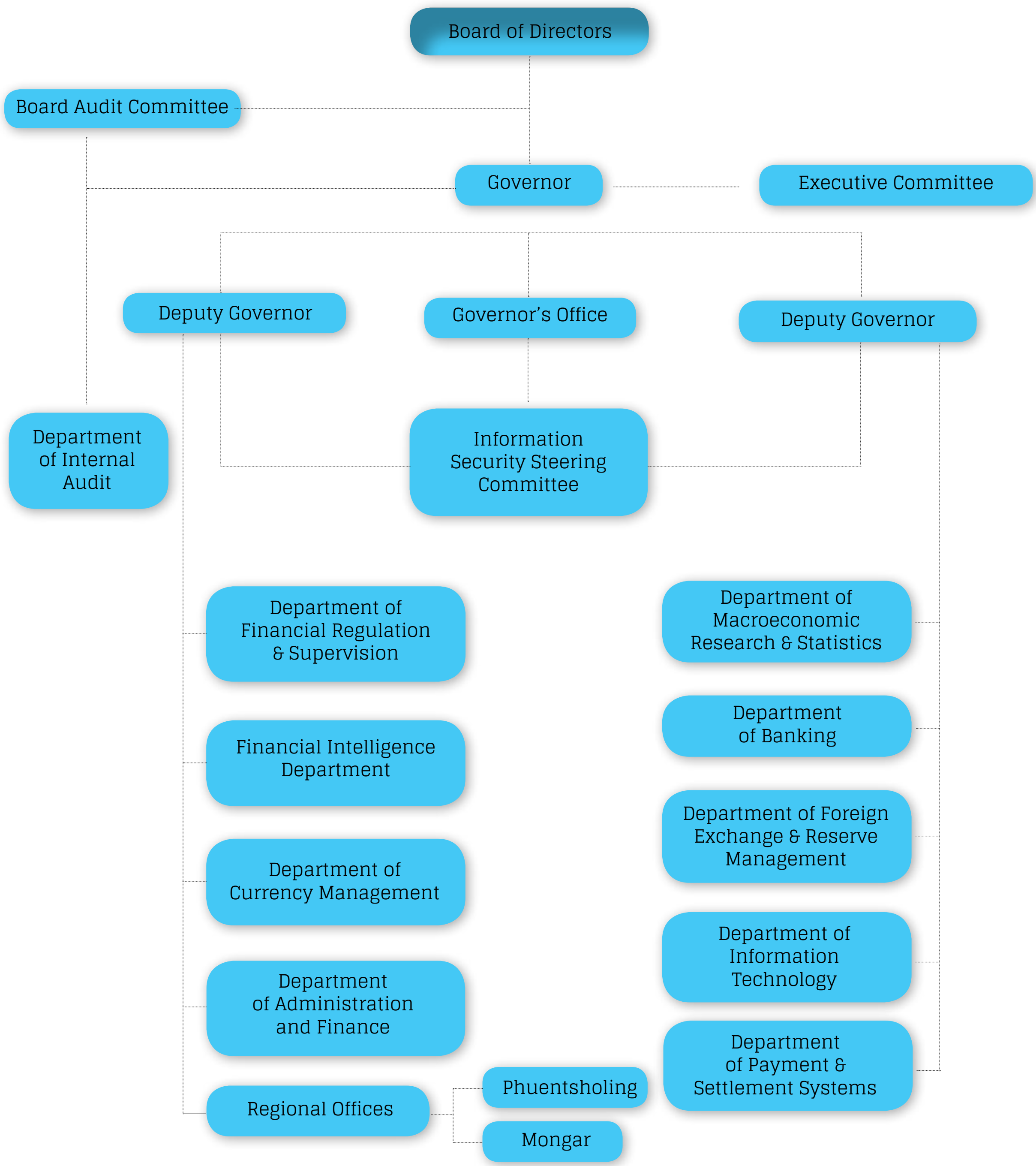
MEMBER

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

MEMBER

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

ORGANIZATIONAL CHART



EXECUTIVE DIRECTORS AND DIRECTORS

Mr. Jai Narayan Pradhan
Executive Director
Department of Currency Management

Mr. Namgay Tshering
Executive Director
Financial Intelligence Department

Mr. Phub Dorji Tangbi
Executive Director
Department of Internal Audit

Mr. Julien Gurung
Executive Director
Department of Administration & Finance

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

Ms. Tshering Dema
Director
Department of Banking

Mr. Sherab Jamtsho
Director
Department of Information Technology

Mr. Gopal Giri
Director
Department of Macroeconomic Research & Statistics

Ms. Gopi Nepal
Director
Department of Financial Regulation & Supervision

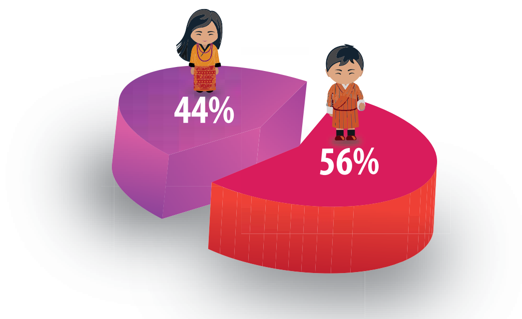
Ms. Tshering Wangmo
Director
Department of Payment & Settlement Systems

Mr. Dophu Dorji
Regional Director
Phuentsholing Regional Office

STAFF STRENGTH

As of August 2018, the RMA's total staff strength is 207. Of the total, 194 employees were stationed at the Head Office, while 10 employees were stationed at Phuntsholing Regional Office and 3 employees at Mongar Regional Office.

Gender Composition (%)



Job Level	Number
Management	3
Executive Directors/Directors/ Officers	94
General Support Staff	110

Following were the key areas of deliberation made by the Board during 2018:

- Rules and Regulation on commercial banks, insurances, reinsurances, e-money issuers, CSI banks, micro –finance, payment and settlement system, foreign exchange and Credit Information Bureau.
- BAS Accounting Policy, Whistle Blowing and Reserve management
- Guidelines on Priority Sector Lending.
- Anti-Money Laundering and Terrorist Financing.
- Strategy documents on National Financial Inclusion and National Financial Literacy.
- Core banking system –Druk MicroFin.
- Opening of Regional Office (at P/ling and Mongar) and Currency Exchange Counters at Paro, Mongar and P/ling.

The Royal Monetary Authority is delighted to honor the dedicated service of the following senior officials who left the RMA in the year 2018.

MS. TENDI ZANGMO
Sr. Admin Assistant
Department of Administration and Finance

Ms. Tendi was one of the senior most staff of the RMA who superannuated in 2018 with her life time service of more than 37 years. She started her career at the RMA in 1980 as a Stenographer (1980-1988), and rose to the post of Personal Assistant to the Managing Director and later to Sr. Administrative Assistant at the Department of Administration & Finance (2010- July, 2018). On her successful superannuation in 2018, the RMA takes a great pride and admiration for her dedicated services. The RMA wish her a healthy and fulfilling life ahead.

MS. RINZIN LHAMU
Executive Director
Department of Payment and Settlement Systems

Ms. Rinzin voluntarily resigned from the RMA in 2018, under the early retirement scheme. Ms. Rinzin initially started her career as a Trainee Officer in February 1, 1991. She served the RMA under several capacities during her long tenure, extending more than 27 years. A brief profile of her career progression at the RMA is as follows;

- Trainee officer (Feb. 1991 - Jan. 1992)
- Assistant Supervisor, DFRS (May 1992–Dec. 1998)
- Banking Officer, DB (Jan. 1999 – Dec. 2000)
- Research Officer/Director, DMRS (Jan. 2001 – Dec. 2006)
- Director, DB (Jan. 2007 – Jan. 2011)
- Director, DCM (Sept. 2012 – Jul, 2016)
- Executive Director, DPSS (Jul, 2016 – Jun, 2018)

The RMA family takes the opportunity to extend our sincere thanks and appreciation for her valuable contribution and dedicated service to the Nation. The RMA wishes her a healthy and prosperous post retirement life ahead.

MR. DUPSANG TAMANG
Officer In-charge
Regional Office, Phuentsholing.

Mr. Dupsang is one of the senior most staff of the RMA. His service at the RMA initially started as a Note and Coin Examiner in the Department of Currency Management on August 19, 1987. He served the RMA in several capacities - as an Accounts Assistant, Accounts In-Charge in the Department of Banking and as a Joint Custodian in the Department of Currency Management. He also served in the Department of Payment and Settlement Systems as a Clearing Assistant and as a Foreign Exchange Assistant in the Department of Foreign Exchange and Reserve Management.

In 2018, he was placed as the Officer In-charge of the Regional Office to set up the new office at Phuentsholing. With a long outstanding and dedicated career at the RMA, for more than 31 years, Mr. Dupsang superannuated in December 31, 2018, after receiving a life time service award from His Majesty the Druk Gyalpo. The RMA family takes great pride and admiration for his long dedicated service and wish him and his family a healthy and fulfilling life ahead.

OBITUARY

RMA mourns the untimely demise of Mr. Karma Rinzin, who was a dedicated and hardworking senior official of the RMA.

KNOWLEDGE MANAGEMENT

In order to build a highly professional and dynamic human resource capability to carry out RMA's mandates and functions efficiently, the RMA officials continued to attend various Courses, Seminars, Workshops, Trainings and Meetings within and outside the country. Some of the notable trainings and courses attended by the RMA officials are featured given below.

To build an efficient and motivated human resources, the "Inter-Departmental Transfer Guidelines" was implemented in January 2018 to provide employees with opportunity to acquire varied job experiences and career enrichment within the RMA. Moreover, to ensure a systemic and holistic development of human resources in the organization, the HRD Plan has also been finalized.

Managerial Development

- Macroeconomic Management and Fiscal Policy.
- Macroeconomic Diagnostics and Monetary Policy.
- Corporate Governance.
- Regional Economic and Financial Monitoring.
- Annual Meetings: IMF-ADB, SAARCFINANCE Governor's symposium, ACU, AFI Global Policy Forum and APG.

Operational Development

- Currency Management.
- Prudential Asset Classification and Provisioning and the IFRS.
- Training on Effective Management for Secretariat.
- Capacity Building Seminar on Financial Inclusion in Asia-Pacific.
- Server and Network Configurations, Third Party Software, Oracle, Database, Network Administration and Management.
- Talent Development and Human Resources Management.

Policy and Planning Development

- Regulation, Supervision and Monitoring of Financial Institutions.
- Fiscal Management and Sustainability.
- Investment and Management of Foreign Exchange Reserves.
- Anti-Money Laundering & Combating the Financing of Terrorism.
- Domestic Credit Rating, Stress Testing, Capital Adequacy and Supervision & Financial Soundness Indicators.
- Financial Programming and Policies (FPP).
- Payment & Settlement System & Financial Switch.
- Capital Market Development.
- External Debt Management & Financial Market Analysis.
- Compilation of Balance of Payments, International Investment Position Statistics & Monetary & Financial Statistics.
- Financial Inclusion & Literacy Program.
- Consumer Protection & Market Conduct Program.
- SAARCFINANCE Staff Exchange Program.

Dasho Governor with RMA staff and monks of Paro Rabdey during the hoisting of prayer flags and feast offering at Chelela on April 29, 2018.

SOCIAL CLUB ACTIVITIES : FY 2017/18

The RMA Social Club is an initiative of Dasho Governor. The club was formed on March 25, 2016, with the objective of taking additional responsibilities beyond the normal official duties. The Social Club provides welfare support to RMA staff during difficult times and promotes social integration by way of offering community services which are of national importance.

Currently, the Club consists of a President, Vice President and 30 members, nominated through a secret ballot. Some of the activities undertaken by the Club during FY 2017/18 includes the following:

i. The Club members along with other staff from the RMA rendered voluntary services during the reconstruction of the historical Drukgyel Dzong at Paro on March 17, 2018. The Club members also made contribution during the renovation work of Lhading Lhakhang at Paro on August 4, 2018. During the event, the RMA also sponsored lunch, tea and offered cash to the site workers.

ii. For the well-being and happiness of all the sentient beings, the Club also initiated hoisting of prayer flags and feast offering on April 29, 2018. Hoisting of prayer flags were presided by the monastic body of Paro Dzongkhag.

Voluntary labour contribution by RMA staff at Lhading Lhakhang at Paro on August 4, 2018

Voluntary labour contribution by RMA staff at Drukgyel Dzong re-construction at Paro on March 17, 2018.

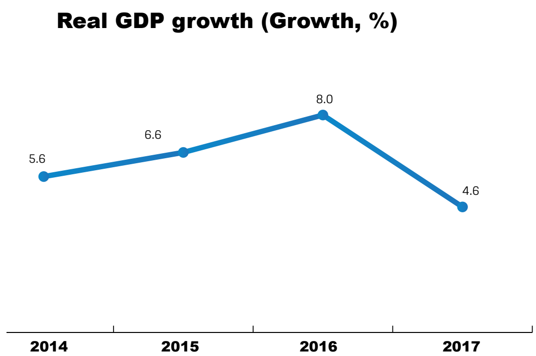
2

KEY MACROECONOMIC HIGHLIGHTS

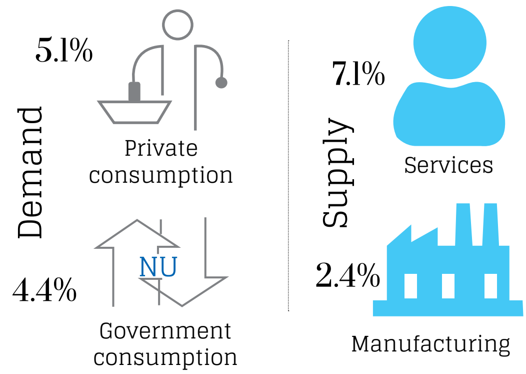
KEY HIGHLIGHTS- FY 2017/18

Macroeconomic Developments

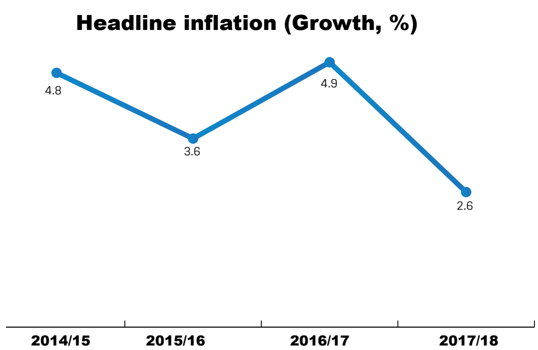
Sluggish GDP growth in 2017



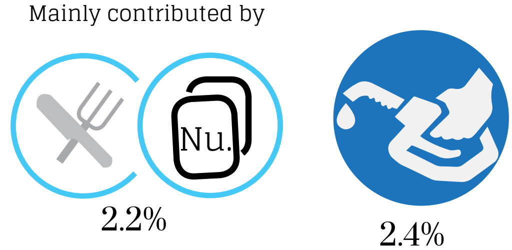
Key drivers of economic growth in 2017 (Growth, %)



Headline inflation moderated in FY 2017/18



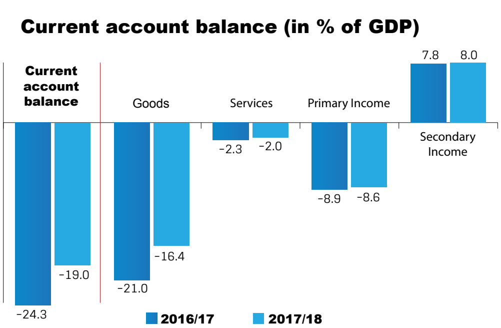
Mainly contributed by

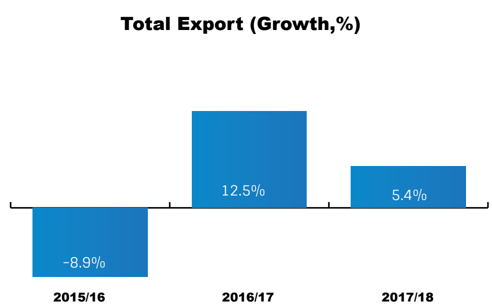


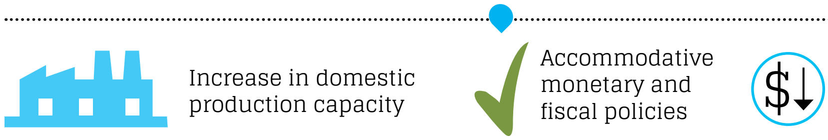
Food prices
Decrease in vegetables, bread and cereal prices

Fuel prices
Fall in global fuel prices

Trade & current account deficits persist





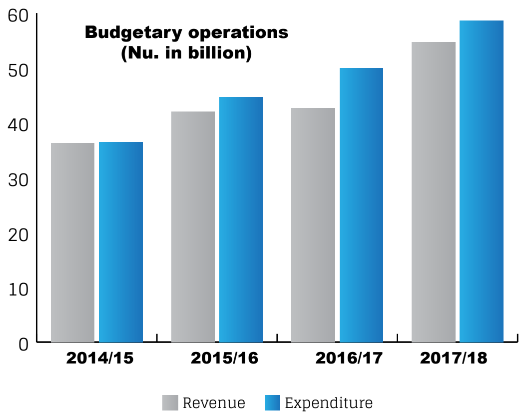


Increase in domestic production capacity

Accommodative monetary and fiscal policies

Depreciation of exchange rate

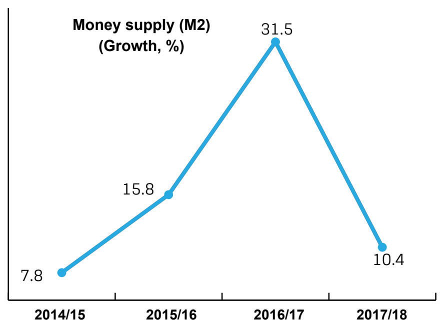
Fiscal deficit remained manageable

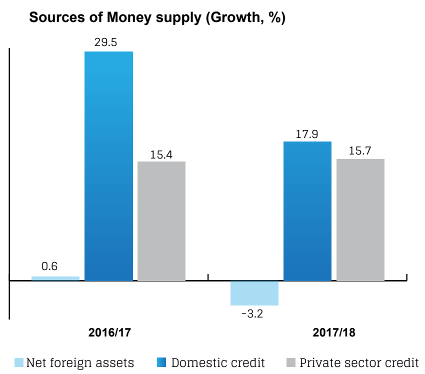


Mainly contributed by (in % share)

Revenue	Expenditure
68.1% Domestic revenue	48.8% Current
31.9% Grants	51.2% Capital

Money supply growth slowed down but continued to remain volatile

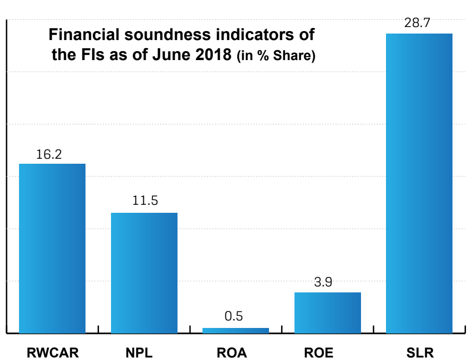




Monetary policy

- ✔Fixed exchange rate served as nominal anchor for maintaining price stability
- ✔CRR is the only monetary policy tool for liquidity management

Financial sector remained resilient to economic vulnerabilities



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

Trade & commerce
NPL: 21.3%
Share to total loan: 13.9%

Services & tourism
NPL: 19.3%
Share to total loan: 23.1%

Housing
NPL: 17.9%
Share to total loan: 23.6%

KEY HIGHLIGHTS- FY 2017/18

Policy initiatives and interventions

1. Financial Sector Regulations and Prudential measures

To further deepen the financial sector, protect against systemic risk and to promote governance, the RMA issued several regulations.

Rules and Regulations

1. Given the immense potential of the CSI sector for economic diversification-domestic production and employment generation, the Rules and Regulations for Cottage and Small Industries (CSI) Bank was issued in July 2018, to enhance access to finance.
2. Issued license for deposit taking Micro-Finance Institution to RENEW in August 2018.
3. Issued Rules and Regulations for insurance companies and re-insurances companies in July 2018.
4. Issued revised rules and regulation on Credit Information Bureau (CIB) to enhance the credit worthiness.
5. Issued revised corporate governance rules and regulations for the financial sectors.

Prudential Measures

1. Issued directives on revised maximum loan to value ratio (LTV) from 50 percent to 30 percent for motor vehicle loans with effect from August 2017.
2. Issued Macro-prudential regulations.

2. Reserve Management

SIZE AND COMPOSITION

Official Foreign Reserves as of 30 June US$ 1,107.91 million.

Convertible Currency (CC) Reserves: US$ 876.34 million.

Indian Rupee Reserves: US$ 234.57 million equivavlent.

Portfolio Investment: Cash, Deposits, Bills and Bonds.

RISK MANAGEMENT

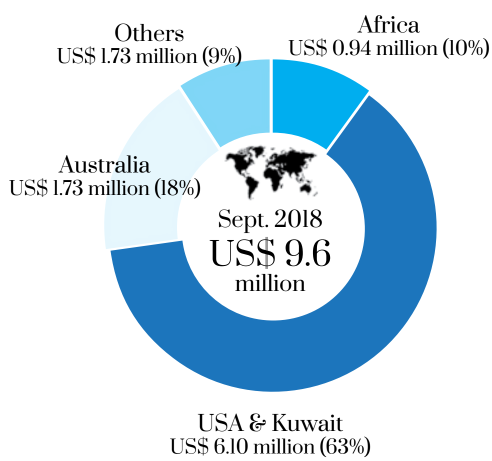
RESERVE MANAGEMENT POLICY (2017)
Established general principles, investment structure, asset classes, risk management and internal organization.

INVESTMENT GUIDELINES (2018)
Quantified investment framework.

RESERVE MANAGEMENT OPERATIONAL MANUAL
Defines rules to conduct reserve management transactions and activities.

Joined the World Bank RAMP program for capacity building.

REMIT BHUTAN



3. Gateway to Financial Inclusion

As an outcome of the inaugural summit of Bhutan Economic Forum for Innovative Transformation (BEFIT) conducted in May 2017, the RMA in collaboration with relevant agencies initiated several activities to promote financial inclusion and literacy.

- The National Financial Inclusion Strategy (NFIS) and National Financial Literacy Strategy (NFLS), 2018-2023 was launched on August 30, 2018.
- Initiated the Students Business Seedling (SBS) Program at the Desi High School, Thimphu on the command from His Majesty the King to promote entrepreneurship and encourage creativity and Innovation among students in March 2018.
- Jabchor-A platform for equity financing for startup business was launched to commemorate the twelve years of His Majesty's benevolent reign on December 13, 2018.
- Youth Ethics (YE) Banking Incentive Day Program was observed on October 30, 2018; With YE Banking, the students of pilot schools (Arikha MSS, Wangsel Institute, Jigme Losel PS and Bhutan YDF's Young Volunteers in Action (YVIA) opened a total of 1,460 saving accounts with the BDBL and BNBL. The total Bank Points (BP) achieved by all schools accumulated to 152,282 points; For 2018, with the adaptable incentive pegged value to Bank Points as determined by the RMA, declared at Nu. 2 per BP, a total of Nu. 0.31 million was paid out as total YE Banking incentive payout for 2018.
- Launched Druk MicroFin as integrated core banking solution to support the MFIs and CSI banks.

4. Unlocking Bhutan's Digital Future: Opportunities, Challenges and Policy Responses

Digital Financial Services (DFS) delivers basic financial services to underserved and financially excluded segment of the society through innovative technologies like mobile-phone-enabled solutions, electronic money models and digital payment platforms.

OPPORTUNITIES

- Possess huge potential and opportunity to expand the financial services to the under-served and financially excluded society.
- Promote cashless banking and financial inclusion.

CHALLENGES

- Cash remained a dominant and preferred mode of payment system.
- Low trust and confidence in electronic payment, given the lack of awareness.

POLICY RESPONSE

- Payment & Settlement Systems Rules and Regulations, 2018.
- E-Money Issuers Rules and Regulations 2017.
- Connection of Bhutan Financial Switch with National Financial Switch of India.

PRIORITY SECTOR LENDING (PSL)

Review Report,January-June 2018

Basic information on the PSL

Agricultural CSI

- Eligibility- All PSL listed activities for Individuals, Groups & Cooperatives and incorporated Companies.
- Loan limit of Nu. 0.5 million for Individuals for primary production.
- Loan limit of Nu. 10 million for Groups and Companies.
- 100% loan for primary production with Insurance-based.
- Interest rate: 8% primary production and 8.5% for integrated agricultural CSI.

Non-Agricultural CSI

- Loan limit of Nu. 10 million.
- 70% loan & 30% equity.
- Interest rate: 8.5%.

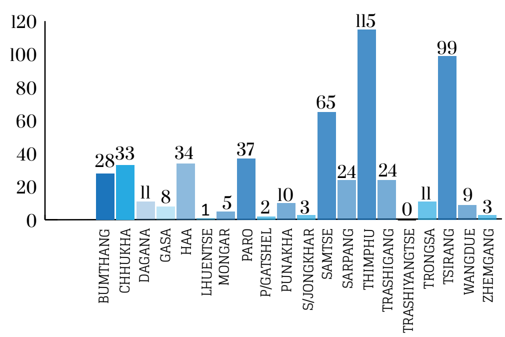
Number of PSL applications received by Dzongkhags and FIs

During second quarter of 2018, a total of 584 PSL applications were received by the Dzongkhags, increasing from 97 in the first quarter of 2018.

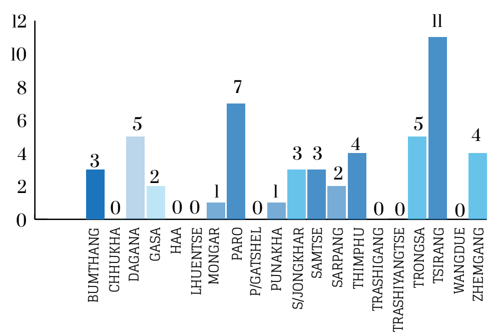
Dzongkhag approved 513 projects, of which 78% were agricultural CSI and 22% were non-agricultural CSI.

13 projects were withdrawn by the Clients, owing to high insurance and service fees.

Number of PSL applications approved by Dzongkhag PSL Committee



Number of PSL applications rejected by Dzongkhag PSL Committee



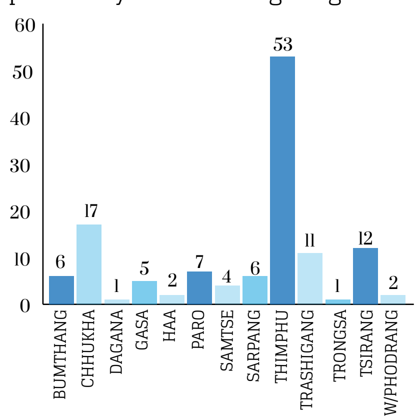
Categories of PSL applications and demographic profile

78% of PSL applications were related to agricultural CSI, concentrating in primary production (livestock & vegetable farming).

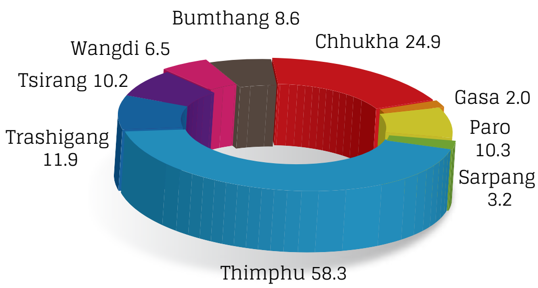
22% of PSL applications were related to non-agriculture CSI.

38% of applicants were in 31-40 years of age group, 36% in 21-30 years,24% above 40 years and 2% were in 17-20 years of age group.

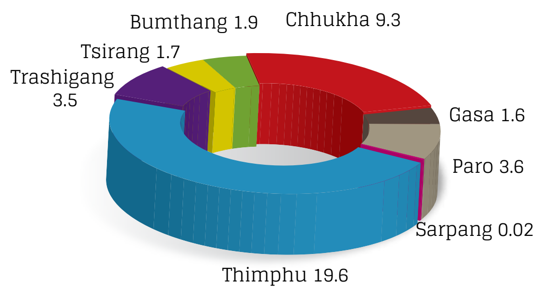
Number of PSL applications approved by FIs in Dzongkhags



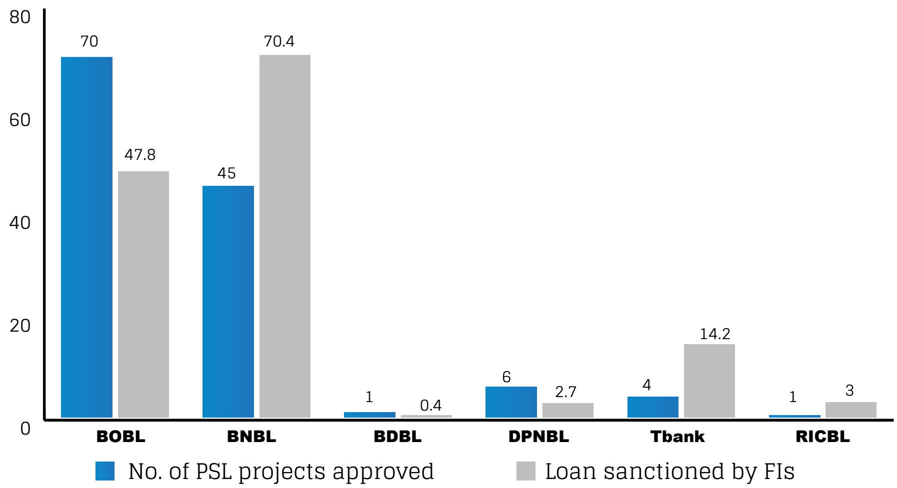
PSL loan sanctioned by the FIs in Dzongkhags as of June 2018. (Nu. in million)



PSL loan disbursed by the FIs in Dzongkhags as of June 2018. (Nu. in million)



Projects approved and loan sanctioned by FIs (Nu. in million as of June 2018)



Lessons learnt from the PSL implementation

- PSL proposals were largely agro-based and clustered around similar ideas, mostly involving low-value primary production.
- Low level use of technology with lack of skills, innovative business ideas and creativity.
- Except for one or two groups, all proponents were Individuals and therefore projects were of small scale and dispersed.

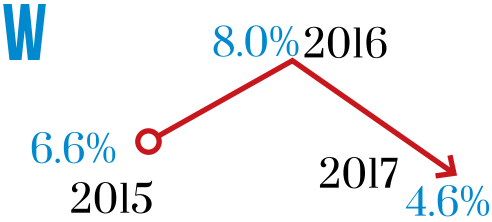
BHUTAN'S KEY MACROECONOMIC INDICATORS

	2013/14	2014/15	2015/16	2016/17	2017/18
GDP Growth and Prices (percent change)					
GDP at Constant (2000) Price [(a), (b)]	2.14	5.75	6.64	8.02	4.63
Consumer Prices - June quarter [(b)]	8.55	5.19	3.31	5.45	2.57
Wholesale Prices (India) - June quarter [(c)]	5.13	-3.11	-0.69	2.33	4.57
Government Budget (in millions of Nu.) [(d)]					
Total Revenue and Grants	37,819.12	36,231.05	42,039.30	42,673.13	54,666.72
Of which: Foreign Grants	14,236.35	9,955.02	14,889.61	12,986.75	17,433.08
Total Expenditure*	33,522.83	34,334.26	43,603.00	48,017.99	56,513.50
Current Balance	5,641.62	5,243.99	3,020.10	6,805.79	8,617.00
Overall Balance	4,296.29	1,896.79	-1,563.70	-5,344.86	-1,846.78
(in percent of GDP)	4.08	1.59	-1.18	-3.58	-1.12
Money and Credit (percent change, end of period)					
Broad Money, M2	6.62	7.82	15.83	31.52	10.43
Credit to Private Sector	6.44	14.00	14.67	15.39	15.69
Interest Rates (end of period)					
One Year Deposits	5.0-6.5	4.0-7.0	4.0-6.5	5.0-6.0	5.0-5.75
Lending Rate	10.0-16.0	11.7-17.0	11.7-15.0	8.0-14.0	9.9-13.0
91-day RMA Bills/Treasury Bills	2.28	0.13	5.50	0.65	2.52
Balance of Payments (in millions of Nu.)					
Trade Balance(Goods)	-24,170.51	-26,662.76	-35,519.11	-31,149.17	-26,959.11
With India	-17,362.45	-18,963.13	-28,878.42	-24,303.76	-25,146.64
Current Account Balance	-30,116.10	-34,177.40	-41,436.09	-36,142.83	-31,306.95
(In percent of GDP)	-28.58	-28.59	-31.37	-24.31	-19.02
With India	-25,594.89	-28,684.94	-38,312.61	-34,006.52	-34,479.42
(In percent of GDP)	-24.29	-23.99	-29.01	-22.87	-20.94
RGOB Loans	15,331.40	17,838.32	30,052.75	13,078.38	6,079.24
Of which: India	12,742.01	16,600.36	28,574.07	10,093.09	36,00.00
Errors and Omissions	3,179.18	-1,505.16	-1,944.53	6,422.74	1,124.49
Overall Balance	4,280.49	-570.83	12,584.54	-1,565.30	4,865.19
(In percent of GDP)	4.06	-0.48	9.53	-1.05	2.96
External Indicators (end of period)					
Gross Official Reserves in millions of USD	997.89	958.45	1,118.77	1,103.76	1,110.91
Reseves in months of merchandise imports	12.61	11.71	12.92	12.53	13.01
External Debt outstanding (USD millions)	1,758.96	1,854.58	2,315.59	2,505.43	2,642.07
External Debt (percent of GDP)	102.61	96.26	116.27	111.94	110.05
Convertible Currency debt outstanding (USD millions)	628.95	581.21	609.00	663.22	699.82
Convertible Currency debt (percent of GDP)	36.69	30.17	30.58	29.63	29.15
Rupee debt outstanding (INR millions)	67,870.15	81,183.64	11,5393.81	11,8770.09	13,3190.70
Rupee debt (percent of GDP)	64.41	67.91	87.37	79.88	80.90
Debt-Service Ratio [(e)]	22.71	19.82	12.81	24.87	23.40
Memorandum Items					
(in millions of Nu. unless otherwise indicated)					
Nominal GDP [(a), (b)]	105,378.35	119,545.75	132,080.85	148,678.93	164,627.92
Ngultrum per USD (fiscal year average)	61.47	62.05	66.32	66.43	68.58
Money Supply, M2 (end of period)	63,387.80	68,344.29	79,160.88	104,113.59	114,973.69
Money Supply, M1 (end of period)	39,701.84	41,675.50	44,931.78	60,723.28	66,295.05
Counterparts					
Foreign Assets (Net)	53,886.46	58,248.74	67,815.59	68,186.68	66,006.28
Domestic Credit	52,299.01	56,255.12	65,692.70	85,084.84	100,320.53
Credit to Private Sector	49,838.67	56,820.54	65,157.15	75,185.09	86,985.09
Components					
Currency Outside Banks	5,704.58	5,946.06	6,101.73	8,787.66	9,234.04
Transferable Deposits	33,997.26	35,729.44	38,831.90	51,935.62	57,061.00
Other Deposits	23,685.96	26,668.79	34,229.10	43,390.31	48,678.64
Reserve Money, M0 (end of period)	26,638.21	26,248.81	27,802.92	34,327.86	33,469.76
o.w: Banks' Deposits	18,543.67	16,916.62	18,131.99	22,798.89	24,235.71
Money Multiplier (M2/M0)	2.38	2.60	2.85	3.03	3.44
Income Velocity (GDP/M2)	1.66	1.75	1.67	1.43	1.43
Unemployment Rate (a)	2.90	2.60	2.50	2.10	2.40

a) On a calendar year basis (eg: entry under 2015/16 is for 2015). b) Source: National Statistics Bureau c) Source: Reserve Bank of India. Effective April 2011, the RBI has revised the base year from 2004/05 to 2011/12, creating a break in the continuity and comparison of data. The newly calculated WPI commenced from the month of April 2011 onwards. d) Data for 2017/18 are revised estimates. e) Debt service payments in percent of exports of goods and services. * Total expenditure includes net lending and other payments.

03 MACROECONOMIC REVIEW FY 2017/18

3. MACROECONOMIC REVIEW



Economic growth slowed down in 2017 to 4.6% from 8.0% in 2016

3.1 REAL SECTOR

The growth dynamics continue to be guided by the hydro power development and domestic inflation is strongly correlated with that of India.

With slowdown in hydro power investment, the economic growth dipped to 4.6 percent in 2017 against 8 percent growth in 2016. In consideration to the nearing completion of three mega projects, the hydro investment resulted in 8.1 percentage points drop in the overall private investment demand.

The modest growth was primarily supported by endured fiscal expansion and restoration of private consumption spending. The higher investment for public infrastructure development and increased capital grants disbursement to public entities expanded government investment demand by 23.4 percent in real terms.

Upward government spending, moderate inflation level, improved access to credit and enhanced external demand on domestic products, along with higher disposable income supported the growth recovery of private consumption. Given that almost 55 percent of total domestic expenditure is composed of private consumption, a 10.7 percentage points increase in consumer spending revealed that the economy continues to be consumption oriented.

Similarly, due to increase in tourism demand and unexpected growth in external demand for domestic manufactured goods and mineral products, the overall exports increased by 11.6 percent in 2017. Simultaneously, slowing import demand through subdued hydro power investment curtailed the external demand.

On the production front, unfavourable hydrological flows for electricity generation and dwindling hydro power construction activities has decelerated economic growth in 2017. Electricity production comprised 15 percent of total output, a 3.8 percent point drop in electricity and a sharp slowdown in construction activities at 6.3 percent (2016:13.6%) during the year were main contributors for slower GDP growth.

On the upside, with gaining momentum of private consumption spending, expansionary

Chart 3.1.1: GDP growth and sectoral contribution by expenditure

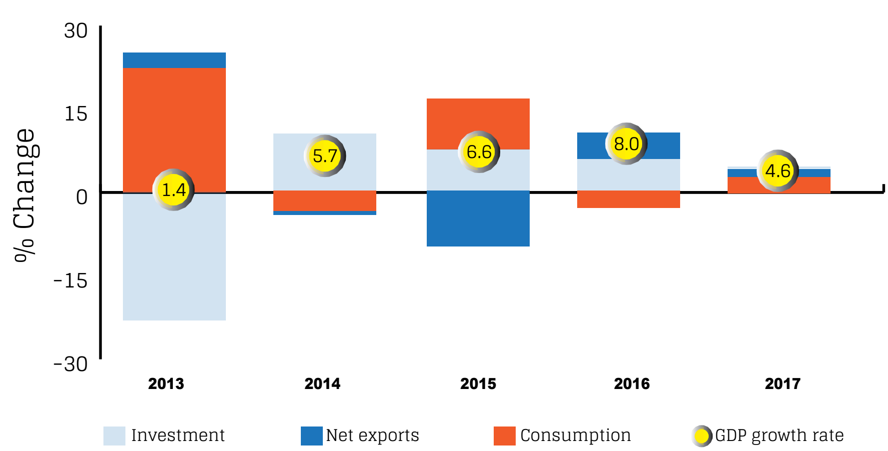
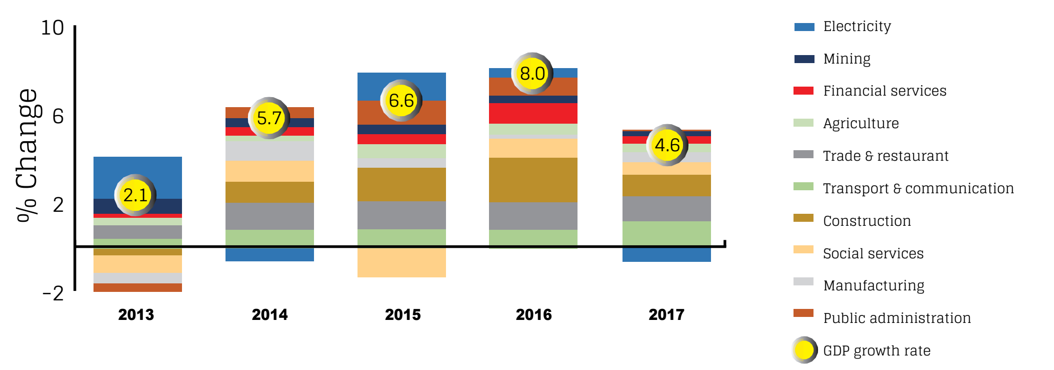


Chart 3.1.2: GDP growth and sectoral growth contribution by production

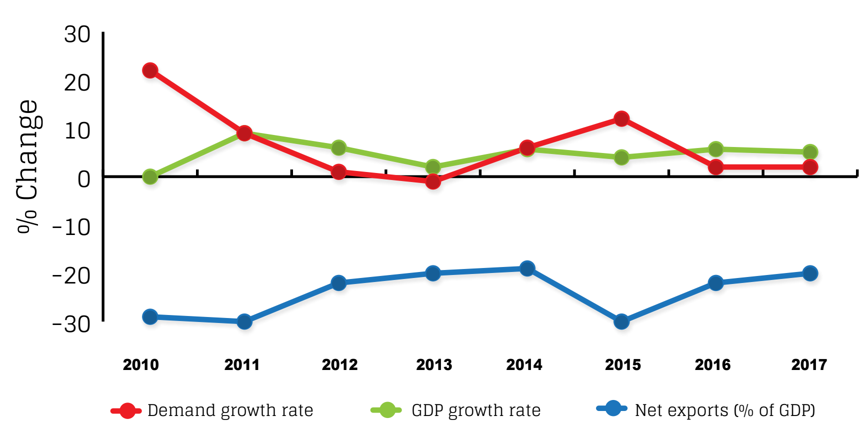


fiscal operations boosted industrial and mining production by 5.5 percent and 7 percent respectively. Likewise, a resilient demand in tourism sector (21.5% growth), production in transportation and restaurant services attained a maximum growth at 12 percent and 11.1 percent respectively. This has been further boosted by the expansion of financial services through a financial inclusion and priority sector lending program.

Meanwhile, the Government's commitment for extending quality health and education services through enhanced fiscal and monetary program witnessed a reasonable level of growth in social services (by 5.8%).

Given the limited domestic productive capacity, a sizeable portion of domestic demand is met externally. Further, with the weak export-oriented manufactured products to meet external demand has resulted persistent trade deficit. Therefore, the economic growth firmly anchored on domestic demand. The increase in real domestic demand by 2.7 percent translated into Nu.32.04 billion imports, constituting 40 percent of total demand. At the same time, excessive aggregate demand with a higher saving-investment gap posed serious external imbalances-resulting into high current account deficit and depletion of international reserves.

Chart 3.1.3: GDP growth and aggregate demand



3.2 INFLATION

Headline inflation declined to 2.6 % as of June 2018

In the midst of increased domestic demand, headline inflation was at record low of 2.6 percent in June 2018 (June 2017:5.9%). It was primarily the enduring effect of fall in the crude oil prices in 2018 and impact of second-round effects of declining fuel prices on food and other non-food prices. Moreover, due to Goods and Services Tax (GST) implementation in India, since the last quarter of 2017, there was a significant fall in the vehicle import prices[1].

Equally, underlying inflation, as measured by the core inflation (excluding food and energy prices) dropped significantly at 1.1 percent in June 2017, compared to 3.7 percent in the previous year. The deceleration in housing inflation, fall in the price of vehicle purchase, transportation, communication and recreation services are the key determinants of subdued core inflation.

Chart 3.2.1: Headline and core inflation

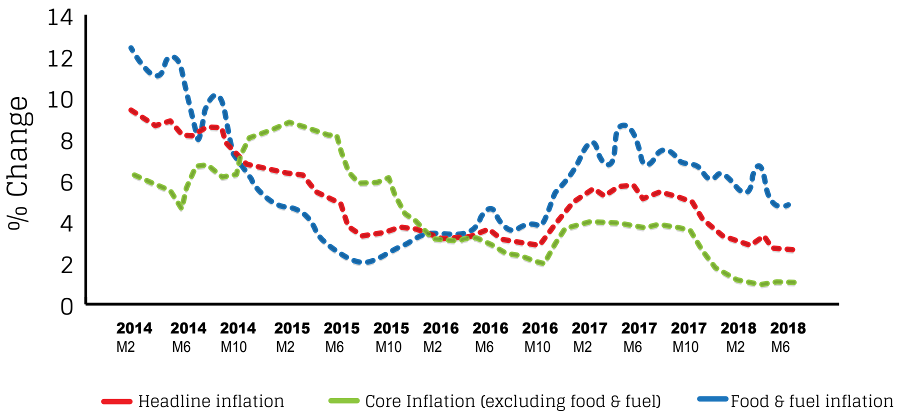
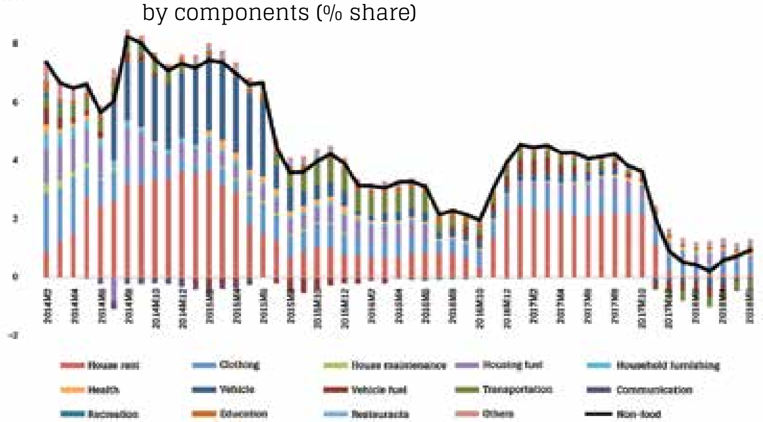


Chart 3.2.2 Contribution to non-food inflation by components (% share)



During the period, non-food inflation plummeted below 1 percent against 3.9 percent in June 2017. Apart from fuel and vehicle prices, the increase in residential supply through easy access to housing loan resulted into speedy disinflation in house rent resulting into reversed non-food inflation trend. Consistently, other non-food inflation sustained

[1] The price of vehicle imports from India is estimated to fall by 14-21 percent with the waiving off excise duty on vehicles under the new Goods & Services Tax regime in India.

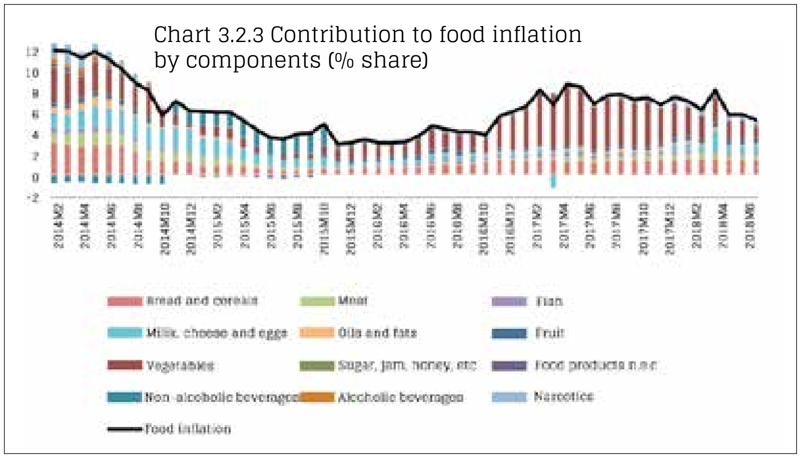


Chart 3.2.3 Contribution to food inflation by components (% share)

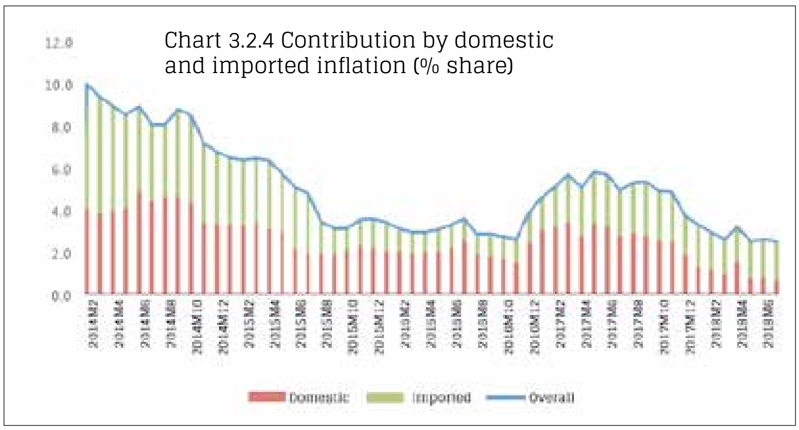


Chart 3.2.4 Contribution by domestic and imported inflation (% share)

at an initial level along with moderation in the non-food commodity prices at global market.

Inflationary pressure in food items remain elevated within 5-6 percent even though a slowdown was witnessed in domestic vegetable price level. Externally, constant increase in food prices in India due to supply disruptions and spillover effects from global prices have impacted the food inflation in Bhutan. Amongst food items, import prices of cereals, fruits and vegetables have risen during the period.

Since a large portion of domestic demand is met through external supply, imports constituted almost 52 percent of the consumer goods in Bhutan, largely sourced from India. Due to strong trade integration favored by geographical proximity and pegged exchange rate arrangement with India, the inflation in Bhutan closely tracks the price movement in India. Except for selected food items, low level of non-food commodity prices both in India and global market has favored moderating overall price level in Bhutan. Despite, rising domestic consumption demand, weakening of import prices was adequate to maintain overall inflation at abyss, reflecting exogenously driven inflation.

Domestically, a lower rate of inflation emanated largely from deceleration in housing inflation, and direct and indirect pass through effect of falling global fuel and vehicle prices in India. Moreover, enhancement in agriculture output through continuous policy interventions also helped to soften the domestic food inflation.

Except for the periods of abrupt policy changes such as demonetization, implementation of inflation targeting monetary policy and GST implementation in India, inflation in Bhutan and India are strongly correlated.

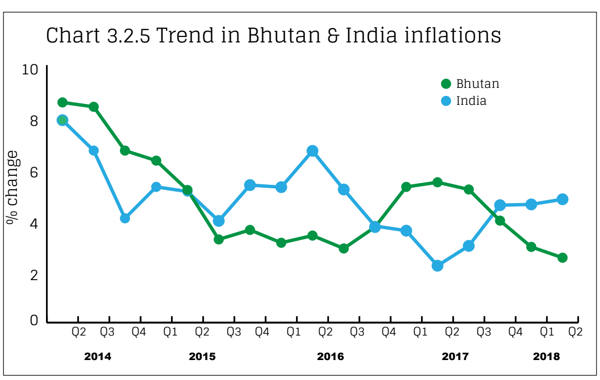


Chart 3.2.5 Trend in Bhutan & India inflations

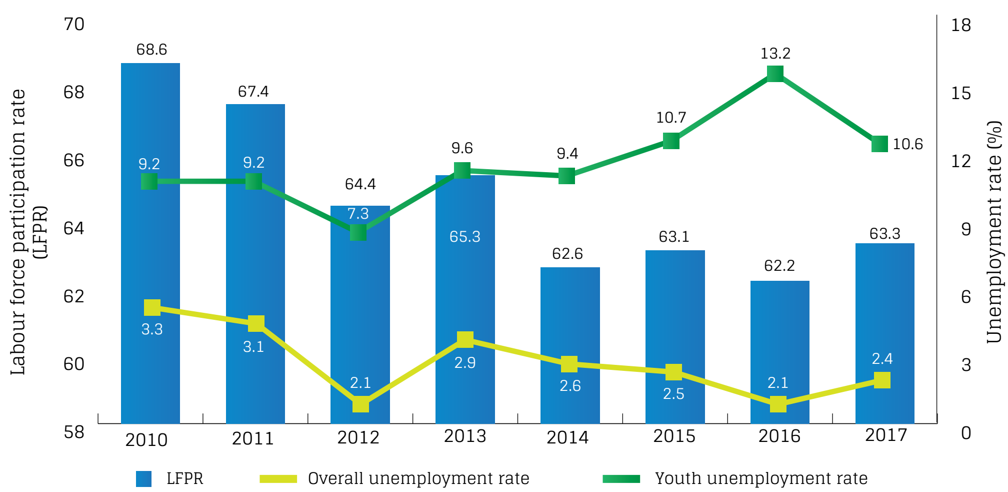
3.3 LABOR SUPPLY AND EMPLOYMENT

Unemployment recorded at 2.4 %, while youth unemployment remains at 10.6 % in 2017

Although overall unemployment level has been estimated within the natural rate of unemployment, the labor market in Bhutan is characterized by structural issues. In 2017, overall unemployment rate was low at 2.4 percent, but youth unemployment was almost five times of national unemployment. About 60 percent of total employment was in agricultural sector, on the contrary, the share of agriculture to GDP constitutes less than 15 percent. Employability constitutes 10.3 percent, accounting 54 percent of total unemployment . The unemployment rate among educated youth is five times higher with a university graduate and two times higher for secondary education level as compared to average youth unemployment rate of 13.2 percent in 2016.

The persistent mismatch of skills between the demand and supply in the labor market is a critical factor for rising youth unemployment.

Chart: 3.3.1 Labour force participation and unemployment rate



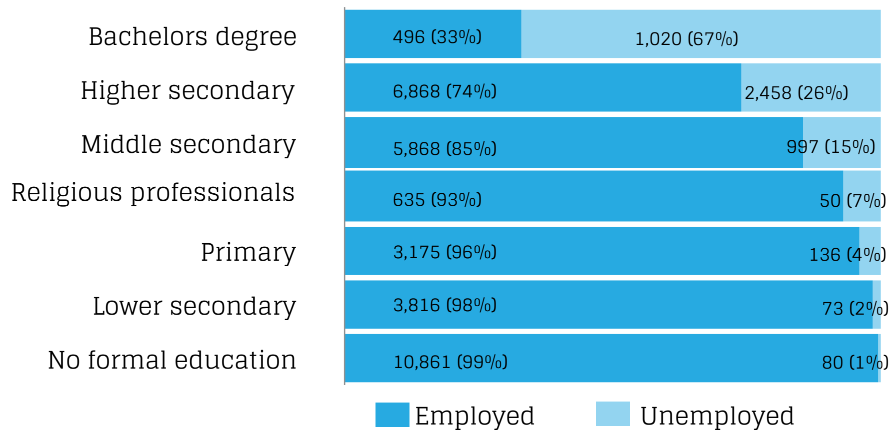
falls with the education level. Of the total unemployed persons, 70 percent remained unemployed for more than six months. With the gradual increase in education level among the labor force, labor force participation rate (LFPR) improved at 63.3 percent in 2017 (2016:62.2%). The LFPR is much lower in rural areas compared to urban areas and is higher among the male population.

Of the given labor force of 354,652, the youth For instance, in 2017, as indicated by available vacancies, the demand for middle higher education with certificates and diploma constitutes about 54.7 percent, whereas only 20.8 percent were for university graduates. The employability among educated youths with skills were much higher than the general graduates.

In terms of employment by economic sectors, agriculture is the principal sector for absorbing 57.2 percent of total employment. The

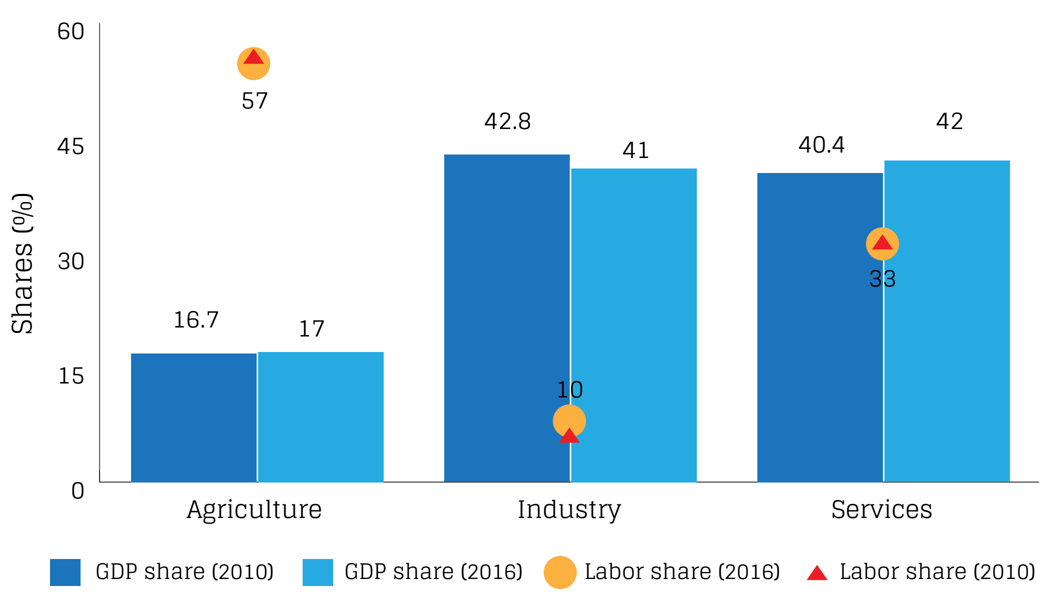
[2] Reference to labor market analysis is based on 2016 data and labor market information for 2017 is sourced from Population and Housing Census of Bhutan (PHCB),NSB.

Chart 3.3.2 : Youth unemployment by education level (in numbers & % Share)



employment in agriculture sector, characterized by low skilled laborers and having minimum contribution to total output, the labor productivity in agriculture sector is three times lower than the average annual overall labor productivity of Nu. 474,245 in 2016. As per the Bhutan Living Standard Survey 2017, large share of rural populace depended on agriculture sector which also recorded higher poverty incidence, compared to non-agriculture workers in the urban areas. Meanwhile, industry sector largely supported by the electricity generated a minimum employment, specifically for highly skilled professionals in contrast to its production. The employment level in the service sector has been increasing, accounting about 32.9 percent of total employment, relatively proportional to its contribution to gross output.

Chart: 3.3.3 Sectoral employment & GDP share



3.4 FISCAL SECTOR

Fiscal deficit recorded at 1.1 % of GDP during FY 2017/18

The budgetary operations of the Government remains within the prudential limits prescribed by the Public Finance Act 2007. During the FY 2017/18, the fiscal deficit recorded low at 1.1 percent of GDP, with a surplus primary balance.

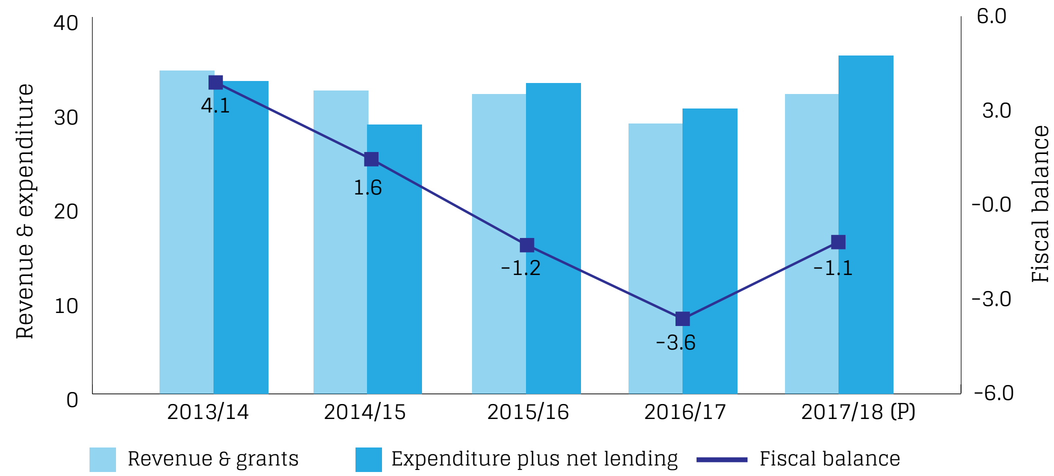
In the final budget of the 11th FYP, Government spending limit was almost 20 percent higher than the previous expenditure outlay. However, higher mobilization of domestic revenue and external grants has positioned overall fiscal deficit comfortably below the target of 3 percent of GDP. Owing to minimal fiscal deficit, a surplus primary balance of about one percent of GDP reflects motivation of creating some fiscal space for the future use.

The aggregate demand in the economy was largely supported by the substantial expansion in Government expenditure, recording 35.6 percent of GDP. In the review period, following the fiscal consolidation process at the end of 11th FYP, spending on infrastructure and other economic activities accounted more than one third of the capital budget. The enhanced capital expenditure towards the end of plan period was almost double of the first year's capital budget. Following a constant build-up in capital in the past, the maintenance expenditure has increased over the years. Similarly, expansion in public employees by 3.9 percent in 2017 and periodic salary revisions, expenditure on pay and allowances comprised more than 40 percent of total current expenditure. The establishment of state-owned enterprises during the Plan put extra pressure for capital and current grants and subsidies, accounting 15 percent of total expenditure.

Despite limited revenue enhancement measures, the increase in collection of domestic revenue was primarily due to increased domestic demand fuelled by growth in real disposable income.

Driven by increasing domestic demand, additional excise duty refund has been collected for the imports from India, and enhanced sales and business income tax from expansion in trade and retail business. With the implementation of GST in India, fall in price of selected imported goods impacted revenue collection from international trade. In addition, large disbursement of grants from development partners was able to finance almost 60 percent of the capital expenditure. During the FY 2017/18 , the fiscal deficit recorded

Chart 3.4.1 Revenue, expenditure and fiscal balance (in % of GDP)



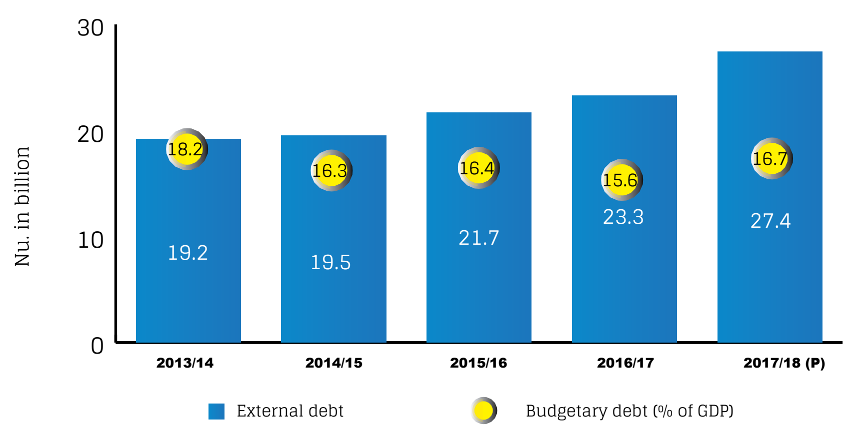
low at 1.1 percent of GDP, with a surplus primary balance. As a result, the pressure on the current account deficit was limited to 19 percent of GDP, lower than 24.2 percent of GDP in FY 2016/17.

Accordingly, the financing requirement from both domestic and external sources were lower due to managed fiscal deficit. Of the total deficit financing, almost two third were availed from domestic market borrowings, accounting 13.2 percent of total domestic credit flow (Nu.16.24 billion). Largely on the part of improved fiscal stance and timely disbursement of external grants, dependence on Treasury Bills for financing short term cash deficit was also minimized. This has limited crowding out effect on private sector, supporting quick recovery of both private sector consumption and investment demand other than hydro power investment.

Excluding the hydro power, loan availed by the corporate entities and the RMA, and domestic Treasury Bills, the outstanding debt for Government fiscal operation increased to Nu. 27.4 billion at the end of FY 2017/18, equivalent to 16.7 percent of GDP.

As an alternative source of financing for investment in financially viable sectors and for infrastructural development that has fiscal dividend, budgetary borrowings were incurred without distressing fiscal sustainability and crowding out private sector investment. For which, non-hydro budgetary loan has been always maintained within the threshold prescribed in the Public Debt Policy and almost 100 percent is external debt which are largely in concessional terms. However, the estimated depreciation of Ngultrum against US dollar by 6.5 percent has directly impacted the cost of external debt servicing and expanded the level of external debt stock.

Chart 3.4.2: Government budgetary debt



5. EXTERNAL SECTOR

The health of the external sector is mirrored through the developments in the real, fiscal and monetary sectors. The nexus of the above three sectors translated into the level of current account deficit, its financing requirements, pressure on international reserves and the exchange rate arrangement.

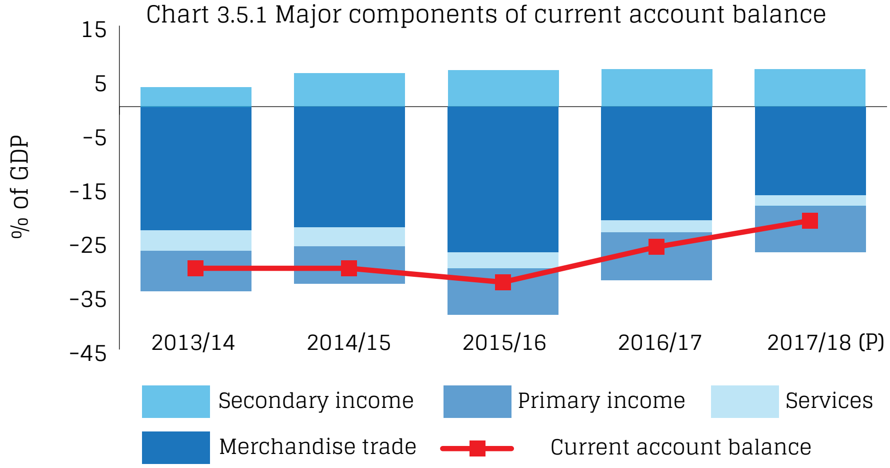
Bhutan's external imbalance continues to reflect underlying economic fundamentals of high dependency on imports (including a large expatriate labor force), grant, aid and debt. However, during the FY 2017/18, due to decrease in merchandise trade deficit and increase in capital and financial inflows, the overall balance of payment upturned to positive.

However, both trade and current account deficits continues to remain elevated during FY 2017/18. The current account deficit improved to 19 percent of GDP, compared to 24.2 percent of GDP during the previous year. The improvement was primarily due to narrowing of merchandise trade deficit from Nu. 31.15 billion in the FY 2016/17 to Nu.26.96 billion in the FY 2017/18. This was reflection of increase in merchandise export by 5.4 percent, aided by drop in merchandise import by 3.2 percent.

About 60 percent of total export constitutes electricity & mineral products, indicating a low product diversification. Meanwhile, the top ten imports constitute about 30 percent of total imports, contributed largely by fossil fuel. Statistics shows that the import value has doubled the export proceeds. For instance, export proceeds from electricity (Nu.11.99 billion) was just sufficient to cover fuel import bill from India (Nu. 9.53 billion).

In terms of direction of trade, India continues to remain the largest trading partner, constituting 84.8 percent of total export followed by Bangladesh, Italy and Netherlands. Nepal, Hong Kong, Germany and Japan also appeared in the top ten export destination during the FY 2017/18. Similarly, India, South Korea and Japan are the top three import sources for Bhutan.

Chart 3.5.1 Major components of current account balance



On the service front, the trade-in-service account deficit decreased slightly by 1.8 percent to Nu. 3.35 billion in the FY 2017/18, compared to Nu. 3.41 billion in the FY 2016/17. Within this, higher receipts were contributed by increase in earnings from Indian tourists recording Nu. 2.99 billion as compared to Nu.1.19 billion in the previous year. The net primary income deficit registered at Nu. 14.19 billion in FY2017/18, recording 7.4 percent growth from the previous year. The increment was due to increase in interest payment by 7.4 percent on Indian Rupee (INR.12.14 billion) and Convertible Currency (USD 22.75 million) debt.

The net surplus in the secondary income

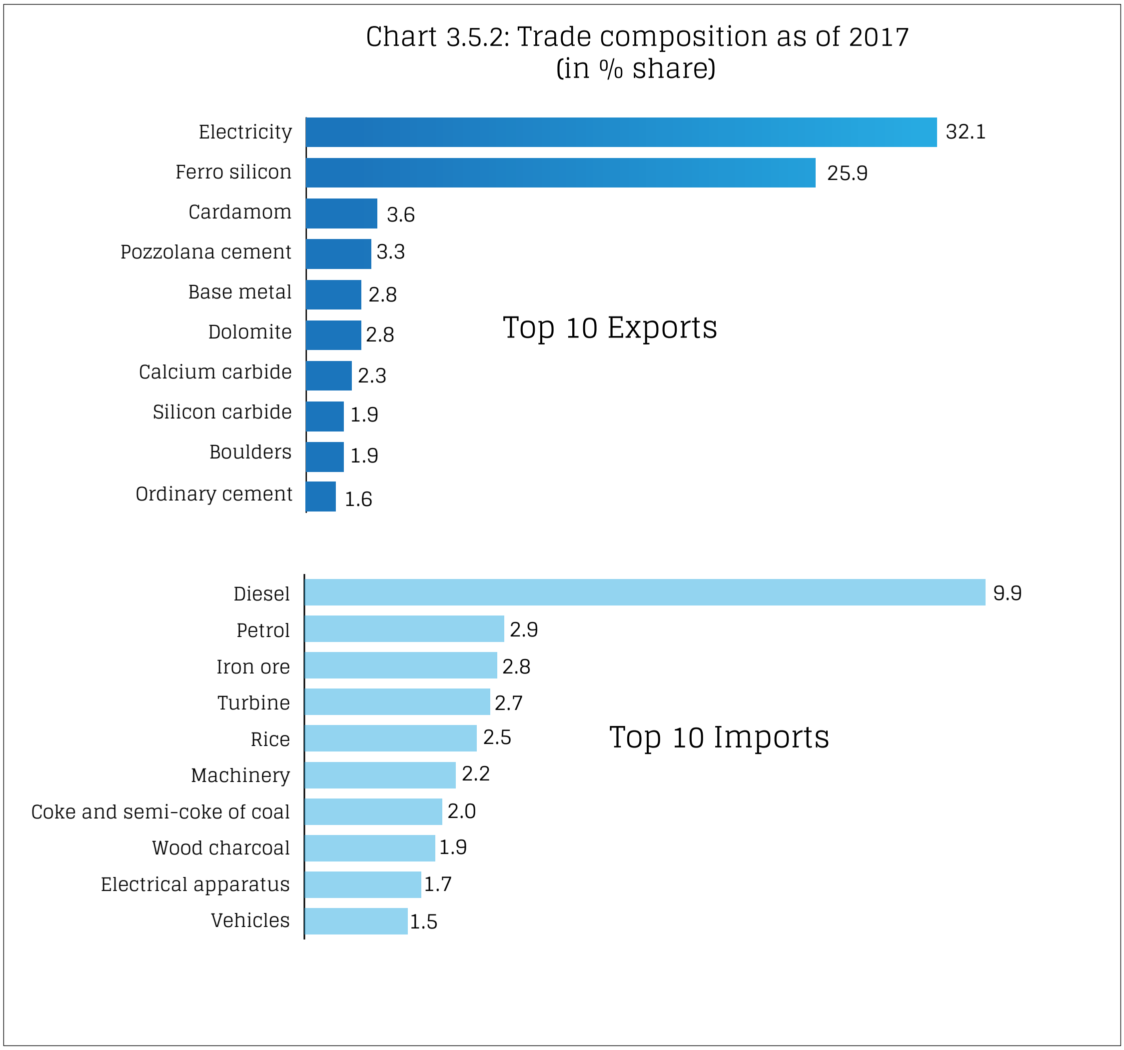


Chart 3.5.2: Trade composition as of 2017
(in % share)
Top 10 Exports
Electricity 32.1
Ferro silicon 25.9
Cardamom 3.6
Pozzolana cement 3.3
Base metal 2.8
Dolomite 2.8
Calcium carbide 2.3
Silicon carbide 1.9
Boulders 1.9
Ordinary cement 1.6
Top 10 Imports
Diesel 9.9
Petrol 2.9
Iron ore 2.8
Turbine 2.7
Rice 2.5
Machinery 2.2
Coke and semi-coke of coal 2.0
Wood charcoal 1.9
Electrical apparatus 1.7
Vehicles 1.5

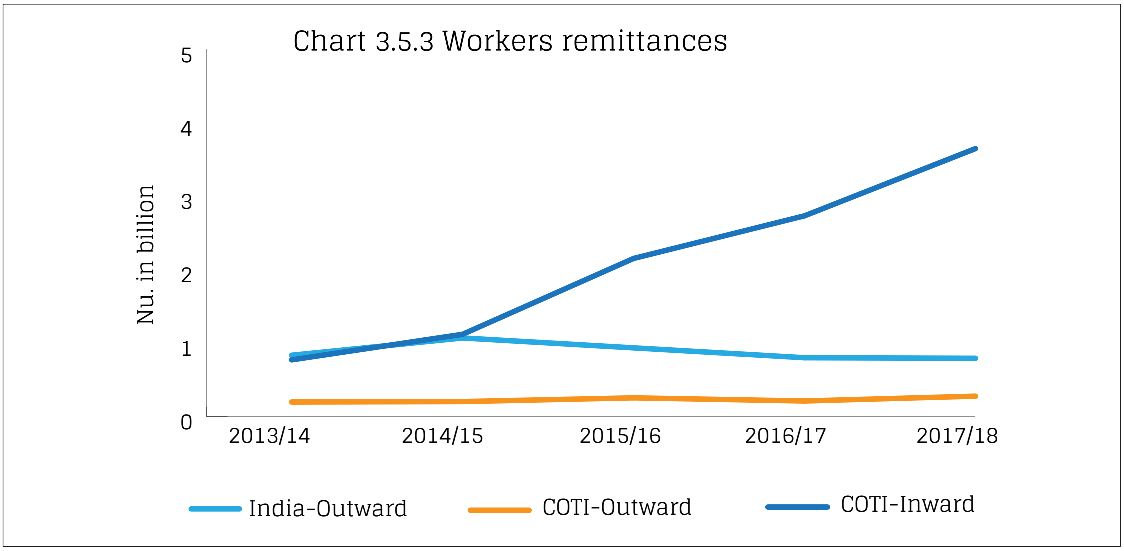
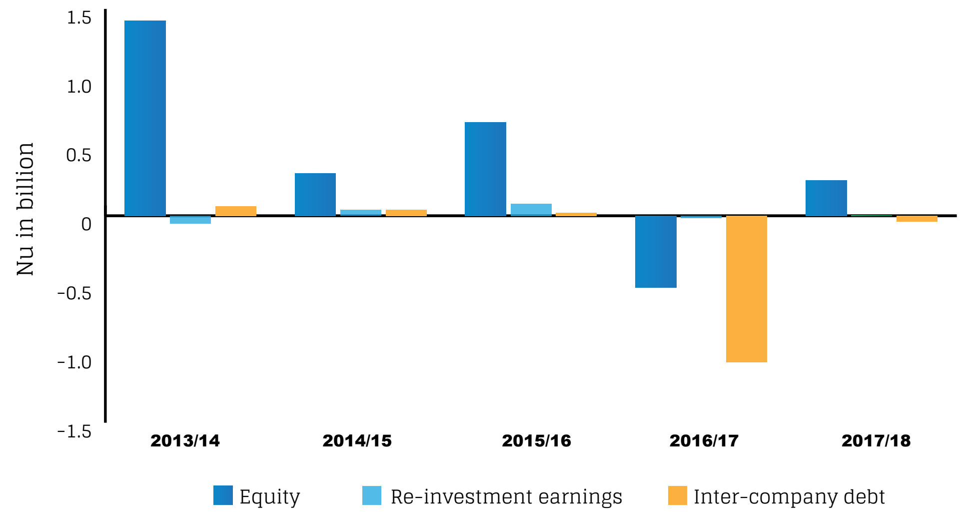


Chart 3.5.3 Workers remittances
Nu. in billion
0
1
2
3
4
5
2013/14
2014/15
2015/16
2016/17
2017/18
India-Outward
COTI-Outward
COTI-Inward

Chart 3.5.4: FDI inflows

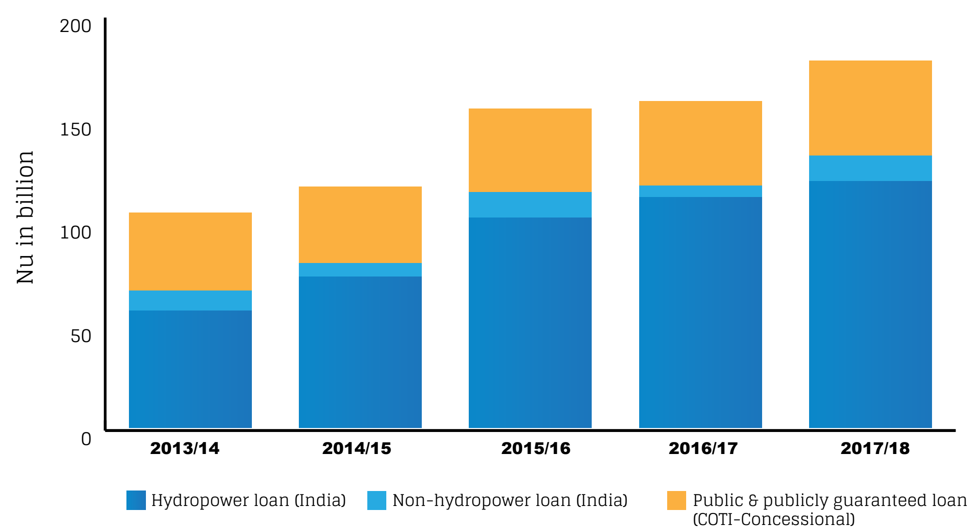


increased to Nu. 13.19 billion from Nu.11.63 billion of the previous year, mainly due to increase in disbursements of Convertible Currency grants, and a receipt of excise duty refund of Nu. 4 billion from the GoI.

During the review period, due to decline in hydropower capital transfer, the net receipts in capital account was recorded at Nu. 11.88 billion, which is 4.1 percent lower than previous year. While the financial account increased by 75.7 percent from Nu. 15.77 billion in the previous year. The increase was attributable to FDI inflows amounting to Nu.218.92 million, mainly in the form of equity injections, reinvestment of earnings and inter-company debt inflows.

Total outstanding external debt stood at USD 2.65 billion as of FY 2017/18, reflecting an increase of USD 136.64 million from the previous year. Of the total external debt, 73.5 percent (INR 133.19 billion) constitutes INR debt and USD 699.82 million in the form of Convertible Currency. Within the INR debt, about 89.7 percent were related to hydropower projects and the remaining was incurred to meet balance of payments deficit with India. Of the total Convertible Currency debt, the concessional public debt constitutes 95.7 percent

Chart 3.5.5: External loan composition



and 4.3 percent were related to private sector.

Consequently, the international reserves amounted to USD 1.11 billion in June 2018, compared to USD 1.10 billion in the previous year. The international reserves were adequate to meet 13 months of merchandise imports, which is equivalent to 42.5 percent of external debt.

International Investment Position (IIP)*

As of June 2018, the volume of total external financial assets amounted to USD 1.15 billion, a decrease of 3.1 percent from previous year. Majority of assets (USD 1.04 billion) represents the reserves asset followed by Currency and Deposits, and trade credits and advances of USD 59.9 million and USD 49.5 million respectively.

Total external financial liabilities increased by 4.9 percent to USD 3.50 billion as of June 2018. The increase in financial liabilities was mainly driven by loans, comprising 92 percent of total financial liabilities. The external loan increased to USD 3.22 billion from USD 3.06 billion of the previous year. The Currency and Deposits, trade credits and advances and Special Drawing Rights also represents the total external liabilities of the economy.

As a result, the international investment position of Bhutan stood at negative, amounting to USD 2.36 billion as of June 2018.

Table: 3. 5.1 International Investment Position (USD in million)

Item	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17 (p)	Jun-18 (p)
Net IIP	**-920.83**	**-1,101.47**	**-1,343.76**	**-1,716.25**	**-2,235.85**	**-2,353.24**
Assets	**1,031.29**	**1,107.02**	**1,053.05**	**1,255.08**	**1,104.86**	**1,150.26**
Currency and deposits	63.97	64.60	64.43	60.35	60.06	59.90
Trade credits	49.47	44.74	30.02	48.70	59.85	49.47
Reserve assets[1]	917.85	997.69	958.61	1,139.94	980.07	1,035.61
Liabilities	**1,952.12**	**2,208.49**	**2,396.81**	**2,971.33**	**3,340.70**	**3,503.51**
Direct investment in Bhutan	128.77	163.50	168.94	170.02	151.44	138.71
o.w. Equity	103.28	120.33	126.47	128.25	124.30	113.11
o.w. Intercompany debt	25.49	43.17	42.47	41.77	27.14	25.59
Currency and deposits	88.55	100.85	85.68	86.72	95.13	97.52
Loans	1,710.50	1,921.95	2,106.87	2,683.38	3,055.42	3,223.60
Trade credits	15.29	12.93	26.90	22.83	30.38	35.26
SDR allocations	9.01	9.26	8.42	8.38	8.33	8.42
Exchange rate to USD (end of period)	**59.70**	**60.09**	**63.75**	**67.62**	**64.47**	**68.58**

[1]Excludes US dollar pledge on any outstanding overdraft as of the reference date (Differences in value of reserve assets reflected here from gross international reserves appearing elsewhere in the report may be due to exchange rates for individual components); Revisions made to this series: (1) SDR holdings and allocations were sourced from the IMF website and valued using relevant end of period exchange rates. (2) Coverage of data on trade credits and FDI are being continuously improved. (3) From June 2013 onwards, C&D liabilities include accrued interest where available.

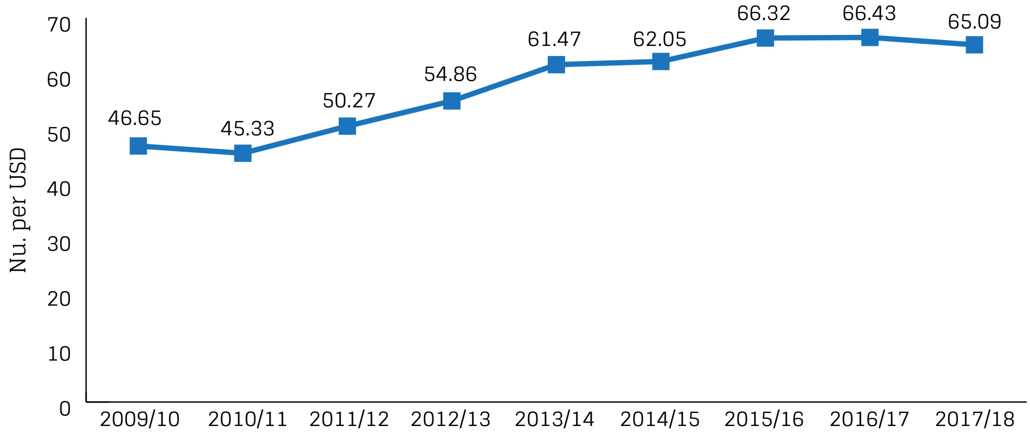
*The IIP is the financial statement that depicts the values of country's external financial assets and liabilities. The difference between country's international financial assets and liabilities is the net international investment position. Positive net IIP indicates that the nation is the creditor while negative indicates a debtor.

Exchange Rate Developments

In terms of June-to-June comparisons, the Ngultrum depreciated by 5.2 percent from Nu. 64.4 against the US dollar in June 2017 to Nu.67.8 in June 2018.

Among other major currencies, the Japanese Yen depreciated against the US dollar by 1.2 percent, while Euro appreciated by 8.7 percent against US dollar compared to the previous year.

Chart 3.5.6 Exchange rate: Nu/USD (Fiscal year average)



3.6 Money and Credit*

The monetary development was characterized by large volatility due to uncertainty of capital inflows particularly related to hydro power projects, frequent recourse to government borrowing to finance cash deficit, and change in the currency demand. Due to absence of effective liquidity management operations and constant build-up of excessive reserves in the banking system, the growth path of reserve money and money supply remained highly volatile. Other combined macroeconomic factors such as economic growth, level of inflation, interest rates and exchange rate development also affected the demand for money.

Reserve money (M0) fell by

2.5%

contributed by decline in Net Foreign Assets

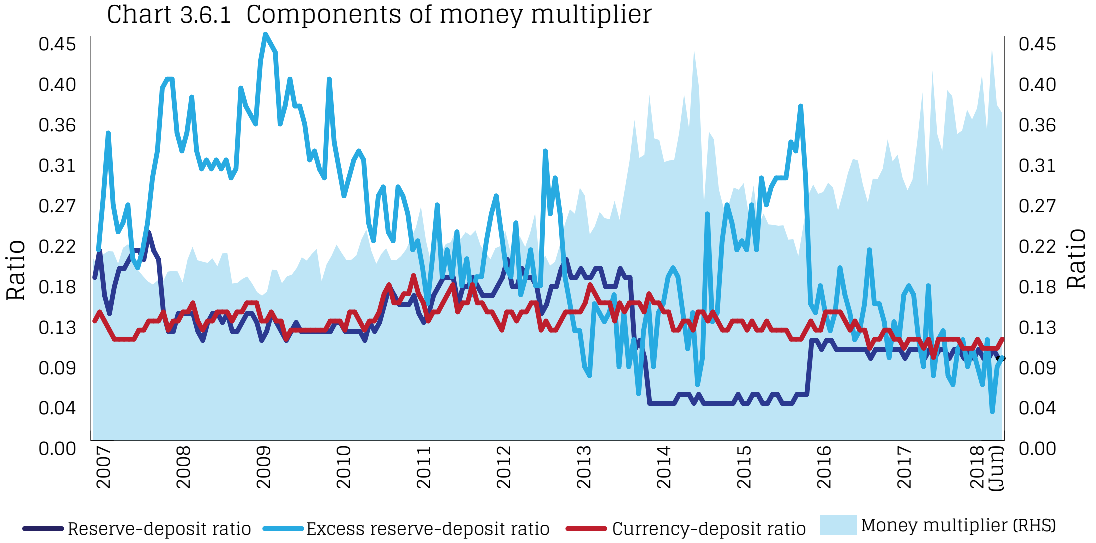
Reserve Money[1]

Reserve money (RM) or high-powered money signifies the Central Bank liabilities that influences the expansion and contraction of broad money supply. The behaviour of reserve money was largely determined by the stance of liquidity condition. The cash reserve ratio (CRR) is the only monetary instrument so far used by the RMA to manage the liquidity of the banking system.

The reserve money recorded negative growth of 2.5 percent in June 2018, due to dropped in bank's deposit maintained at the RMA. With increase in digital payment and lower inflation, growth in currency in circulation, which accounted 36.7 percent of total reserve money, slowed down significantly to 6.4 percent from 19.2 percent during FY 2016/17. Banks' deposit (CRR and excess reserve) held with the RMA also experienced a negative growth (7%) due to decrease of deposits in the commercial banks.

Net foreign assets (NFA), key sources of reserve money decline by 5.3 percent, owing to lower inflow of loans and grants. The change in reserve money influenced the money supply through the money multiplier effect.

Chart 3.6.1 Components of money multiplier



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

[1] Reserve money comprises of central bank liabilities such as currency in circulation, cash reserve requirement and excessive reserves.

Money Supply (M2)

On monetary aggregate, the growth in money supply was recorded at 10.4 percent as compared to 31.5 percent in the FY 2016/17, mainly on account of lower growth in aggregate deposits and decline in NFA.

The growth in aggregate deposits, which forms 92 percent of money supply decelerated by 10.9 percent in the FY 2017/18. A lower growth in both transferable deposits (saving and current deposits) and other deposits (fixed and foreign currency deposits) also contributed to slowdown

Money Supply (M2) growth fell to **10.4%** in FY 2017/18 from **31.5%** in FY 2016/17

Table :3.6.1: Monetary Aggregates

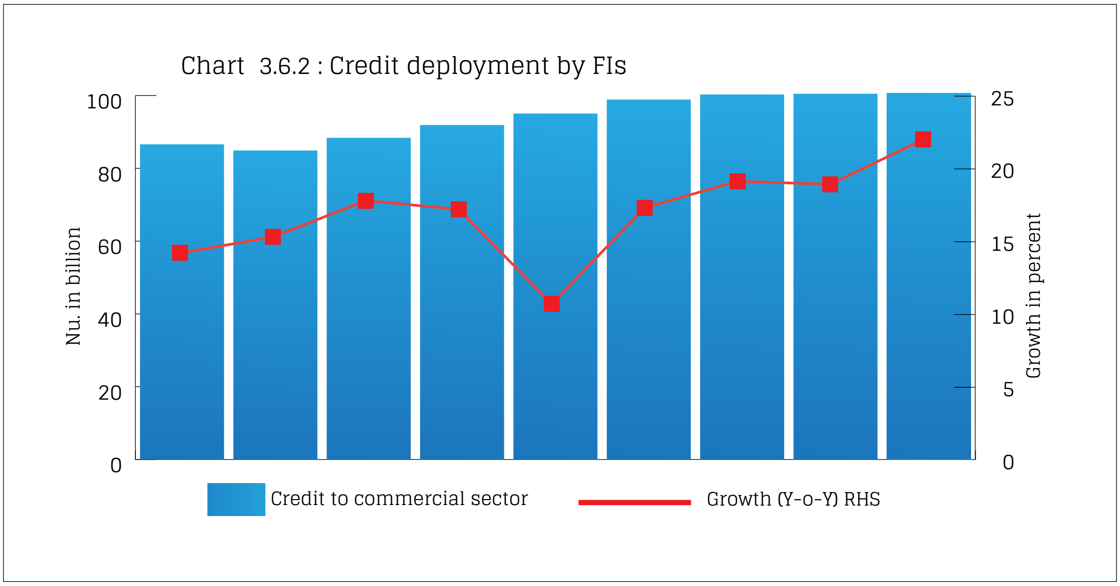
	Nu. in million			Growth (y-o-y)		
Items	**2015/16**	**2016/17**	**2017/18**	**2015/16**	**2016/17**	**2017/18**
I. Reserve Money	27,802.92	34,327.86	33,469.76	5.92	23.47	-2.50
II. Broad Money (M2)	79,162.74	104,113.59	114,973.69	15.83	31.52	10.43
III. Components of M2						
1. Currency Outside Banks	6,101.73	8,787.66	9,234.04	2.62	44.02	5.08
2. Transferable Deposits	38,831.90	51,935.62	57,061.00	8.68	33.74	9.87
3. Time Deposits	32,640.45	41,285.46	46,163.85	28.27	26.49	11.82
4. Foreign Currency Deposits	1,588.65	2,104.85	2,514.79	29.97	32.49	19.48
IV. Sources of M2						
1. Foreign Assets (Net)	67,815.59	68,186.68	66,006.28	16.42	0.55	-3.20
2. Claims on Government	-5,570.48	2,852.93	5,029.42	-28.03	151.22	76.29
3. Claims on Other Public Sector	6,106.02	7,046.82	8,306.02	-14.89	15.41	17.87
4. Claims on Private Sector	65,157.15	75,185.09	86,985.09	14.67	15.39	15.69
V. Money Multiplier	2.85	3.03	3.44			

Note: The data for monetary aggregates include commercial banks.

in aggregate deposits although, there has been little easing in the deposit rates. In addition, lower deposit mobilization by the banks also resulted into slowdown in domestic credit growth.

In terms of sources of money supply, NFA which was the main driver of liquidity condition in the banking system has been declining over the years. The decline in NFA growth contributed to lower growth in money supply. The domestic credit grew by 17.9 percent in the FY 2017/18, mainly contributed by credit to private sector (15.7 %). The Government borrowings from the financial sector to finance Government short-term cash deficit through Treasury Bills has also contributed to the growth in domestic credit.

Money multiplier stood at 3.4 in the FY 2017/18, affected mainly by excess reserve-deposit ratio. The currency-deposit ratio and reserve-deposit ratio remained stable over the years. On the other hand, the velocity of money remained constant at 1.5 percent, indicating stability in the financial system.



Credit Market

Development in credit is generally influenced by liquidity in the banking sector, quality of assets, cost of fund and economic conditions. With nascent stage of capital market development and continued reliance on credit from the banking sector, the domestic credit market has been on an expansionary mode in the recent years. As of June 2018, the total credit outstanding of the

Total credit

Nu. 108.81

billion (as of June 2018).

...with nascent capital market development and excess liquidity conditions, the banking sector influenced the domestic credit market.

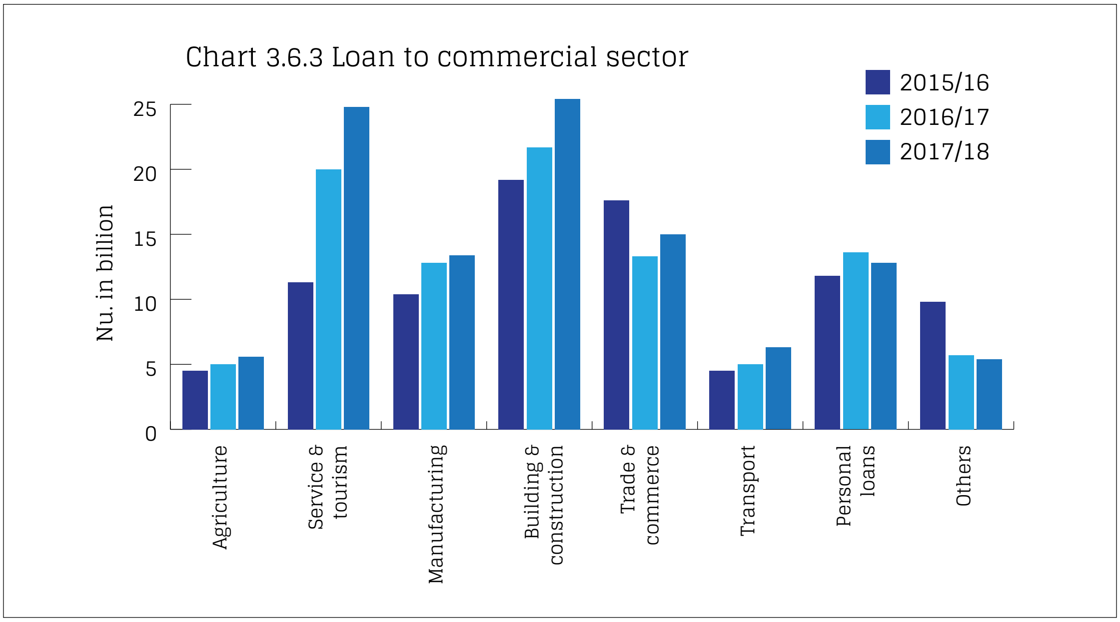
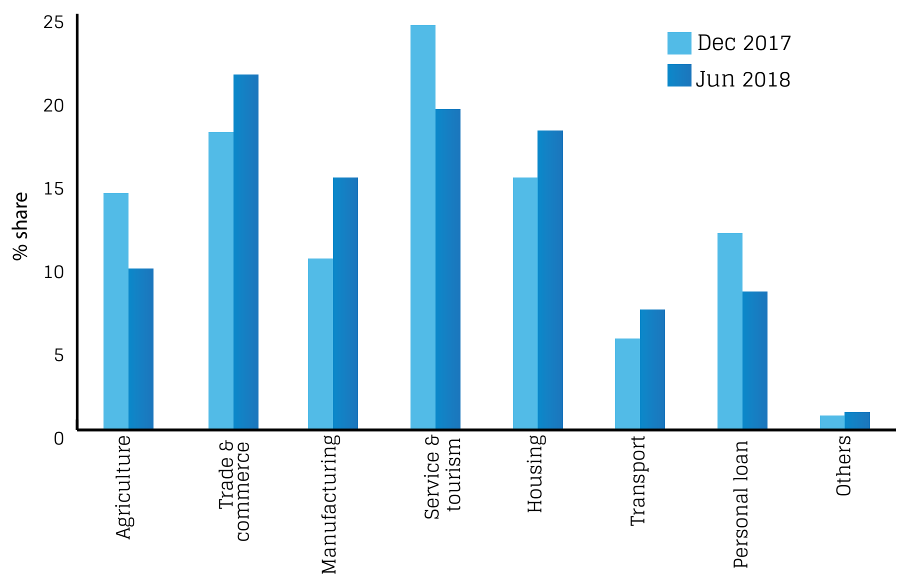


Chart 3.6.4: Sectoral non-performing loan



financial institutions recorded a growth of 13.3 percent, increasing to Nu. 108.81 billion. It is largely contributed by higher growth in transport (27.2%), services (25.9%) and housing sector (18.5%).

Of the total credit, bank financed 82.1 percent amounting to Nu. 89.50 billion, and remaining 17.9 percent (Nu. 19.32 billion) were financed by the non-banks.

Credit to housing, which accounts for 23.6 percent of total credit, rose by 17.1 percent on account of higher demand for construction and real estates. On the other hand, flow of credit to tourism and services (23.2%) and manufacturing sector (12.3%) declined significantly due to high exposure. While, the growth in transport loan increased from 10.3 percent to 15.5 percent in the FY 2017/18.

The credit profile for trade and commerce, which accounts 14 percent of total credit revived after a significant decline in June 2017.

With the implementation of the PSL, credit to agriculture increased by 11.1 percent in June 2018, while in terms of share to GDP, it remained constant at 5.2 percent. Meanwhile, the personal loans which was generally considered high quality assets recorded a negative growth of 6.1 percent in the FY 2017/18.

In terms of asset quality, the Non-Performing Loans (NPL) of FIs increased to Nu.12.54 billion in June 2018, resulting into a marginal deterioration of assets quality from 11.4 percent to 11.5 percent.

Most of the sectors experienced decline in the NPL, except manufacturing, housing and transport sectors. In terms of share, the highest NPL is recorded in trade and commerce (21.3%) followed by services and tourism (19.2%) and housing (17.9%) sectors.

However, the trend in asset quality is still manageable since the loans recovery generally begins from the third quarter of the year and the NPL normally stabilizes towards end of the year.

Box: 3.1 Assessment on Credit to GDP gap

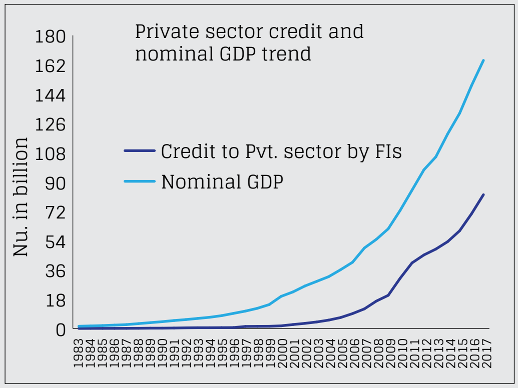
Credit plays an important role in economic growth, particularly in a bank-based financial system. Given the shallow capital market in Bhutan, the economy has been relying largely on credit from banks and non-banks to finance domestic investment.

In Bhutan, the banking sector credit alone constituted around 64 percent of credit to GDP, concentrating mainly in construction and service sectors. Almost 90 percent of credit were allocated to the private sector.

Bhutan's credit growth reflects high volatility, largely determined by capital inflows. Over the year, credit to commercial sector grew on an average by 22.2 percent, while the nominal gross domestic product (GDP) grew only by 14.1 percent on average, indicating high macroeconomic vulnerabilities. Moreover, the productivity of credit expansion has been deteriorating due to increasing allocation of credit in consumption and import led sectors, leading to unevenly distribution of credit and rising bad assets in these sectors.

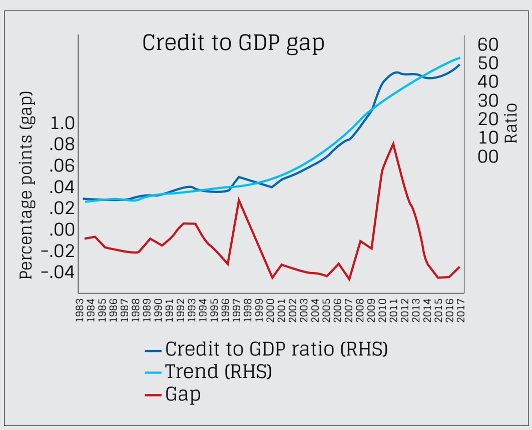
The prolonged excessive credit growth and high leverage in these sectors would not only pose a systematic risk to financial stability but also causes macroeconomic imbalances. The data shows strong correlation between credit and nominal GDP trend. The credit to GDP gap was used as an indicator to examine excess growth to signal build-up of systematic vulnerabilities in the banking sector. It is used as a benchmark buffer guide for countercyclical capital buffer as recommended by the Basel III guidelines.

An analysis from credit gap showed two episodes of credit boom in Bhutan, with one in 1998 and another in 2012. The gap generally refers to the deviation of credit-to GDP ratio from long term trend, which is computed by using an HP (lamda =100) filter. Compared to 1998, the credit gap was severe during 2012 recorded at 7.9 percentage points which exceeded the threshold limit of 2.5 percentage as recommended by the Basel III guidelines. The absence of macro prudential policy measures and entry of two new commercial banks were



possible reasons for expansion of credit, which resulted into higher credit gap in 2012. Although, the financial sector were well capitalized and resilient to potential vulnerabilities, the risk of spillover to the real sector was imminent, causing external imbalance.

With measures put in place in 2012, the credit gap continued to fall and remained below the threshold. Based on current empirical result, the credit gap has been rising steadily, but remains within the threshold level. However, it is important to keep vigilance over credit growth and leverage expansion because it is not sustainable in the long run, given the persistent high current account deficit along with low domestic investment, low saving, high external debt and limited policy buffers.



Box: 3.2 Medium-term Macroeconomic Outlook

Considering the improving performance of emerging economies, particularly India, and its structural and economic reforms to support growth, the macroeconomic condition in Bhutan looks favourable in the medium-term.

According to the MFCTC[1] estimates, economic growth is projected to average 6.5 percent over the medium-term, driven by construction and service sectors. The construction of new hydro power plants, broadening of revenue base through tax rationalization and rescheduling of loan disbursement of Puna I and II are the main underlying assumptions for the revision of higher growth prospects. Subsequently, growth is expected to further accelerate at 6.8 percent in FY 2019-20, largely due to coming on stream of two hydro power projects.

As estimated, the headline inflation is projected to increase to 5 percent in FY 2018/19 and moderate to 4.8 percent in FY 2019/20. The output gap, lagged inflation and Indian inflation are three explanatory variables deployed to determine the forecast using regression analysis. Inflation persistences and higher output gap resulted into upward revision of inflation. In the medium-term, headline inflation is likely to face up-ward risks largely with expected revision in civil servants salary by the new government. The inflation forecast also remains broadly in line with that of India, given the pegged exchange rate arrangement. Further, the inflation is also likely to face up-ward risk from potential upsurge in the global oil prices.

Optimistically, the overall fiscal deficit is projected to remain below 1 percent of GDP in FY 2018/19, before it increases to 2.6 percent of GDP in FY 2019/20. The projected lower deficit in FY 2018/19 is mainly due to absence of additional capital investment (5 % of GDP) during the interim government.

With additional tax measures, the domestic revenue is expected to increase by around 27.6 percent in FY 2019/20. At the same time, the outlay is expected to increase to 30.2 percent of GDP, due to increases in current expenditure driven by pay and allowances for civil servants and resumption of infrastructure development expenditure, resulting in higher fiscal deficit in FY 2019/20.

FY 2018/19

Real GDP growth is projected at **6.1%**

Inflation manageable at **5%**

Fiscal deficit expected to remain below **1%** of GDP

Current account deficit projected to improve to **18.5%** percent of GDP

Money supply expected to grow by **14.8%**

On the external front, the current account deficit is projected to remain at 18.5 percent of GDP, with further improvement to 12.8 percent of GDP in FY 2019/20. The lower current account deficit projection is based on rescheduling of hydro power loan disbursement and tapering of some major import-led hydropower project construction. At the same time, the trade deficit is also expected to narrow over the medium-term, owing to decline in imports.

As a result, international reserves is anticipated to adequately cover more than 13 months of imports of goods and

[1]These projections are based on the multi-sector Macroeconomic Framework Coordination Technical Committee's (MFCTC) update for Q3 2018 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

services.

For the most of the time, trade and current account deficits are expected to be financed by net capital and financial inflows in the form of hydro power grants and loan, and other Government loan disbursements. With improvement in trade balance and positive capital and financial inflows, Bhutan's international reserves position is projected to increase from USD 1,110.91 million in FY 2017/18 to USD 1,330.25 million in FY 2018/19 before increasing to USD 1,566.18 million in FY 2019/20.

Monetary and credit growth is expected to remain in tandem with economic growth outlook. Money supply is expected to grow around 14.8 percent in the medium-term mainly driven by growth in domestic credit. In absence of monetary policy operation framework, an increase of capital inflows particularly from the hydro power inflows is expected to further build-up liquidity in the banking system.

With surplus liquidity in the banking system, private credit is expected to increase by 18.4 percent in FY 2018/19, subsequently contributed by easy access to finance. At a later phase, the credit is expected to moderate at 15.5 percent in FY 2019/20. With effort to modernize the payment system and digitization, the currency in circulation is expected to decline in the medium-term.

Risks to the outlook are skewed to the downside, but active policies could lead to higher growth outcomes. The delay in implementing the Goods and Services Tax (GST) and commission of hydro power projects could lead to larger fiscal deficits. The gradual fiscal consolidation coupled with higher domestic revenue mobilization and efforts to channelise credit to productive sector could further help to lift growth. Special attention also needs to be put on external risks, stemming from Indian growth and new economic reforms, inflation and global oil prices to prevent potential spillover impact on the domestic economy.

Medium-Term Macroeconomic Outlook Indicators

	2017/18	**2018/19**	**2019/20**
	Actual	Projection	
Real Sector	*(% change)*		
Real GDP at market prices(*)	4.63	6.11	6.83
Consumer Price	2.55	5.00	4.75
General Government	**(in % of GDP)**		
Total revenue and grants	31.32	19.55	27.57
o.w Tax revenue	15.00	12.78	12.01
Total expenditure	33.58	20.43	30.81
o.w Capital	17.19	5.50	12.19
Fiscal balance	(1.01)	(0.72)	(2.62)
External Sector	(in % of GDP)		
Current account balance	(19.02)	(18.49)	(12.76)
o.w Trade balance	(16.38)	(12.17)	(7.41)
External debt	110.00	102.23	99.96
Monetary Sector	(% change)		
Money Supply	10.43	14.83	13.85
o.w Credit to Private Sector	15.69	18.44	15.50

* Figure for Real GDP should read as calendar year (2017)
Source: Multi-sector Macroeconomic Framework Coordination Technical Committee's (MFCTC) update for Q3 2018.

4

MONETARY POLICY OPERATIONS

4. MONETARY POLICY OPERATIONS

The RMA's monetary policy operation framework implicitly aims to achieve price stability. The intermediate target for achieving price stability in Bhutan is to maintain the one-to-one peg exchange arrangement between Indian Rupee and Ngultrum.

Targeting the exchange rate, however, implies the acceptance of India's monetary policy. In other words, an independent monetary policy in Bhutan is more or less, precluded. As a consequence, monetary policy is confined to support the peg, fulfilling the following basic conditions:

a) Readily making available sufficient Indian Rupee on demand for exchange with the Ngultrum for payments in India and provisioning 100 percent reserve backing for all Ngultrum issued to ensure sustainability of the exchange rate system.

b) Confidence-building measures for Ngultrum (by making a credible monetary and fiscal policies).

c) Sterilizing persistent growth in the liquidity to forestall possible build-up in the inflationary pressure, weakening of balance of payments, and mitigate the contingent effect in the financial system.

While ensuring the sustainability of the exchange rate arrangement, the RMA also has an important role in monetary and credit management by resorting to the reserve requirements and prudential measures.

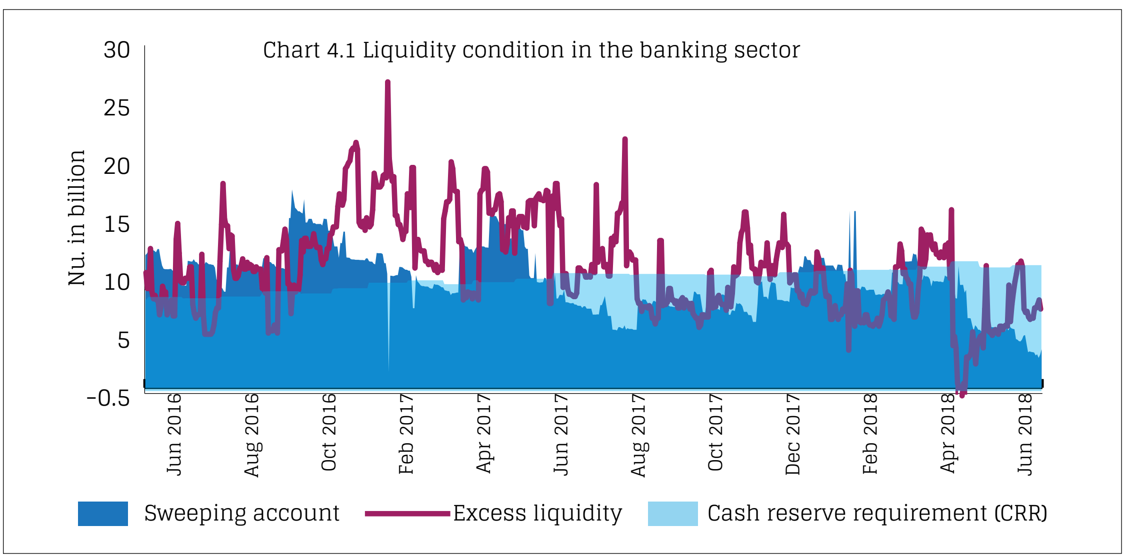
Currently, the RMA conducts monetary policy through the Cash Reserve Ratio (CRR) and interest rate policy to influence credit and monetary aggregates. The RMA also relies on sweeping arrangement to manage volatility of liquidity conditions in the money market and commercial bank's balance sheet.

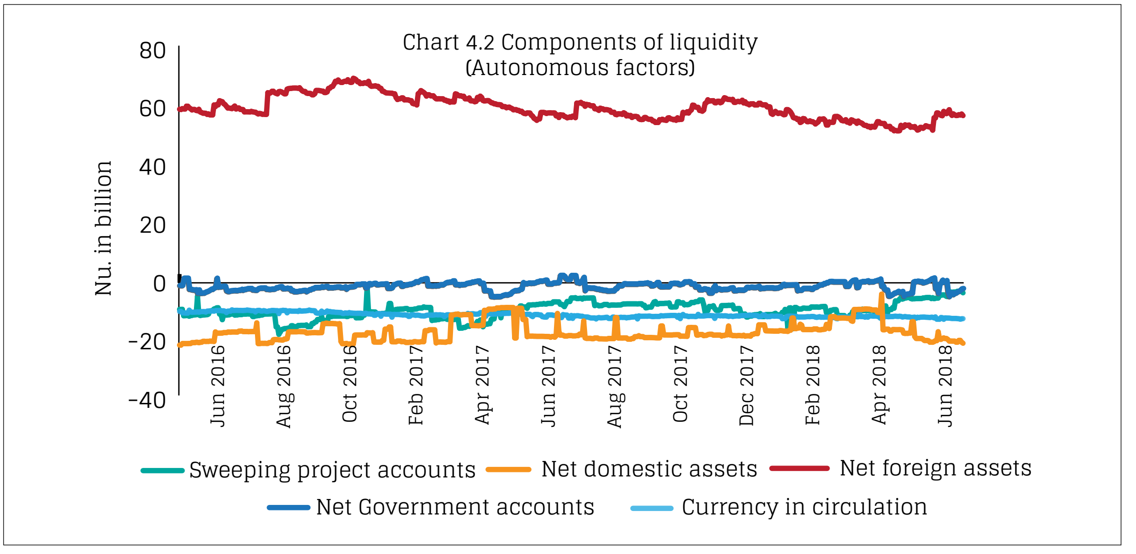
Over the years, the liquidity sterilized from the commercial banks through the CRR and sweeping has increased gradually with the increase in deposits of commercial banks. While, a part of excess liquidity is absorbed by the CRR, there still remains a substantial amount of excess liquidity in the banking system.

As an import-dependent economy, with high trade deficit, lending by financial institutions directly translates into imports, putting subsequent pressure on international reserves requires a broader framework to manage domestic liquidity.

Liquidity Conditions in the Banking Sector

The development of liquidity in the banking sector affects growth of money and credit in the





economy. An effective liquidity management and forecasting framework is the cornerstone for the RMA to fulfill legal mandate to formulate and implement monetary policy.

Having an effective liquidity management framework will (i) allow the RMA to effectively signal implement monetary policy transmission and (ii) create supportive conditions for the development of money markets.

The liquidity conditions are based on the analysis of the autonomous factors sourced from the balance sheet of the Central Bank. This is because the Central Bank is the creator of liquidity in the banking sector.

Autonomous factors are defined as the items on the central bank's balance sheet, either on asset or on the liability side that are not controlled by the central bank through monetary policy. The components of autonomous factors in the RMA's

Table 4.1 Liquidity Position and Liquidity Management Operation (Nu.in billion)

AUTONOMOUS FACTORS	30-Jun-16	30-Jun-17	30-Jun-18
Net foreign assets	59.20	59.56	56.41
Net domestic assets	(21.42)	(18.57)	(20.38)
Currency in circulation	(9.67)	(11.53)	(12.09)
Net Government accounts	(1.03)	(2.72)	(2.08)
Sweeping project accounts[1]	(8.95)	(5.22)	(3.37)
Total net autonomous factors	**18.13**	**21.53**	**18.49**
MONETARY POLICY / LIQUIDITY MANAGEMENT			
Cash reserve ratio (CRR)	8.25	10.28	11.04
Liquidity-providing operations	0.00	0.00	0.00
Liquidity-absorbing operations (RMA bills)	0.00	0.00	0.00
Liquidity position after CRR and monetary operations	9.89	11.25	7.46
Excess reserves (current accounts)	9.89	11.25	7.46
Estimated Precautionary Liquidity Buffer	3.00	3.00	3.00
Pure Excess Reserve	**6.89**	**8.25**	**4.46**

[1]Sweeping Accounts are the current account of RGOB, Hydropower Projects, other project accounts maintained with commercial banks that are being swept by the RMA at the end of day. The accounts are swept due to its unpredictability and volatility.

balance sheet includes (i) Net Foreign Assets (NFA) (ii) Currency in Circulation (iii) Net Domestic Assets (NDA) (iv) Net Government Account and (v) Sweeping Accounts.

Banking sector has persistent liquidity surplus due to the accumulation of net foreign assets in excess of the sum of all liquidity absorbing factors[2]. The growth in NFA has been partly compensated by growth in net domestic liabilities, currency in circulation and sweeping accounts of the banks. The net domestic liabilities, net Government account and sweeping accounts reflects huge volatility given the nature of fund as compared to currency in circulation and NFA.

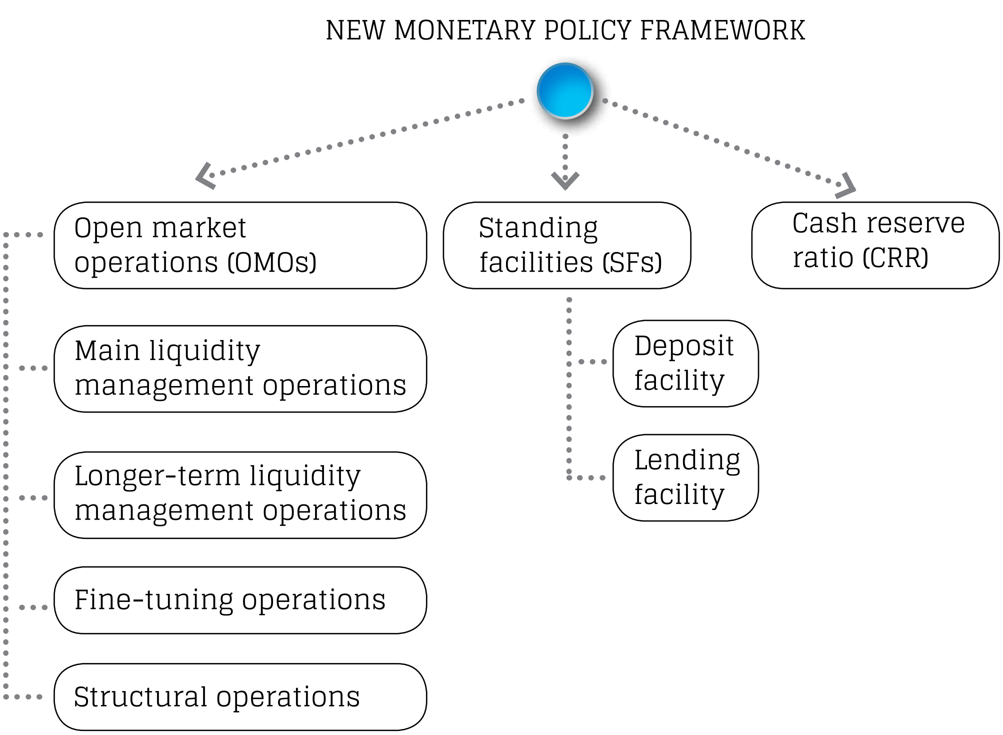
As on June 2018, the total liquidity surplus was recorded at Nu. 18.49 billion. A part of the liquidity surplus was absorbed by the RMA through the CRR (Nu. 11.04 billion). The balance amount of Nu. 7.46 billion corresponds to excess reserves of the banks in their current accounts maintained at RMA.

Of the total excess reserves, a part of it are required to keep as voluntary Precautionary Liquidity Buffer (PLB) by the commercial banks. The net balance needs to be absorbed through the RMA liquidity management operations. Based on an empirical study and survey of the banks, the total PLB is currently estimated at around Nu. 3 billion. Consequently, pure excess reserves (true excess liquidity of banking sector) was estimated at Nu. 4.46 billion as on June 2018.

New Monetary Policy Implementation Framework

The existing monetary tools are rigid and not market driven. The current CRR lacks flexibility

Chart 3.5: Features of the New Monetary Policy Framework



[2] Liquidity absorbing factors include Currency in circulation, Net domestic assets, Net Government account and Sweeping accounts.

in dealing with change in daily change in liquidity conditions. Therefore, appropriate monetary policy tools for managing both frictional as well as structural liquidity of the banking sector become critically important.

Against this backdrop, the RMA has developed a new Monetary Policy Implementation Framework (MPIF) which is flexible, effective and market based. The main attributes of new MPIF are to

(i) Facilitate monetary policy signalling,
(ii) Maintain an optimal level of liquidity in the banking system,
(iii) Allow banks to enhance their treasury function, leading to reduced liquidity costs and settlement risks and
(iv) Support development of the domestic money market which will contribute towards achieving macroeconomic stability.

The new monetary policy framework is expected to allow the RMA to manage overall liquidity conditions effectively through a broad range of market-based instruments. The monetary policy operations are conducted through Open Market Operation (OMO). In the OMO, the securities are purchased and sold in the open market by the Central Bank. In context of Bhutan, the OMO will be conducted in the form of collection of fixed-term deposits*, issuance of collateralized loans, as well as overnight standing facilities (marginal lending and deposit facilities) which will be guided by the Interest Rate Corridor (IRC) set by the RMA.

While instituting monetary policy operation, it is important to determine the key policy rate based on inflation dynamics of the domestic economy. By setting the key policy rate and reserve requirement, the central bank aims to influence the gamut of domestic interest rate, which in turn affects the level of economic activity and inflation.

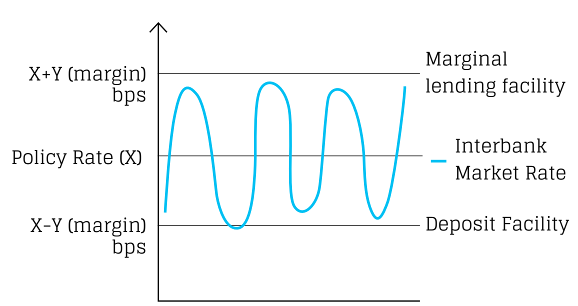
Interest Rate Corridor

Standing facilities are monetary policy instruments used by the central bank for short-term liquidity management. Standing facilities allow commercial banks to borrow from the central bank (lending facilities) or deposit funds with the central bank (deposit facilities) at a pre-determined rate of interest. It is an automatic mechanism to limit the volatility in the interbank market rates and keep them close to the central bank's policy rate.

Although, there is no universal rule for setting the IRC. Generally, the developing economies choose a wider band in the beginning while conducting OMO, in view of under developed money market. For countries where the financial system is still at the nascent stage, the IRC is set at higher Basis Points (bps) initially to enable the banking sector to adjust to the changing liquidity conditions.

As the country gains more experience in liquidity management and forecasting capacity, the IRC is narrowed down in order to stabilize the inter-bank borrowing rates. Moreover, it will allow effective liquidity management in the banking sector.

Chart 6.6: Interest Rate Corridor



(*) Absorbing liquidity from the Banks for a specific period and rate that will be determined by the RMA

Box: 4.1 Modelling Inflation in Bhutan

Global experience over the past decade shows that the inflation dynamics are undergoing significant changes – there are evidences of flattening of Phillips curve (i.e. inflation is turning out to be less responsive to output gap[1]). This makes inflation forecasting difficult and challenging. An augmented Philips Curve approach was deployed for modelling inflation in Bhutan using data from 1999 to 2018.

The Phillips Curve framework postulates that inflation rate in the short run (over the course of the business cycle) is determined by three main factors – (i) the level of economic activity in relation to its potential (which can be proxied by estimates of the output gap) (ii) expected inflation and (iii) supply shocks. Cross-country experience suggests that inflation expectations are largely adaptive in nature (i.e. past inflation trends have a large influence on inflation expectations), and this phenomenon is relevant for emerging and developing countries including Bhutan. Thus, inflation in Bhutan can be considered as backward-looking. India being the major trading partner of Bhutan with more than half of Bhutan's inflation being imported, inflation trends in India (Indian wholesale price inflation in manufactured products are included in the model to capture the supply shock.

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

Where;

Inf_t = CPI Inflation in Bhutan

gap = output gap in Bhutan

ind_inf = wholesale price index inflation (manufactured products) in India.

$$Inf\_t= \underset{(9.28^{***})}{0.67\, inf_{t-1}} + \underset{(2.21^{***})}{0.21\, \mathrm{Ygap}_{t-1}} + \underset{(4.47^{***})}{0.44\, ind\_inf_t}$$

Figures in parentheses are t-statistics and **** indicate the significance at 1% ** at 5% and * at 10 %. Sample period for the estimation is 1999-2017.

R-square=0.96
Root Mean Squre Error (MSE)=1.28
Durbin-Watson d-statistic = 2.28

The model has a good explanatory power and all the variables are statistically significant. The regression results suggest that inflation in Bhutan is highly inertial with a coefficient of 0.67 on lagged inflation. Output gap (an indicator for excess demand pressures in the economy) is statically significant and positive. The point estimate suggests that an increase of one percent change in output gap could increase inflation by 0.21 percent with a lag of one year.

This highlights the role of demand conditions on inflationary developments in Bhutan and signifies the critical role of monetary policy in managing the domestic demand and inflation. The role of imported inflation from India is confirmed by the regression estimates. The estimates indicate that a one percentage point in Indian inflation (measured by wholesale manufactured products inflation) pushes up inflation in Bhutan by 0.44 percent. Thus, higher inflation in India contributes to inflationary pressures in Bhutan and ebbing of inflation in India eases inflationary pressure in Bhutan.

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[1] The output gap is measured by the deviation of actual output from its potential level, expressed as a percentage of potential output. The measurement of potential output level is quite challenging and data intensive, especially for developing countries like Bhutan given the rapid structural transformation. A simple and common approach, Hodrick-Prescott (HP) filter is used to estimate potential output and output gap.

Box: 4.2 Determining Key Policy Rates

A central element of the Monetary Policy is the Key Policy Rate. The Key Policy Rate is the rate at which the central bank signal its monetary policy stance based on inflation, output and broader macroeconomic considerations. For illustrative purpose, the RMA used Taylor Rule to determine the key policy rate in Bhutan. The Taylor Rule is a simple monetary policy rule that suggests how a central bank could adjust its interest rate policy instrument in a systematic manner in response to developments in inflation and output. Thus, it provides guidance to the Central Bank in determining interest rate policy.

According to the Taylor Rule, the nominal interest rate should respond to deviation of the actual inflation rate from its target and size of the output gap. In the original version of the Taylor Rule, the coefficient on inflation gap and output gap was estimated at 1.5 and 0.5, respectively [R1]

i_t*=r*+π*+1.5 (π_t-π*)+0.5(y_gap$_t$) ---------------------- R1

There are two common modifications of Taylor's original rule for policy inputs. The first is to introduce inertia in the rule proposed by Taylor (1993) with a weight of 0.85 on the lagged interest rate [R2]. The second (Taylor 1999) suggested a coefficient on real output twice as high as compared to the Taylor (1993) to give a balanced weights to inflation and output deviations [R3]

i_t=0.85 ($i_{t-1)}$)+(1-0.85) [(r*+π^*+1.5 (π-t-π^*)+0.5(y_gapt)] --- R2

i_t=0.85 ($i_{t-1)}$)+(1-0.85) [(r*+π^*+1.5 (π-t-π^*)+1.0(y_{gapt})] ------- R3

For Bhutan, using the three alternative Taylor Rules discussed above, the assumptions on the neutral real interest rate and the inflation target, and forecasts of inflation from the Phillips curve framework, the illustrative range of interest rates estimated from the various rules are set out in the table below.

Year	Output Gap	CPI Inflation	Inflation Gap [1]	Natural Real Rate[2]	Inflation Target	Policy Rate		
						Rule I	Rule 2	Rule 3
2017	-1.26	4.74	-0.26	1.50	5.00	5.48	5.90	5.03
2018	-1.05	4.73	-0.27	1.50	5.00	5.46	5.81	5.03
2019	2.44	5.46	0.71	1.50	4.75	6.78	6.01	5.98

[1] The inflation gap is the difference between current year's inflation projection and the central bank's target. Since the RMA does not have any explicit inflation target, it is assumed that RMA has an interim inflation target of 5% in 2018 and 4.75% in 2019.

[2] Neutral real interest rate is the level of real interest rate when the economy is growing at its potential rate and inflation is at its target. Since no estimates on real neutral interest rate are available for Bhutan, we assumed that Bhutan's neutral interest rate is close to that of India.

Box: 4.3 Interest Rates

Prior to 1999, the interest rates were directly set by the RMA. With the rapid financial sector development and continued dependency for investment finance from the banking sector, the interest rate in Bhutan was deregulated in April 1999, allowing the banks to determine deposit and lending rates by the market forces.

To strengthen monetary policy operation, RMA introduced and implemented the base rate system in September 2012. It is a minimum rate below which it is not viable for the financial institutions to lend. It also served as the reference benchmark for floating rate loan products, apart from other external market-based benchmark rates.

A review for the Base Rate system was conducted in early 2016, since it revealed some rigidities in the banking system. To address the rigidities, a new forward looking and integrated interest rate policy known as the Minimum Lending Rate (MLR) was introduced and implemented with effect from August 1, 2016. The main objective of the MLR was to encourage competition and develop professionalism among the Financial Institutions to result in a balanced approach for financial intermediation.

Minimum Lending Rate (MLR)

The MLR is computed adding up the three cost parameters:

i. Marginal Cost calculated based on interest rates times the weight. The weight is derived as the percentage of total fund.
ii. Negative Carry Charges on CRR: The cost that the banks incur while maintaining 10% reserve with the RMA (Required CRR * (Marginal Cost/ 1-Required CRR)
iii. Operating Cost: Is arrived by dividing the operating cost by the total deposits of the bank.

On the single MLR, each financial institution are free to add its expected spread to arrive at the median final lending rate. Financial institutions compute their product-specific final lending rates by adding the following components to the MLR: Credit risk and tenor premium, and an item covering the bank's business strategy cost.

Financial institutions cannot lend below the MLR except for selected loans such as:

a. Advances to depositors against their own deposits;
b. Loans for liquidity management of a maturity of less than 90 days;
c. Consortium loans approved by the Royal Government for Bhutan for investment in strategic sectors that are of national interest;
d. Strategic/priority sectors as defined from time to time by the RMA; and
e. Staff Incentive Loans.

As of June 2018, the Single MLR is computed at 6.3 percent, a decrease by 0.2 percentage points from 6.5 percent as of June 2016. The table below illustrates the computation of MLR.

Components of MLR (%)

	Marginal Cost			CRR Cost			Operational Cost			MLR		
Bank	**17-Jun**	**17-Dec**	**18-Jun**	**17-Jun**	**17-Dec**	**18-Jun**	**17-Jun**	**17-Dec**	**18-Jun**	**17-Jun**	**17-Dec**	**18-Jun**
BOBL	3.46	3.78	3.62	0.38	0.42	0.40	0.88	0.83	0.74	4.72	5.04	4.76
BNBL	4.87	4.69	4.40	0.54	0.52	0.49	0.91	0.88	1.152	6.32	6.08	6.04
DPNBL	4.4	4.83	4.89	0.49	0.54	0.54	1.66	0.91	0.70	6.55	6.28	6.13
T-Bank	4.73	4.94	5.29	0.53	0.55	0.59	1.18	0.82	0.70	6.44	6.31	6.58
BDBL	6.97	6.77	6.26	0.77	0.75	0.70	0.76	1.37	1.00	8.50	8.89	7.96
Average	**4.89**	**5.00**	**4.89**	**0.54**	**0.56**	**0.54**	**1.08**	**0.96**	**0.86**	**6.51**	**6.52**	**6.30**

The decrease in MLR was mainly contributed by fall in operational cost to 0.9 percent in June 2018 from 1.1 percent in June 2017. Wages and salaries continue to be a major component of bank's operating cost. Marginal cost and CRR cost remain constant at 4.8 percent and 0.5 percent respectively. The marginal cost which accounted 77.6 percent of total MLR, attributing to the cost on fixed deposits. Among the banks, the BoBL has lowest marginal cost due to high current account deposits, mainly contributed by the corporate and government deposits. While, CRR cost remained constant over the period without revison on the CRR rate.

Implementation of the MLR has helped in moderation of the overall interest rate structure and in bringing some level of competition in product pricing among banks. However, the impact of this moderation is only felt by certain loan sectors such as housing and construction, and consumption oriented loans. The BoBL, a dominant bank continues to have a comparative advantage over smaller banks while pricing of loans and limiting level playing field in determination of interest rate in the market.

Deposit Rates

The saving rates for all banks ranged at 5.0-6.0 percent as of June 2018. The lower bound on the interest rate range for various time deposits with maturity up to 3 years have marginally decreased in 2018. While the upper bound also decreased slightly by 200 basis points from 10 percent in June 2017.

Meanwhile, lower bound of interest rates for deposits with a maturity more than 3 years slightly declined by 25 basis points and the upper range has increased by 75 basis points in June 2018. On an average from June 2017 to June 2018, the deposit rates of commercial banks declined from 7.1 percent to 6 percent, reflecting a fall in the overall deposit rates of the banks.

Deposit Rates of Commercial Banks

As of June end (Percent)						
Type of Deposits	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Savings	5.00-5.50	5.00-6.00	5.00-6.00	5.00-6.00	5.00-6.00	5.00-5.75
Term Deposits						
a) 3 months to less than 1 year	5.00-6.50	5.00-7.00	4.00-7.00	4.00-6.50	3.00-7.00	2.00-6.00
b) 1 year to less than 2 years	7.00-7.50	7.00-7.50	6.75-7.50	6.00-7.00	6.50-7.50	6.50-7.00
c) 2 years to less than 3 years	7.50-7.75	7.50-7.75	7.00-8.00	7.00-7.50	7.00-8.00	4.00-7.50
d) More than 3 years	8.00-8.75	8.00-10.00	8.00-10.00	8.00-9.25	7.75-10.00	7.00-8.00

Source: Commercial Banks

Lending Rates

On the lending front, average lending rates of commercial banks across all the sectors increased during the review year. The major sector such as housing marginally increased on average from 10.6 percent to 10.9 percent as of June 2018, while service sector also witnessed an increase from 10 percent to 10.5 percent in June 2018. The personal and transport sectors also recorded a marginal increase in the lending rates. On average, the overall lending rate of the banks increased from 10.9 percent in 2017 to 11.5 percent in 2018.

Selected Lending Rates in Bhutan

As of June end (Percent)

Loans by Purpose	**2014**	**2015**	**2016**	**2017**	**2018**
1. General Trade	13.00-14.15	13.75-16.00	13.00-14.00	10.50-13.00	9.86-13.00
2. Manufacturing Industry	11.73-16.00	13.00-16.00	11.73-13.00	9.98-12.50	10.00-13.00
3. Service Industries	11.73-16.00	13.00-15.15	11.73-14.00	8.00-12.00	8.49-12.53
4. Transport	11.73-14.10	12.15-16.00	11.73-14.00	8.92-12.50	9.07-12.50
5. Agriculture & Livestock	11.73-13.00	12.00-13.00	11.73-13.00	7.99-11.00	8.49-11.00
6. Housing	12.73-16.00	13.00-15.25	12.48-14.00	8.20-13.00	8.46-13.25
7. Personal Loan	13.00-16.00	15.00-16.00	15.00	8.85-14.00	9.64-15.00

Source: Commercial Banks

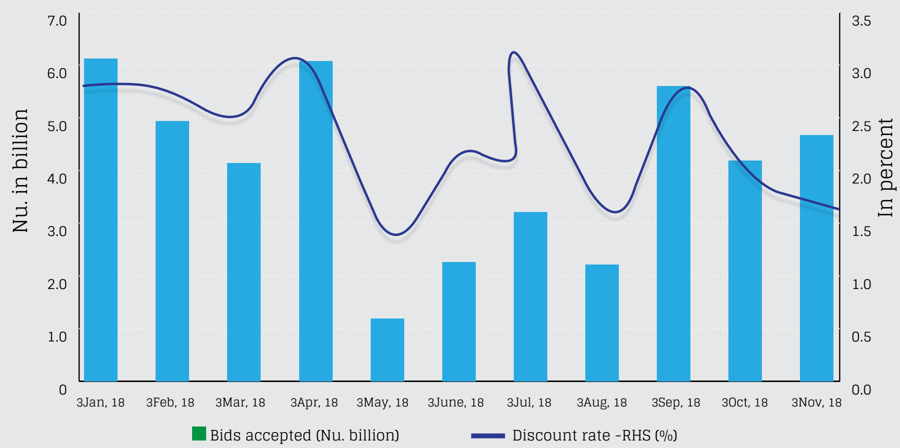
Box: 4.4 Collateral Framework

In an effort to create supportive environment for the development of capital market, the RMA has developed a collateral framework as part of the new Monetary Policy Implementation Framework (MPIF). The collateral framework will allow the RMA to effectively provide liquidity to banks. The collateral framework has clear set of rules defining list of eligible securities registered with the Royal Securities Exchange of Bhutan (RSEBL).

The collateral framework also defines risk control measures based on issuer. With the implementation of the monetary policy by the RMA, the banks can avail liquidity from the RMA by pledging the eligible Securities. The RMA has identified three categories of debt instrument based on issuers and credit risk.

1. Debt instrument issued by the Government
2. Debt instrument issued by the State-owned Companies and
3. Debt instrument issued by the Private Sector.

Rate and amount of 91 days T-Bills



During the year, T-bills rates remained on an average of 2.52 percent compared to around 1.57 percent in the previous year. The T-bills rates have been determined depending on the liquidity in the banking system. In the month of November 2018, T-Bill (R302) amounting Nu.4.5 billion were issued at the weighted average rate of 1.67 percent for the maturity period of sixty-four days. The T-Bill was issued solely by RGoB to meet the day to day cash requirement.

Mostly, it is the banks who are active in purchasing the T-bills as they have surplus short term liquidity. It also shows that in the absence of short term investment avenues, banks have been investing in T-bills.

Box: 4.5 Workshop on the Modernization of Monetary Policy Frameworks

The RMA in collaboration with the International Monetary Fund (IMF) and the IMF's South Asia Regional Training and Technical Assistance Center (IMF-SARTTAC), organized a high-level workshop to engage policymakers on issues related to the modernization of Monetary Policy Frameworks of Bhutan, India, and Nepal from September 10-11, 2018 at Paro, Bhutan.

The Workshop provided opportunity to discuss the modernization of India's Monetary Policy Framework of inflation targeting and the implication for Bhutan and Nepal, given the pegged exchange arrangement with Indian Rupee. In addition to inflation spillovers to Bhutan and Nepal, the discussions also touched on the setting of policy rates in Nepal and Bhutan and the impact of capital account liberalization in India on Bhutan and Nepal. The Workshop also discussed options to strengthen analytical capacity, including monetary transmission and common challenge faced by central banks in emerging market economies.

The Workshop was attended by high-level officials from the Nepal Rastra Bank, Reserve Bank of India and staff from the IMF and IMF SARTTAC. Participants from Bhutan included Members of the RMA Board, two Honorable Members of the National Council and senior officials from the RMA, MoF, GNHC, RIGSS and BCCI.

The Governor Dasho Penjore delivered the Opening Remarks during the Workshop held in Paro.

5

FINANCIAL SECTOR DEVELOPMENT

FINANCIAL SECTOR DEVELOPMENT

The financial system plays a critical role in the economy. It enables the financial intermediation process which facilitates the flow of funds between savers and borrowers, thus ensuring that financial resources are allocated efficiently towards promoting economic growth and development. Financial stability describes the condition where the financial intermediation process functions smoothly and there is confidence in the operation of financial system and to support sustainable economic growth and employment creation.

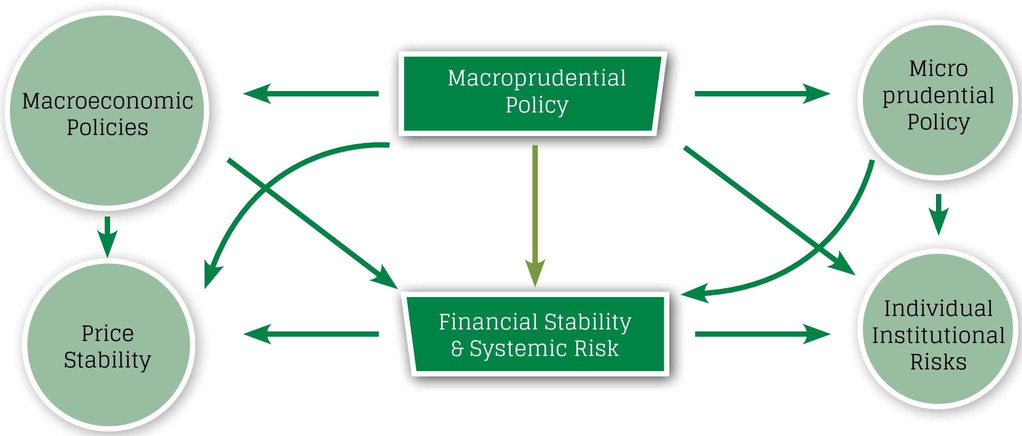
Financial Sector Review

The financial sector of Bhutan consists of five commercial banks and three non-banks (two insurance companies and one pension fund). The existing level of liquidity and capital in the financial sector indicated a favorable position.

Box: 5.1 ROYAL MONETARY AUTHORITY ACT OF 2010

The RMA Act 2010 empowers the RMA with explicit, statutory mandate to protect and enhance financial stability in Bhutan. This mandate includes efforts to prevent a systemic event and, should a crisis occur, assistance with restoring financial stability in the country.

Section 8, RMA Act 2010 aims to promote sound practices and good governance in the financial services industry to protect it against systemic risk; and subject to the above, promotes macro-economic stability and economic growth in Bhutan.



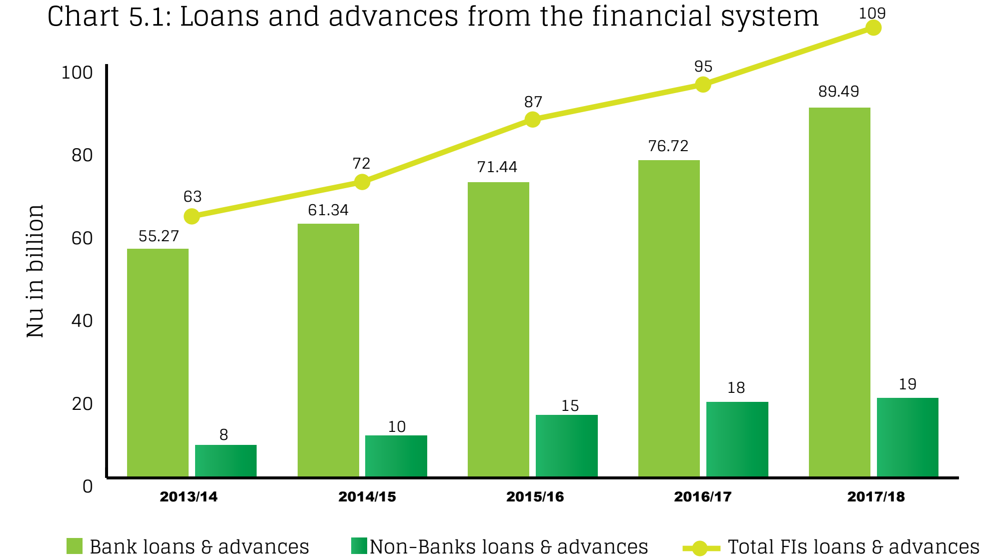
of key financial institutions and markets within the economy.

When financial stability risks are managed well, systemic financial crises are less likely to occur, and can easily manage and mitigate the spill-over effects during the crisis. The RMA's prudential supervision of the financial institutions contributes towards an efficient functioning

Further, the strengthening of the regulatory and supervisory framework and the risk management measures enabled the financial sector to remain resilient to external shocks.

Over the recent years, asset growth of financial sector has averaged almost 10.5 percent, rising from Nu. 107.47 billion in June 2015 to Nu. 161.15 billion in June 2018. The growth in asset

Chart 5.1: Loans and advances from the financial system



was largely driven by the loans and advances. Of the total asset, banks' comprise of 86.3 percent and the remaining 13.7 percent by non-banks. The total credit of the financial sector stood at Nu.108.81 billion as of June 2018 as compared to Nu.95.06 billion in June 2017. Correspondingly, the domestic credit to GDP ratio, increased to 65.2 percent in June 2018 from 64.2 percent in June 2017 indicating expansion in the domestic credit.

The total liabilities of the financial sector increased to Nu. 161.15 billion in June 2018. Of this, the banking sector deposits accounted 70.4 percent, followed by reserves and capital with 13.5 percent.

The major component of liability in the non-banking sector was the insurance fund, comprising 49.5 percent, followed by bonds and borrowing at 16.8 percent.

The overall capital funds position of the banking sector improved at Nu.17 billion as of June 2018, an increase of 6 percent, enlarging the buffer available for absorbing risk. Further, both banking and the non-banking sector saw an increase in the risk-weighted assets (RWA) of 11.8 percent and 8.4 percent respectively.

Despite an increase in the capital fund, higher increase in RWA has resulted in lowering the Risk Weighted Capital Adequacy Ratio (RWCA) and Core Capital Ratio (CCR) for both banks and non-banks. Nevertheless, the ratios remained above the minimum regulatory requirement of 12.5 percent.

Table 5.1 Liabilities of Financial Sector (Nu. In billion)

Liabilities	June-17	June-18
Paid up capital	8.95	9.07
Reserve Deposit	11.72	12.62
Deposit Liabilities	104.59	113.48
Bonds & borrowings	6.73	4.66
Interest provisions	3.22	3.65
Insurance Fund	8.26	10.96
Other liabilities	5.52	6.71
TOTAL	**149.00**	**161.15**

Deposits Composition

33.6%

Corporate deposits

66.4%

Retail deposits

The fall in corporate deposits has decreased liquidity of banks due to its seasonal and unpredictable nature.

16.4%

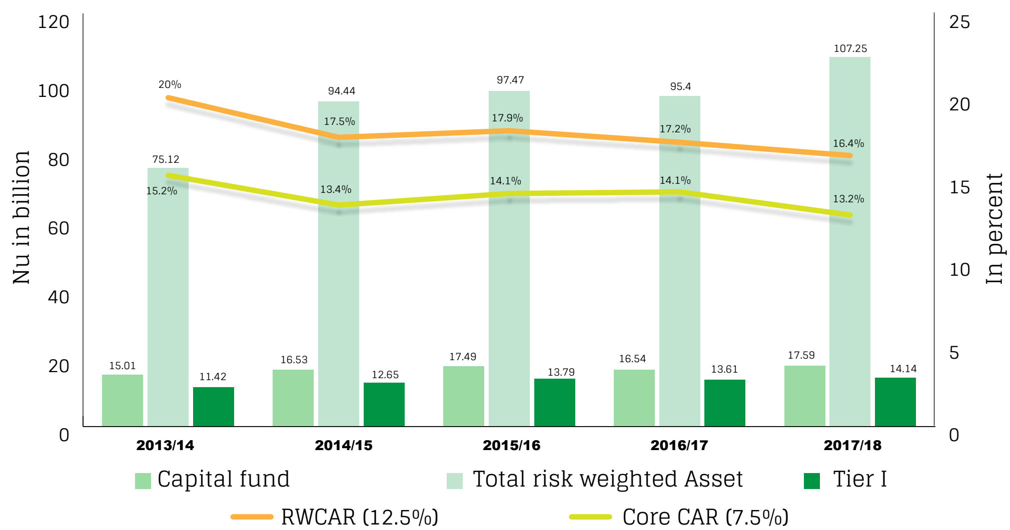
RWCAR ratio for banks (Fell by 1.3%).

15.1%

RWCAR ratio for non-banks (Fell by 2.3%)

Both the ratios remained above the minimum regulatory requirement of 12.5% (including the capital conservation buffer of 2.5%).

Chart 5.2 Capital adequacy for banks

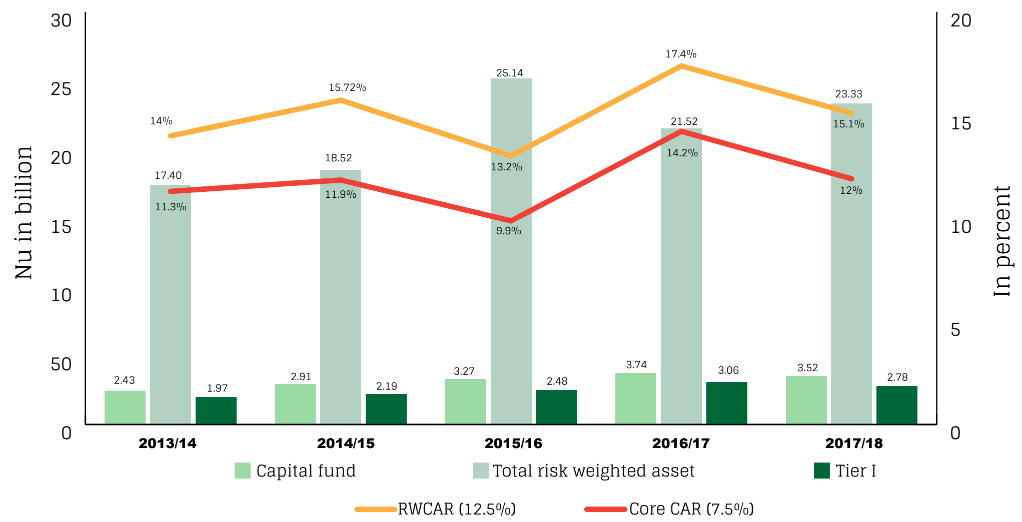


Profitability of both banks and non-banks have improved, generating a combined net profit of Nu.802.72 million in June 2018. While the profitability indicators have improved, the Return on Assets (0.5 %) and Return on Equity (3.9%) remained below satisfactory level.

Banks liquidity position (SLR) stood at 31 percent, which is above the minimum statutory requirement of 20 percent of the total liabilities. The quick assets amounted to Nu. 37.66 billion against the minimum requirement of Nu. 24.27 billion with an excess liquidity of Nu.13.39 billion to meet the payment obligations.

SLR position for non-banks also remained well above the minimum statutory requirement of 10 percent of the total liabilities. The position improved by 2.7 percent mainly due to the increase in quick assets of non-banks by Nu. 663.39 million. The quick assets amounted to Nu. 2.4 billion against the minimum requirement of Nu. 1.86 billion with an excess liquidity of Nu.573.44 million .

Chart 5.3 Capital adequacy for Non-banks

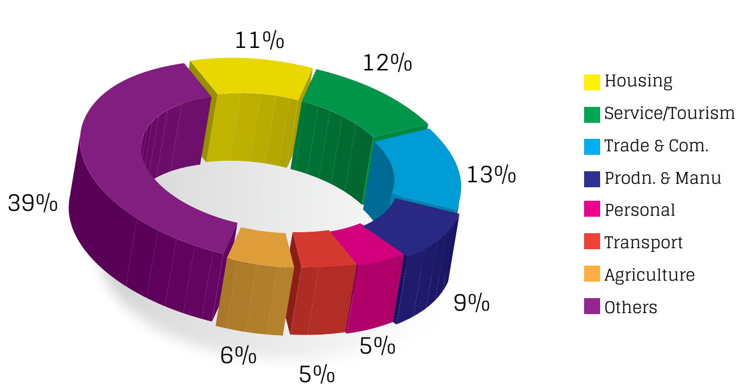


Credit Market

Loans and advances of the financial sector increased by Nu. 13.75 billion during the review period. As in the past, the loans were highly exposed to housing, service & tourism and trade & commerce sectors. The sector-wise analysis reveals that out of the total loans of Nu. 108.81 billion, housing sector has the highest with Nu. 25.72 billion (23.6%) followed by service & tourism sector with Nu. 25.21 billion (23.2%) and trade & commerce with Nu.15.02 billion (13.8%).

During FY 2017/18, the asset quality has seen a sign of deterioration with increase in Non-Performing Loan (NPL) from Nu. 10.80 billion in June 2017 to Nu. 12.54 billion in June 2018. The sector with the highest NPL during the period under review is trade & commerce with 21.3 percent, followed by service & tourism with 19.3 percent, housing with 18 percent and production & manufacturing with 15.2 percent. The Gross NPL ratio increased slightly by 0.2 percent in June 2018, indicating less than satisfactory level of NPL that would require the financial institutions to focus on the credit monitoring and control procedures to further check on the deterioration of NPL.

Chart 5.4 Total sectoral NPL



Absolute NPL of FIs increased by

Nu.1.74 billion

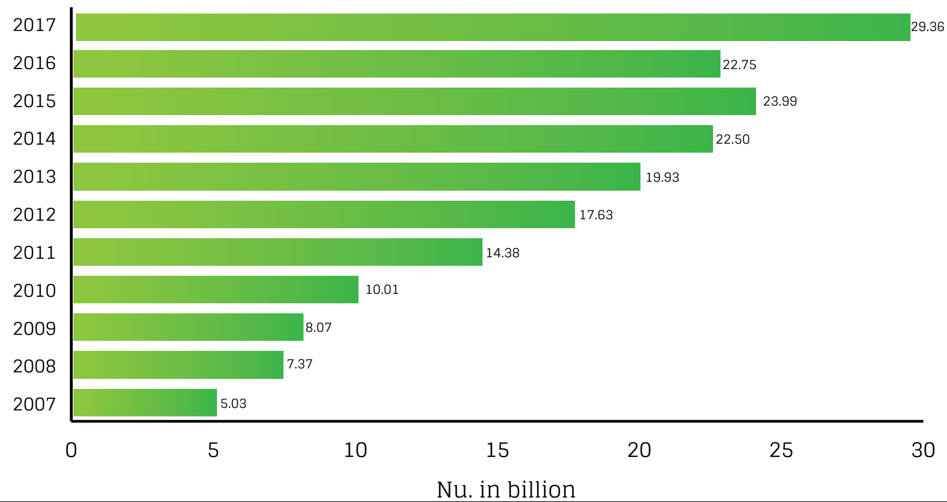
&

the Gross NPL ratio stood at

11.5%

in June 2018.

Chart 5.5 Market capitalization



Developments in the Capital Market

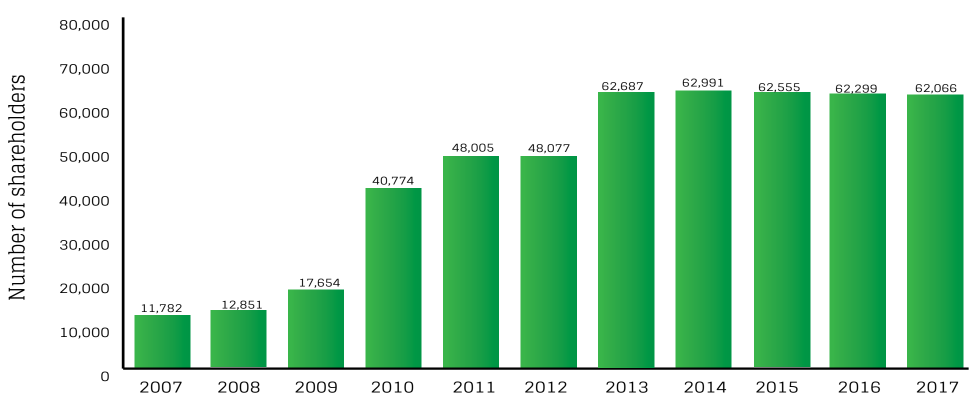
During the period under review, a total number of 4,420,128 shares worth Nu. 125.68 million were traded in the secondary market as compared to the total traded volume of 11,486,616 shares worth of Nu. 328.7 million in 2016.

At the end of 2017, the market capitalization of 21 listed companies increased by 12.45 percent as compared to the previous year. In absolute terms, it has increased from Nu. 22.74 billion to Nu. 25.58 billion, owing to appreciation in the market prices of shares of companies namely the RICB, PCAL, DSCL, BIL, DPNB, GBRL, EBCC and TBL. During the year, the total number of shareholder's account in the Central Depository has decreased to 62,066 from 62,299 in the previous year. The decrease in the number of shareholder's account was mainly due to secondary market trading and off-market transactions.

In the bond market segment, the total outstanding bonds worth Nu. 11.04 billion against 19 Bonds listed on the Exchange. Their maturity for redemption started only from 2018 onwards till 2025.

The Stock Exchange officially listed the RSA Pvt. Ltd. Bond Series-I at the coupon rate of 9.35 percent with the face value of Nu. 1000 per unit, worth Nu. 80 million with the maturity date on January 25, 2024. The Bond was officially listed on the Exchange on March 9, 2017.

Chart 5.6 Number of shareholders



NEW INITIATIVES UNDERTAKEN DURING 2018

Current regulatory arrangements

The RMA has initiated the strengthening of the existing regulatory framework to make the Bhutanese financial system more risk resilient. The micro-prudential regulations, which are currently in place, address the safety and soundness of individual financial institutions. Additionally, in order to mitigate the risks emanating within the financial sector or macro-economic risks that could potentially destabilize the entire financial sector, the following policy measures were undertaken:

- The Prudential Regulations 2002 was issued to implement Micro-Prudential Regulations to regulate, supervise and monitor the health of the financial institutions.
- The Financial Services Act 2010 was enacted to promulgate sound banking and financial policies within the economy.
- Foreign Exchange Regulations 2013 was amended to govern the foreign currency transactions.
- The Macro-Prudential Rules and Regulations was issued in 2014 to promote financial stability and minimize the systemic risk.
- The Credit Rating Agency Regulation 2014 was issued for development of credit rating agency to help financial intermediation activities.

Following new rules and regulations were issued during FY 2017/18

(I) Rules and Regulations for Cottage and Small Industries (CSI) Banks.

In effort to promote the CSI sector in the country, the RMA issued the Rules and Regulations for Cottage and Small Industries (CSI) Banks in Bhutan in July 2018. The main objective of this regulation includes:

- Developing, promoting, assisting and supporting the establishment of, expansion or improvement of cottage and small industries by granting credit facilities,
- Transforming the CSI sector into a more enterprising and commercially-oriented sector through coordinated interventions and better access to finance,
- Promoting opportunities for youth employment,
- Promoting domestic production and import substitution, and
- Catalyzing the CSI sector as a driver of Bhutan's economic transformation.

(ii) Rules and Regulations for Licensing of Insurance Companies:

In July 2018, the RMA issued the Rules and Regulations for Licensing of Insurance Companies in Bhutan 2018. The main objective of this regulation is to standardize the application process for insurance business in Bhutan.

iii) Rules and Regulations for Insurance and Reinsurance Companies:

The RMA issued the Rules and Regulations for Insurance and Reinsurance Companies in Bhutan 2018 which came into effect from of July 1, 2018 superseding the Investment Guidelines for Insurance Business 2015.However, Regulations for establishment of Insurance Companies and Regulations for the establishment of Reinsurance Business in Bhutan shall be legally valid until the Authority issues further notice. These Rules and Regulations will be applicable to all insurance and reinsurance companies licensed by the RMA.

iv) Rules and Regulations for Establishment of Commercial Banks:

In July 2018, the RMA issued Rules and Regulations for Establishment of Commercial Banks in Bhutan 2018 and came into effect from 22nd May, 2018. These Rules and Regulations are applicable to all Banks in Bhutan.

Penalty Rules and Regulations 2018

Provided a clear framework for assessing and imposing administrative penalties against licensed financial institutions. It also aims to enhance integrity of the financial sector.

Upcoming regulatory framework

Consumer Protection Rules and Regulations

As mandated, the RMA will be developing and implementing the Guidelines on Financial Consumer Protection that would ensure protection of consumers rights. It is a critical component of the financial service system where regulators formulate effective and fair consumer protection mechanism to drive consumer confidence and trust within the financial sector. The guideline will be finalized during the third quarter of 2019.

6

EXCHANGE RATE ARRANGEMENT AND IMPLICATIONS

6. EXCHANGE RATE ARRANGEMENT AND IMPLICATIONS

Bhutan's external sector has been characterized by persistent current account deficit, particularly with India. As an aid, import and hydro dependent economy, the imperatives of managing the foreign exchange reserves prudently, without compromising with the existing exchange rate peg arrangement, becomes challenging.

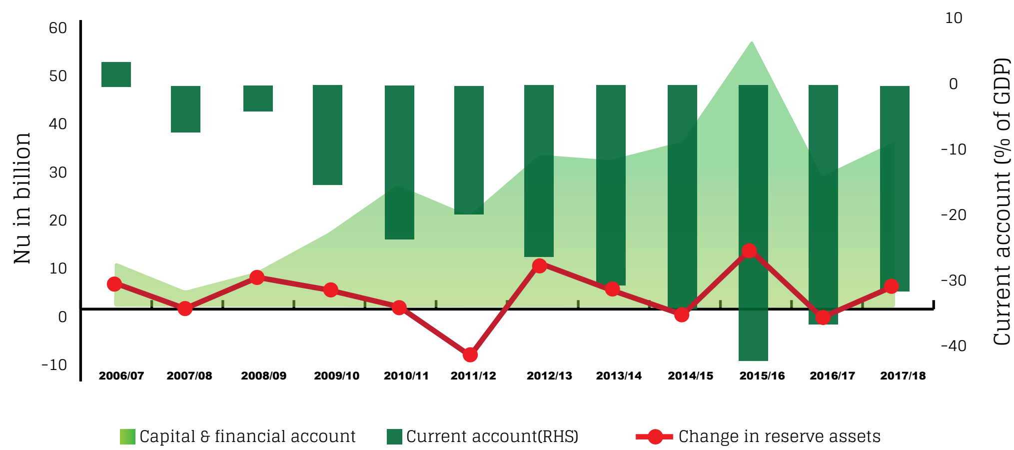
Given the close economic and financial linkages with India, Bhutan opted to peg the Ngultrum at par with the Indian Rupee since its introduction in 1974. Over the years, the existing exchange rate arrangement, complemented by free and preferential trade agreement, have further facilitated and deepened Bhutan's economic engagement with India. With limited monetary policy flexibility due to fixed exchange rate regime, the monetary policy operation, therefore, is guided by the principle of safeguarding the exchange rate peg with the Indian Rupee through readily making available Indian Rupee on demand for exchange and payment in India.

Therefore, monetary policy conducted in the context of peg arrangement, involves keeping close track of macroeconomic developments of India and aligning to evolving policy stance. A substantial reliance on imports from India has a direct impact on price movement in Bhutan. While ensuring sustainability of the exchange rate arrangement, the RMA has a vital role in managing domestic credit, as it has direct implications on price level and reserves. The monetary policy operation, therefore, is pursued through (i) cash reserve ratio and interest rate policy to influence credit and monetary aggregates, and (ii) prudent management of international reserves to support the peg.

With rapid pace of economic development, Bhutan has been experiencing persistent external imbalances, which is partly reflected in elevated current account deficit (19 % of GDP), implying that the country has been building up foreign liabilities that are largely financed through financial inflows rather than export performances.

Over the decades, Bhutan's openness increased rapidly, particularly with India. However, the openness has been principally led by imports, constituting almost 75 percent of total trade with India. With lack of export diversification, Bhutan continues to remain import dependent. Generally, diversification can occur across products, sectors, or trading partners, and often involves a shift to a more varied production structure, through the introduction of new products or expansion

Chart 6.1: Change in Reserve Assets



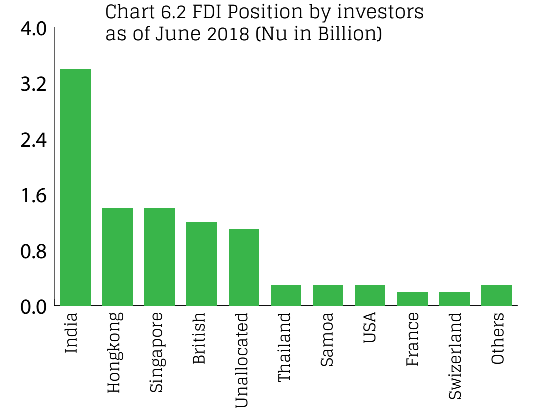
and upgrading of existing products. Due to high production costs and the lack of economies of scale, as is the case in small developing countries, the introduction of new products (extensive export diversification) becomes generally difficult. Export diversification, therefore, happens mostly through the intensive margin in these economies i.e. through a more evenly balanced mix of existing export products or trading partners.

Likewise, for Bhutan, the intensive margin is estimated at 1.2 with an extensive margin of 0.4 and a product death margin at 0.57. This implies that Bhutan is highly dependent on electricity as an export commodity to a single market in India. Development and innovation of new products for export has been very limited as indicated by extensive margin and also the rate of product extinction from the market remained high during the last ten years.

The current account broadly measures an economy's saving and spending behaviour; and the persistent deficit in this account is the reflection of economic dependence and structural challenges.

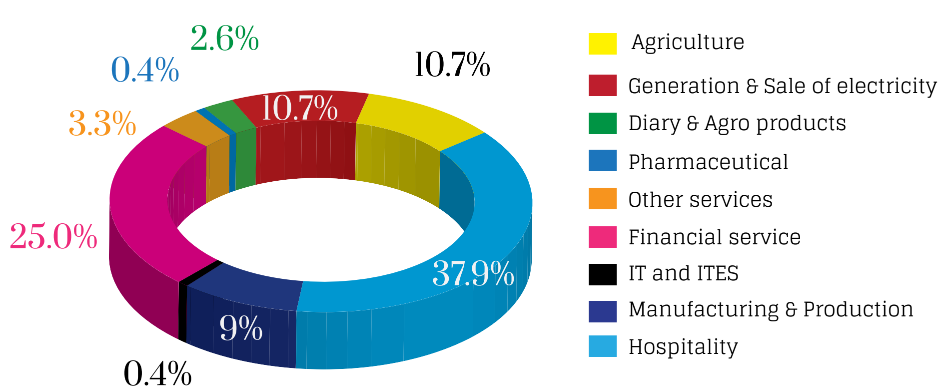
FDI has been identified as a potential, stable and alternative source of financing for sustainable economic diversification. The economy's performance in relation to cheap electricity, national policy, stable government, and accessibility to large Indian market provided support to Bhutan's attractiveness as an investment avenue for international investors, leading to continued inward long-term direct investment. The total inward FDI position stood at Nu. 10.04 billion as of end-June 2018, of which 34.3 percent were from India as the single largest foreign investor followed by Singapore and British Virgin Islands with 13.8 percent and 12.5 percent respectively.

Chart 6.2 FDI Position by investors as of June 2018 (Nu in Billion)



In terms of sector, the hospitality sector has become one of the most popular investment avenues for foreign investors followed by financial services, generation and sale of electricity and agriculture. Other important sectors such as agro-

Chart 6.3 FDI inflows by sectors as of June 2018 (in % share to total FDI)



Total FDI inflows of Nu.10.0 billion as of June 2018 industry and tourism, that has a greater potential for generating both forward and backward linkages effect in the economy, have not picked up.

With the availability of cheap electricity in the country, manufacturing sector continues to become attractive primarily for power intensive industries and is expected to help diversify the economy and to attain self-reliance in the long run. The country's four upcoming major industrial parks are expected to be completed within the 12th FYP, whereby the investors will develop and invest in business ventures.

The upcoming industrial estates will require huge power supply for industries to be set up. With the growing number of business applications received, particularly power intensive industries, there is a need for the Government to work on ensuring the supply of power during lean seasons or RGoB may initiate energy banking with India to meet the demand.

To strengthen the BoP position, 'Remit Bhutan' was introduced in 2016, as a platform to facilitate non-resident Bhutanese to open foreign currency accounts with authorized banks in Bhutan to promote inward remittances. The inward remittance as of September 2018 was USD 9.6 million.

liquidating), it may not therefore be necessarily interpreted only in terms of 'concerns' but also in terms of 'opportunities' since hydro debts are denominated in Indian Rupee. Thus, Bhutan's external debt of USD 2.65 billion as of the FY 2017/18 can be considered manageable because 73.5 percent constitutes Rupee denominated debt in which the liabilities are not subject to valuation changes from the fluctuations of the exchange rate.

Within the Rupee debt, about 89.7 percent constitute hydro power debt from the Government of India, which are considered self-liquidating thereby reducing the risks associated with debt distress. However, the concerns on the delay in hydro power construction and prolonged debt servicing must not impose burden on the future generations.

On the other hand, the Convertible Currency (CC) debt amounting to USD 699.82 million (26.5%) are concessional loans from multinationals and bilateral partners. These CC debt are subject to exchange rate risk, which are likely to increase debt burden when the domestic currency depreciates; from a maturity perspective these external debt are skewed towards medium to long-term tenures limiting repayment risks. For instance, India has experienced several episodes of Rupee depreciation over the last decades.

During 1962, the Rupee depreciated to 4.8, in 1980 to 9.1, increasing to 25.8 in 1990 and further to 46.8 in 2000 and recently, in October 2018, the Rupee depreciated to 74 per US $. Within the last one year, the INR depreciated by almost 15 percent. Rupee depreciation is an external shock on Bhutan's CC debt. It was found that the 15 percent depreciation of Rupee during September 2017 to September 2018, resulted in an increase of CC debt services cost by Nu.272 million, expanding the debt stock to Nu.5.4 billion.

Chart 6.4 External debt by currency

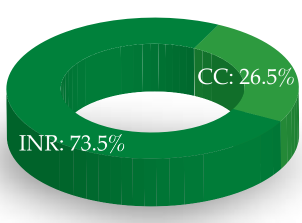
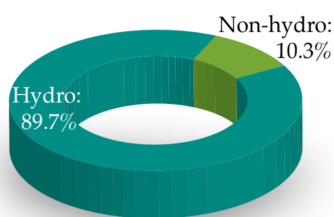


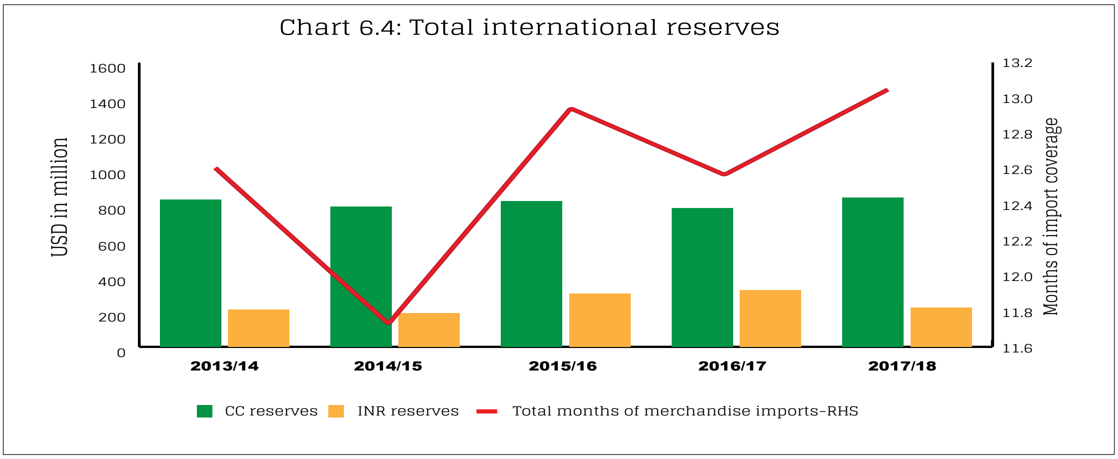
Chart 6.5 Indian Rupee debt by sector



In absence of adequate domestic savings to finance the investment needs, external borrowing has become an important source of public finance. Bhutan continued to resort to external borrowing to finance development, the country's external debt has consistently increased to over 110 percent of GDP in the FY 2017/18.

However, the debt being incurred mostly on account of hydro power developments (self-

Against this backdrop, resorting to different type of external debt need to be well calibrated in terms of purpose, tenor, currency and other terms and conditions. To ensure sustainable debt, the government has instituted National



Debt Policy in 2016, which restricts excessive borrowings, further easing the distress of debt burden on the economy. The joint World Bank-IMF Debt Sustainability Analysis Report (2017) also considers Bhutan's risk of debt distress to be 'moderate' based on the unique mitigating factors.

One of the most important factors for the sustainability of current account deficit is the level of international reserves as they serve as a buffer at the time of crisis.

Given the rising debt and import, in absence of domestic capacity, international reserves has been playing a crucial role in mitigating external pressure. Since Bhutan's international reserves are not built through export performance but rather through liability creating external flows, a wide range of monetary policy instruments have been developed along with prudent management of reserves to manage external pressure on the economy. It also commensurate with the precautionary constitutional mandate, which states: "A minimum foreign currency reserves that is adequate to meet the cost of not less than one year's essential import must be maintained." This adequacy measure may be way above "the reserve adequacy assessed to be around 6 months of imports" considered by IMF, although defining the adequacy has its own limitations and requires judgment for each country.

While keeping in mind 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 potential future exigencies. The RMA, being the manager and owner of the official external assets, uses its best endeavours to manage the external reserves through the principles of maintaining safety, liquidity and yield, in that order, and maintain the external reserves at an adequate level for meeting necessary international transactions. The RMA also adopts 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. Given the trade pattern, these reserve assets are maintained in (i) CC and (ii) Indian Rupees (INR). The INR reserves carry more weight in terms of day to day liquidity needs and to anchor currency to reduce the foreign currency exposure risk. The conversion of CC to INR has remained instrumental in financing the INR liquidity needs.

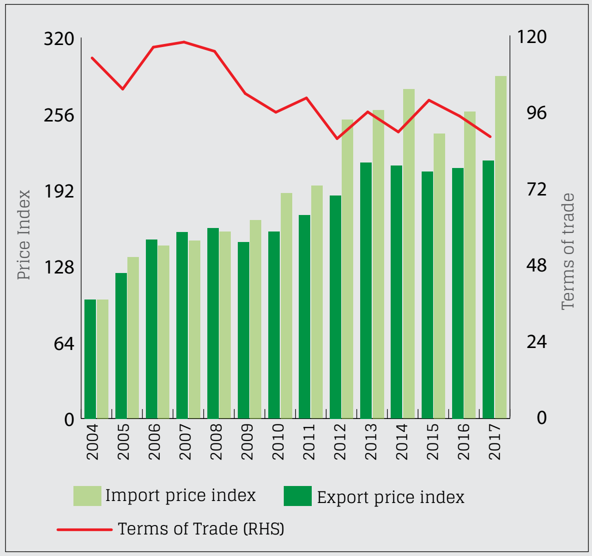
Total international reserve at the end of FY 2017/18 stood at US $ 1,110.90 million, of which 78.9 percent were CC and remaining 21.1 percent INR reserves. International reserves remained adequately to finance 13.4 months of merchandise imports, while covering 42.5 percent of public external debt.

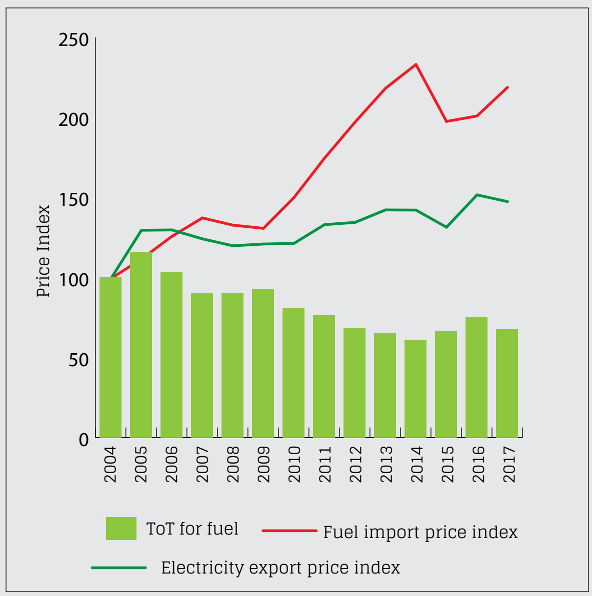
Given Bhutan's financial and trade integration with India, and high composition of INR debt, maintaining the Ngultrum peg exchange rate with that of INR continues to remain relevant in the context of Bhutan's economy.

Box 6.1 Terms of Trade[1]

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

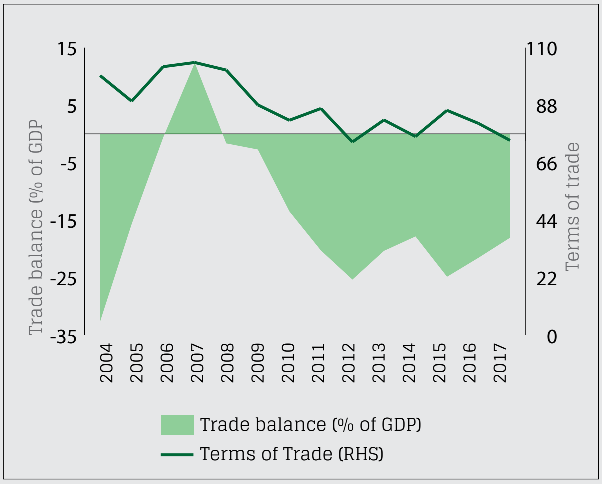
According to the price indices, with the commissioning of Tala hydro project, Bhutan's terms of trade improved during 2006 to 2008. However, since 2009, ToT started deteriorating and remained below 100 percent. There has been constant decline in ToT with an average of 2.9 percent annually with higher increase in import price compared to export price level. Import price rose by an average of 7.6 percent compared to 3.6 percent increase in export price level during the period. The lowest level of ToT was recorded at 74.6 in 2012, followed by high merchandise trade deficit of 25.5 percent of GDP. Further, movement of ToT is largely driven by volatility in import prices relative to consistent export price level. For instance, there has been huge fluctuation in import prices in the recent years, largely driven by the changes in fuel prices and





[1] Terms of Trade for Bhutan is computed using Custom data compiled by the Department of Revenue and Customs, Ministry of Finance.

commodity prices in the global market. On other hand, electricity being the single largest exported item, the price of electricity export is predetermined and fixed for certain time periods, resulting into minimal increase in overall export price.



Thus, rate of increase in export price level is not able to catch the rise in import price level, resulting in constant fall in ToT. The fall in overall imports in 2017 by 0.5 percent was soley due to fall in import volume on account of declining hydro power related imports. Overall drop in volume of imports was more than adequate to cover 11.6 percent increase in import prices. While growth in export price level and volume has equally contributed for 5.8 percent increase in merchandise exports in 2017, where export price level rose by 2.8 percent. This clearly indicates that deterioration in ToT adversely affects the trade balance.

The ToT for fuel is defined as relative change in export price of electricity and other fuel (bitumen and coal) exports to import price of fossil fuels, largely petrol and diesel. Global fuel price increased from USD 60 per barrel in 2009 to almost USD 100 per barrel in 2014.

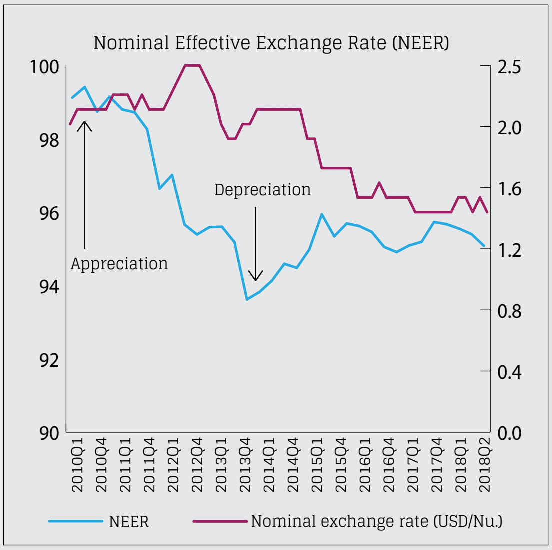
On the contrary, there has been minimal growth in electricity export prices, the average electricity export price increased to Nu. 2.1 per unit in 2014 from Nu. 1.8 in 2009. Owing to steep rise in fuel import prices from 2010 to 2014 and marginal growth in electricity export price, the fuel ToT worsened at record low of 61 in 2014 from 93 in 2010. For instance, in the year 2009, 16 units of electricity exports were more than sufficient to finance a liter of diesel imports and 24 units (additional 9 units) of electricity were required to export for a liter of diesel import in 2014, indicating a loss in purchasing power of electricity export relative to fuel imports.

Although sharp drop in global fuel prices in 2015 and 2016 has positively impacted ToT position, the recent increase in oil price has affected ToT in 2017. Of 13.3 percent year-on-year growth in fuel imports in 2017, 8.9 percentage points was accounted for change in prices and rest due to increase in volume of fuel imports. While drop in electricity exports by 8.0 percent was mainly due to fall in volume of electricity exports.

The change in ToT has large impact on trade. The trade balance closely follows the movements of ToT. As per income ToT, due to declining purchasing power of exports between 2009-2017, average trading loss was estimated about 10% annually.

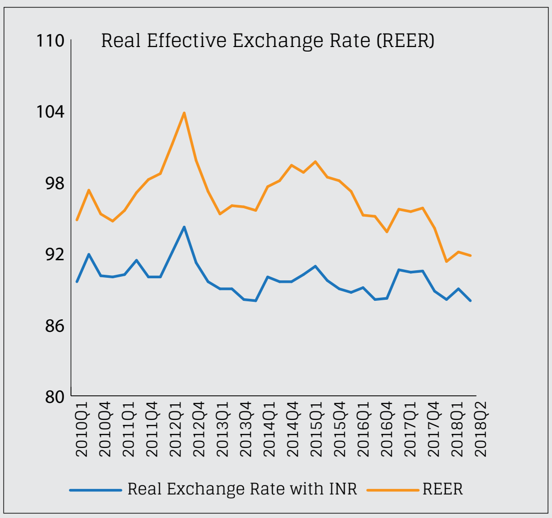
Box 6.2 Development in Effective Exchange Rate[1]

The Ngultrum is pegged at par to the Indian Rupee due to Bhutan's high financial and trade integration with India. The Real Effective Exchange Rate (REER) has been moderately depreciating year-on-year since the last quarterly of 2017. The REER indicates domestic economy's price competitiveness vis-à-vis trading partners and predicts looming balance of payment problem.



The INR, and subsequently the Ngultrum, has been depreciating steadily since 2010. The Nominal Effective Exchange Rate (NEER) depreciated by 0.7 percent in the second quarter of 2018, following the sharp depreciation in INR by 3.9 percent against US dollar. In addition to pegged exchange rate with INR, India being Bhutan's largest trading partner, accounting more than 75 percent of total trade of Bhutan, development in NEER is heavily influenced by INR exchange rate fluctuation.

Similarly, the movement in the real effective exchange rate in Bhutan is strongly affected by change in INR exchange rate and price developments in India. At the end of second quarter of 2018, REER depreciated by 4.1 percent, more than depreciation of NEER. The higher real depreciation in Ngultrum was mainly due to record low inflation at 2.5 percent in Bhutan, compared to 4.9 percent inflation in India. Despite favourable exchange rate in the recent years, there has been limited impact on the export growth due to narrow domestic productive capacity. The depreciation rather negatively impacted on the import of essential items and cost of external debt servicing other than INR debt.



[1] The nominal and real effective exchange rate are computed using price and nominal exchange rate data compiled by the IMF.

07

FINANCIAL INCLUSION AND PAYMENT SYSTEM

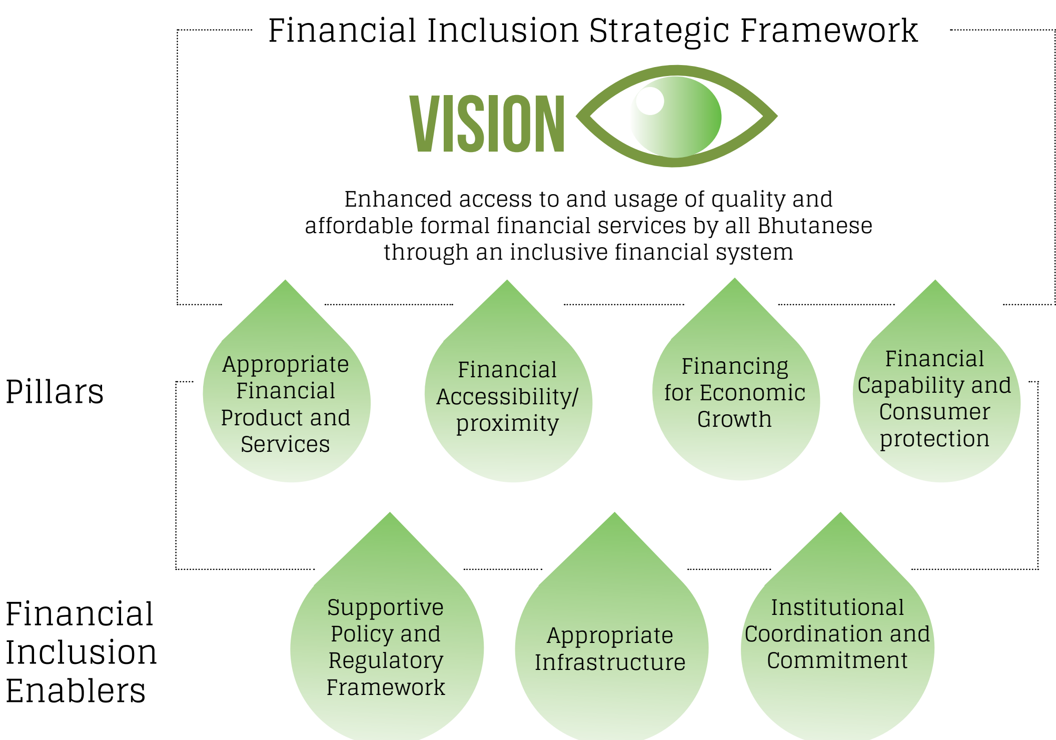
7. FINANCIAL INCLUSION

Access to useful and affordable financial products and services are necessary elements for operating transactions, payments, savings, credit and insurance for a financially inclusive economy.

Financial inclusion can be an important enabler of overall economic transformation since access to financial services and digitization and technology moves hand in hand in this modern era. Particularly for a central bank, financial inclusion acts as a double edged sword.

Firstly, access to appropriate financial instruments allow the poor or the disadvantaged to invest in physical assets and education, reducing income inequality and contributing to economic growth. Secondly, financial inclusion has an important implication for monetary and financial stability, and policy areas that sit at the very core of central banking. Increased financial inclusion will help to significantly change the behaviour of business firms and consumers, and consequently, influence the effectiveness of monetary policy. At the same time, greater inclusion will make the interest rates more effective as a policy tool, facilitating the central bank's efforts to maintain price stability. In addition, with financial inclusion, a broader base of depositors and presence of more diversified lending will also contribute to financial stability. However, greater financial access will also increase financial risks if it results from rapid credit growth or the expansion of relatively unregulated parts of the financial system.

Recognizing the significant role of financial inclusion in spurring economic transformation, the RMA has embarked to achieve greater financial inclusion in the economy adopting three important principles- collaboration, coordination and consolidation. The National Financial Inclusion Strategy (NFIS) 2018-2023 and National Financial Literacy Strategy (NFLS) 2018-2023 which was implemented in August 2018, provides an enabling, coordinated and collaborative space for joint participatory planning in promoting overall financial inclusion in Bhutan, touching both the demand as well as the supply front dynamics.



State of Financial Inclusion

The main financial players in promoting financial inclusion includes five banks, three insurance companies (two direct insurers and one re-insurer), three micro-finance institutions (MFIs) and other financial services providers (FSPs) including the Credit Information Bureau of Bhutan (CIB), National Pension and Provident Fund (NPPF), Central Registry (CR), Royal Securities Exchange of Bhutan Limited (RSEBL) and Nubri Capital Private Ltd. The deposits, loans, insurances, reinsurance, pension and provident funds, credit assessment and payments are the main financial products and services available to all the population under the segment of financial inclusion in Bhutan.

In terms of access to financial products and services, 64 percent of adults in Bhutan had a saving accounts, while only 16 percent have access to credit, followed by 18 percent holding life insurance as of December 2018. This indicates that the access to finance in Bhutan remained skewed only towards opening of accounts and availing financial services from the financial institutions.

Other important indicators to assess financial inclusion is lending to cottage and small industries sector (CSI). While CSI remained one of important sector, which was recognized as potential sector for production and employment generation. In terms of access to credit for CSI accounted only 14 percent of total loans and advances in 2017. The underdeveloped infrastructure, poor business development and limited alternative sources of financing were identified as constraints for CSI development.

Access points remain important indicator to evaluate the access to finance. The access points includes bank branches, ATM agents or PoS devices that perform cash-in and cash-out transactions. MBoB and MPay are not included in access points. As of December 2017, 64 percent all access points (3,314) are agents (bank & Insurances) and 23 percent are Point of Sale (PoS). Of the 2,133 agents in the country, 19 percent are bank agents and 81 percent are insurance agents. Rest are branches (5 %), ATMs (6%) and extension accounts (2%).

Chart 6.1: Access to Financial Product and Services (% share)

Table 5.1 Credit to CSI as of December 2017

Enterprises	Amount (Nu. In billion)	% Share
Micro	2.97	2.87
Cottage	3.25	3.14
Small	11.72	11.34
Medium	22.94	22.02
Large	16.64	15.91
Total MCSML	57.32	55.48
Non-Enterprises	46.00	44.52
Total	**103.33**	**100.00**

Financial Inclusion Initiatives

i. Country Award

The RMA received the Country Award for 2018 for the Asia and the Pacific region, and a Certificate for being Global Finalist-Asia and the Pacific for Global Money Week 2018 held during the 7th Global Inclusion Awards 2018, organized by Child and Youth Finance International, the Argentina's G20 Presidency and Global Partnership for Financial Inclusion with the support of the G20-2020 Saudi Secretariat. His Excellency, Kutshab Tshering Gyaltshen Penjor, Ambassador of Bhutan to Kuwait represented and accepted the award on behalf of RMA and Bhutan.

The RMA is deeply honored to receive the global recognition on behalf of the collective efforts put in by all financial institutions, government agencies and other important stakeholders towards promoting financial inclusion.

ii. National Financial Inclusion Strategy (NFIS) 2018-2023 and the National Financial Literacy Strategy (NFLS) 2018-2023

His Excellency, Ambassador of Bhutan to Kuwait represented the RMA and received 2018 Global Inclusion Awards in July 2018

The RMA launched the NFIS 2018-2023 and NFLS 2018-2023 on August 30, 2018 at the Financial Institutions Training Institute. Both the Strategy documents are the outcome of the international conference, hosted under Bhutan Economic Forum for Innovative Transformation, which was themed towards promoting financial inclusion.

As per the implementation plan, three NFIS

The RMA launched the NFIS 2018-2023 and NFLS 2018-2023 on August 30, 2018 at FITI, Thimphu working groups have been formed, comprising Products, Channel and Consumer Protection and Financial Literacy.

The Groups have also formulated the cross-sector NFIS Action Plan 2018-2023. To promote awareness, the RMA also conducted the NFIS and NFLS sensitization workshop with the financial institutions and representatives of the financial service providers, relevant government agencies, key international development partners, NGOs and other relevant stakeholders.

iii. Druk MicroFin—An Integrated MFI and CSI Banking Platform

The RMA launched Druk MicroFin Solution on May 16, 2018. It is an integrated core banking system hosted at the RMA for the MFIs and the CSI banks. The system enabled end-to-end with a hand-held micro ATMs and Mobile Banking delivery channels in real-time to increase access and delivery of financial services, particularly in reaching remote areas that are underbanked and underserved by mainstream financial services and products.

The integrated system was implemented with the view to reduce cost and resource burden to the MFIs and the CSI, given their relatively small- and medium-sized businesses. The system is an important priority of the RMA's objective of broadening access to credit where MFIs and CSI play a crucial role in financial inclusion, by empowering people to use access to financial services for productive purposes. The system is expected to lay down strong foundation and catalyze the evolution of MFI and CSI sectors through enhanced operational efficiency and increased productivity.

The Hon'ble Finance Minister graced the event which was attended by senior officials from the Government and the financial institutions.

iv. Students Business Seedling (SBS) Program

Following His Majesty's visit to Desi High School on March 01, 2018, the RMA was commanded to organize a competition for business ideas with the objective of encouraging creativity and innovation and introducing students to the idea of entrepreneurship and self-employment as viable alternative to limited public sector employment. As a result, the SBS Program was initiated by the RMA as a structured model to allow replication in other schools and incorporation into the mainstream education curriculum, if successful.

A total of 154 students participated in the

The Hon'ble Finance Minister graced the launching of Druk MicroFin on May 16, 2018 at FITI, Thimphu

Dasho Governor and Organizers with Desi High School SBS winners and their parents on August 11, 2018 at Desi High School, Thimphu

program. Of which 23 were selected to undergo a four-month program involving design thinking workshop, field visits to local entrepreneurs and businesses, interactions with mentors and boot camp on basic entrepreneurship and business proposal. The 23 students spent their summer vacation in July to prepare their business proposals and basic prototypes. The final pitching session was held on August 11, 2018. Each student was given 5 minutes to pitch their idea followed by a 3 minutes' questions and answers session.

Five students received the awards. The top three students were awarded with two years' scholarship from His Majesty the King and two students received a consolation prize in the form of one year's scholarship from the RMA.

v. Meeting with Arekha Middle Secondary School (AMSS)

A total of 69 students with four teacher guides who were on Edutainment Tour on the theme of "Paving the Way Ahead" met Dasho Governor on August 17, 2018 to familiarize the RMA and sensitize on young entrepreneurship and values of savings at a young age. The AMSS has also been recognized as one of the most enthusiastic recipient of Youth Ethics (YE) Banking during the 2018 Global Money Week, an incentive based program for school children being introduced practically to the banking world since March 2018. Since then, AMSS has chosen the BDBL as their partner bank in seeking assistance in opening accounts and other banking services. To promote saving habits among young students,

the BDBL presented Nu. 300 each to all 69 students as a seed money for promoting saving culture in their school.

vi. Integration of Financial Literacy Curriculum in the Formal Education System

Financial education forms an integral part of NFLS 2018-2023 under the strategic priority of educating the next generation. Thus, developing an endorsed financial literacy curriculum in the formal schools and other relevant intermediaries forms an important action to support the strategic priority of educating the next generations. Curriculum mapping initiatives with the Ministry of Education has been identified as one of the immediate NFLS implementation plan.

Series of joint collaborative workshops, discussions and peer learnings programs has been developed with the aim to promote national financial literacy curriculum. The following are the key stakeholders identified for the above consultation:

- Mainstream Financial Education at Schools:
  A formal financial literacy curriculum aims to infuse a basic financial literacy topics using the mode of existing relevant subjects in coordination with the Royal Education Council. Prior to the subject infusion, a pre-formulation effort was carried out, involving the experts from the Royal Institute of Management (RIM) to develop a common financial literacy curriculum, which was also formally launched during the Global Money Week 2018 as the teacher's and student's guidance Handbook. The handbook has also been translated into Dzongkha for relevant stakeholders as an effort to integrate in the most accessible format.

- Non-formal Education System (with the focus on Women Groups):
  The RIM curriculum also translated into Dzongkha will be encouraged to be mapped with the Non-Formal Education Centers for empowering the illiterate section of the community, particularly the vulnerable women learners.

- Collaboration with Financial Institution Training Institute (FITI):
  The existing curriculums on financial literacy and Student Business Seedling (SBS) Program manual are also expected to be further integrated as financial literacy programs of FITI with the aim of promoting into the TOT programs for identified target agencies. The FITI will also explore summer/ winter programs particularly focusing the youth and other targeted agencies.

Box: 6.1 Launch of "Jab-chor" Platform

(13 December 2018)

To commemorate twelve years of His Majesty's benevolent reign, the Royal Monetary Authority of Bhutan launched "Jab-chor"- a platform to help our youths nurture and grow their business ideas through access to equity financing.

In keeping with the national responsibility of responding to the concerns and aspirations that emanate from the Royal Throne, the RMA is honoured to have partnered with the Ministry of Economic Affairs, the Royal Securities Exchange of Bhutan, the Thimphu Tech Park Limited and the Bhutan Chamber of Commerce and Industry to launch "Jab-chor" to promote innovation, creativity and enterprise among our youths. The Jab-chor was inspired by His Majesty's aspirations for our youths:

While opportunities for access to finance continue to be strengthened, especially from the commercial banks and MFIs, the RMA is also exploring more innovative platforms for access to finance through alternate source of financing such as angel investors, P2P and crowd funding. Enabling such innvotive platforms would provide more choices and product diversity in addition to traditional bank borrowing.

Young entrepreneurs particularly startups are faced with the challenge of early start up equity despite having great business ideas. On the other hand, there are well-to-do individuals and private companies that have capital to spare and expect effective return on investment. One innovative solution and access to equity finance that RMA, RSEBL, BCCI, Company Registrar and TTP jointly offers is JAB-CHOR – a formal alternative source of financing platform to bring together young entrepreneurs and angel investors.

The platform will complement Priority Sector Lending (PSL) initiatives towards promotion of Cottage Small Industries. Under the PSL, primary production related projects are eligible for 100% loan backed by insurance, while all other projects have loan to equity ratio of 70:30.

Jab-Chor is an initiative to partner with innovative entrepreneurs and grow with them into a successful venture, based on trust and confidence supported by legally executed business partnership deed, recognized by the laws of country. The jab-chor ventures will help investor enter into a financial partnership with a trust worthy entrepreneur, who will give meaning to your investment and function within a legally defined relation to help you earn dividends, both in cash and goodwill. On the first series of Jab-Chor platform, five business ideas, carefully screened, groomed and presented to the investors for possible equity ownership.

Dasho Governor launched "Jab-chor" Platform on December 13, 2018 at BCCI, Thimphu

Box: 6.2 Bhutan Economic Forum for Innovative Transformation (BEFIT) 2019

Catalyzing the Cottage and Small Industries Sector to Drive Bhutan's Economic Diversification

Background

Bhutan Economic Forum for Innovative Transformation (BEFIT) was inspired by His Majesty's vision that our recent example in ensuring a successful democratic transition must be accompanied by successful economic transformation based on the foundations of a just, equal and harmonious society. The BEFIT is a national platform to bring together a wide range of expertise to share best practices and discuss innovative solutions to emerging national and regional economic challenges, with the overarching objective of transforming and bettering lives.

The BEFIT aims to establish itself as a credible and impact-oriented national forum. Therefore, partnerships with domestic institutions and reputed multilateral institutions are important in ensuring meaningful dialogues and sustainable results. The theme for each BEFIT event is carefully selected to address a pressing current need in close consultation with relevant stakeholders. The expected outcomes are clearly identified from the beginning while partnerships ensure collective ownership and sustained commitments to implement the expected outcomes.

Catalyzing the Cottage and Small Industries Sector to Drive Bhutan's Economic Diversification

Recognizing the potential of Bhutan's small and medium enterprises sector, locally termed as the cottage and small industries (CSI) sector, to diversify the economy, boost employment and domestic production and promote inclusive growth, a directed lending strategy called the Priority Sector Lending (PSL) initiative was implemented from January 2018 to improve access of credit to CSIs. While entrepreneurs and small business face a myriad of challenges, the PSL was introduced as the first crucial step to ease access to credit from the financial institutions. Designed as an integrated platform to coordinate the support and interventions of the government with better access to bank finance, the PSL platform has been instrumental in enhancing collaboration and coordination among the various government agencies.

The experience of nine months of implementation of PSL has re-iterated pressing challenges faced by the CSI sector such as manually-driven production processes and limited use of technology, and lack of market access and entrepreneurial skills. These challenges formed the basis for the formulation of the government's Cottage, Small and Medium Industry (CSMI) Policy 2012. The CSMI Policy was backed by a Development Strategy (2012-2020) and a series of Action Plans that revolved around the following six strategic areas:

i. Strengthening the policy environment and institutional framework
ii. Strengthening the legislative framework and enterprise environment
iii. Facilitate access to finance and incentives
iv. Enhance competitiveness and innovation

v. Improve market access

Enhance employment and develop a culture of entrepreneurship. The CSMI Policy was based on providing a holistic intervention package to develop Bhutan's CSMI sector. However, most of the challenges identified in 2012 remain largely unaddressed today, while economic and moral arguments to revive Bhutan's CSI sector have only become more pressing today.

The theme for BEFIT 2019, "Catalysing Cottage and Small Industries to Drive Bhutan's Economic Diversification", was accordingly identified. Bhutan's GNH-led approach to development has always emphasized inclusive and sustainable development while His Majesty the King's aspirations for the creation of "just and harmonious societies" has further crystallized the expected outcomes of this GNH-led development process.

Looking from an economic lens, societies are just and harmonious when there is equitable and inclusive distribution of gains from development, when there is shared prosperity, and when citizens who are willing to engage themselves productively have the means to do so. Bhutan has reached a critical demographic juncture. Our young working age population has been steadily increasing, with the highest concentration in the 25-29 and 20-25 age groups, closely followed by the 15-19 and 10-14 age groups. The 2017 Population and Housing Census of Bhutan was in fact an ice breaker- that call for interventions to meaningfully engage the increasing size of the young working population and take opportunities for a demographic dividend through reduced dependency ratios.

However, taking advantage of this opportunity for a demographic dividend means that the young population must first have the opportunities to productively engage themselves. And it is the CSI sector that holds the most potential to productively engage our youth. The theme for BEFIT 2019 is also in line with the 12th Five Year Plan focus on diversification under the broader vision of creating just and harmonious societies.

BEFIT 2019 is expected to assist authorities in reviewing the CSMI Policy through a renewed lens to identify the interventions needed to catalyze the CSI sector as an important driver of Bhutan's economic diversification and economic transformation. Outstanding recommendations articulated in the Policy and new insights from BEFIT 2019 will assist authorities to draft a CSI Master plan that will articulate the medium-term interventions required to set-up a vibrant and resilient ecosystem to transform Bhutan's CSIs into an important agent of economic change.

Collective ownership, coordination and collaboration among stakeholders will be key in identifying challenges, finding solutions and in implementing the solutions. Therefore, in preparation for BEFIT 2019, key domestic partners have already been identified and consulted. There are strong commitments and ownership at the highest level while working groups have been formed and have been meeting regularly since August 2018 to discuss challenges and strategies to address the challenges.

BEFIT 2019 will be used as a national platform to discuss and finalize the strategies and solutions, learn from international and regional best practices, and identify remaining gaps and interventions needed. BEFIT 2019 will focus on the following thematic areas under the broad theme of "Catalyzing Bhutan's CSI Sector to Drive Bhutan's Economic Diversification":

- i. Capacity development and entrepreneurial culture
- ii. Innovation and technology
- iii. Market access
- iv. Access to finance and risk management

Cutting across all the above themes is a focus on improving the underlying regulatory environment through smart policies and leveraging fintech in crafting efficient solutions.

MODERNIZATION OF PAYMENT SYSTEM

To facilitate smooth flow of payment systems and to foster an enabling environment for innovation and promote digital based payment platform, the RMA in collaboration with the banks and private business entities, initiated several payment system infrastructures during 2017. In continuation to the past efforts, significant progress has been made by the RMA in terms of payment and settlement systems through reforms in the legal frameworks and automation of systems. Some of the notable initiatives during the FY 2017/18 includes the following:

i. E-Money Issuers Rules and Regulations 2017

E-Money Issuers Rules and Regulations was approved by the RMA Board during the 130th Board meeting held on September 29, 2017 with the objective to promote regulated electronic money and financial inclusion through extension of financial services beyond the conventional branch-based channels.

ii. Payment & Settlement Systems Rules and Regulation 2018

The Payment & Settlement Systems Rules and Regulations 2018 was implemented on January 30, 2018 for effectively regulating, supervising, and overseeing payment service providers and payment system.

iii. Operating Procedural Guidelines for Bhutan Financial Switch

Operating procedural Guidelines for BFS was approved during the 56th EC Meeting held on June 21, 2018. The Operating Procedural Guidelines defines in detail the operating and settlement procedures for the members of the BFS network to follow the best practices to ensure smooth, secure, and effective operation of the system, including provisions on effective dispute management. The BFS is a PCI DSS Certified ecosystem "Payment Card Industry Data Security Standards", an international standard in terms of card data security and processing.

iv. Authorization of Payment Systems

The RMA authorized the wallet services, mobile check deposit, mobile application and PoS service providers. Application from 27 e-commerce entities were also integrated to the RMA payment gateway. Currently, there are 19 licensed e-commerce entities integrated to the RMA payment gateway.

v. National Financial Switch of India and Bhutan Financial Switch (NFS-BFS) Integration Project

The NFS-BFS integration project was initiated to integrate the Bhutan Financial Switch of Bhutan and National Financial Switch of India to enable the cross-border ATM transactions for Cash Withdrawal, Balance Enquiry and Reversals along with Purchase, Void and Reversals for PoS terminals in India and Bhutan. The project is planned to be executed in two phases. Under Phase I, the BFS will accept the RuPay co-branded cards issued by the participating banks in India at all card acceptance channels of BFS ATM and PoS terminals in Bhutan. Under Phase II, the participating banks in Bhutan will issue RuPay co-branded cards to be accepted at all card acceptance channels of NFS ATM and PoS in India. Connection of this two Switches will be a new milestone in promoting a seamless payment and settlement system between India and Bhutan.

vi. Global Interchange for Financial Transactions (GIFT) Payment System

The RMA also initiated the implementation of GIFT Payment System to support the following 3 types of payment services – RTGS, BISS and Bulk payment services.

a) Real Time Gross Settlement Service (RTGS)

Payments made through this service are settled immediately on receipt. The RTGS would allow the transfer of money from one bank to any other bank on a "real time" and on a "gross" settlement basis. The RTGS systems are typically used for a large-value transaction that require and receive immediate clearing and are also considered a systemically important payment system.

b) Batched Interbank Settlement Service (BISS)

The BISS would enable high value interbank fund transfer in a batched settlement cycle. The batch timings are set up by RMA in line with the operational timings of the banks. For instance, there could be 5 batches in a one-day settlement cycle. The services would be available on Saturdays with a reduced number of batches.

c) Bulk Payment Service

The Bulk Payment service can handle cases where multiple beneficiaries are to be credited from a single account and vice versa. These transactions are targeted for mainly institutional payments or large payment collection including utility bill such as salaries, pension payments, loan repayments etc.

Way Forward

i. With the rapid technological advancement and financial inclusion objectives in the economy, there is a growing demand for an International Payment Gateway and an e-Commerce platform in the country. The ability to pay for products or services using website has become a common phenomenon with the growing e-Commerce industry worldwide. The implementation of payment gateway platform will support the inbound international payments particularly, in the tourism sector and also provide an avenue for home-grown e-Commerce merchants to expand their global reach. In order to facilitate provision of a secure and efficient e-payments and to promote e-Commerce in the country, the RMA has started the ground work to study the feasibility of international e-Commerce modalities and identify a suitable working model for Bhutan.

ii. With the growing usage of digital based payment system, formation of National Payment Council will be important to advise and guide the RMA in modernizing and developing the country's payment & settlement systems. The Council will also act like as a catalyst to overcome coordination problems between the market participants that may hinder the attainment of common objectives. Similarly, drafting of National Payment Systems Strategy document has also become important to provide strategic direction in implementing the strategic priorities envisioned in the Strategy document and long term vision and missions of the RMA. The Strategy document will serve as a road map for the department in implementing any initiatives related to payment and settlement systems in the country.

iii. With the implementation of e-Money Issuers Rules and Regulation 2017, Payment & Settlement Systems Rules and Regulation 2018 and e-Money Issuer Rules and Regulation 2017, there is a need to review and develop an integrated Payment and Settlement System Rules and Regulation to synchronize and consolidate the dispersed regulations. The RMA will be working towards integrating these documents.

Box: 6.3 Connecting the Bhutan Financial Switch and National Financial Switch of India

As part of celebration of the 50th year of diplomatic relation between Bhutan and India, the RMA and National Payments Corporation of India in collaboration with the Reserve Bank of India (RBI) is preparing to launch an innovative financial services of connecting the Bhutan Financial Switch and National Financial Switch of India, to further strengthen the economic and financial linkages between two countries.

Financial Switch System is the process of inter-connecting the cross-border Automated Teller Machines (ATM) and Point-of Sales (PoS) between two countries. The RMA initiated the project in June 217, aimed of interconnecting the ATMs and the PoS in the two countries to facilitate the travelers to seamlessly use their banks Debit/ATM cards at AMTs and PoS access points, without the need to rely upon international cards- such as Visa and MasterCard, which are prohibitively expensive to use. The project is developed at the cost of Nu. 24.7 million.

The Authority accorded highest importance to cyber security and has conducted an assessment towards achieving security accreditation of cyber security and information security to mitigate cyber intrusion and threats from disrupting and damaging confidentiality, integrity, and availability of Switch services. Being certified PCI DSS v3.2.1 and ISO 270001:2013 by the British Standard Institute of the United Kingdom-RMA has implemented robust set of control mechinisam including technologies, policies, processes, organizational structures to enhance customer and stakeholders' confidence.

The project is implemented under two phases. The first phase of the project will be launched in January 2019 in Bhutan. Given the growing number of tourists from India, the facility is expected to usher safe, convenient and less-cash cross border digital payments between the two countries. In particular, integration will enable the tourists from India to access more the 231 ATMs and 759 PoS terminals, deployed by our banks across the country. This will benefit the country in earning Indian Rupees by stimulating digital purchasing power to acquire transactions of the tourists/travelers from India to Bhutan, and reduces the inconveniences and inherent risk associated with carrying large amounts of INR cash.

In the same way, the second phase of the project will enable issuance of our local cards for use in India at more than 250,000 ATMs and 210,000 PoS terminals. The facility is expected to ease Bhutanese who visit India for studies, pilgrimage and medical treatments, and also address the inconveniences and risks of carrying INR cash.

The cross-border digitization will enable proper monitoring of currency flows and improved real-time statistical records for informed decision-making and pave way for policies and strategies for regulating currency flows. Furthermore, the integration will streamline the flow of Indian Rupees into the mainstream banking system and, as a result, enhance Indian Rupee earning into the mainstream banking system and, as a result, enhance Indian Rupee earning capacity. A tourist from India, for example, withdrawing Nu. 10,000 from our ATM will entail crediting the RMA account with the State Bank of India by INR 10,000, and so on.

The accumulated settlement amount-over and above the threshold requirement, will be transferred into our INR reserve. In addition, due to one-to-one fixed exchange regime with India, there are no exchange and settlement risks involved. The integration will be a significant cost saving mechanism and curtail foreign currency outflow to the duopolistic cards providers, otherwise payable in US Dollar-such as membership, compliance and transaction costs for availing their services, leading to questions about the sustainability of the investment required to meet the costs of providing international cards in the country.

The financial integration will complement financial services delivery, and act as one of the key drivers to enhance digital financial inclusion through affordable provisioning of such financial infrastructure not only within Bhutan but also across the borders. The project is an exemplary digital initiative and if successful, extend the integration of financial services between the trading partners in the region instead of routing through international payment, thereby reducing huge costs and risks.

8

ANNUAL FINANCIAL STATEMENT

8. RMA ANNUAL AUDITED ACCOUNTS : FY 2017/18

In accordance with Section 164 of the RMA Act of Bhutan 2010, the annual audit of the Authority's accounts for the period ending June 30, 2018 was carried out by Rinzing Financial Group.

In this overview of the RMA's Annual Audited Accounts, FY 2016/17 is referred to as 2017 and FY 2017/18 as 2018. Factors that influenced the RMA's annual accounts for the year 2017 are summarized below.

Balance Sheet

The total assets and liabilities of the RMA for the year 2018 was Nu. 77.76 billion, which increased by 4.8 percent from Nu. 74.18 billion in 2017.

Liabilities

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

Capital and Reserves increased by 17.5 percent from Nu.17.82 billion in 2017 to Nu. 20.93 billion in 2018. An increase in capital and reserves was driven by the revaluation gain amounting to Nu. 2.94 billion in the year 2018. There was also an increase of 48.3 percent in the profit in 2018 as compared to 2017. On the other hand, revaluation reserves decreased marginally from Nu.13.95 billion in 2017 to Nu.13.61 billion in 2018.

Foreign Liabilities[1] stood at Nu. 20.23 billion in 2018 which was an increase of 55.3 percent compared to the previous year. This increase was on account of increase in due to international institutions from Nu. 3.90 billion in 2017 to Nu. 10.85 billion in 2018, on account of the RBI swap facility amounting to INR 6.7 billion. Concurrently, the amount due to IMF, due to government and interest accrued has increased by 8.4 percent, 25.6 percent and 132 percent respectively.

Domestic Liabilities[2] decreased by 15.5 percent in the year 2018 mainly on account of decrease in sweeping account of banks from Nu. 6.27 billion in 2017 to Nu. 2.81 billion in 2018. Additionally, the decrease in amount due to banks, due to government, other liabilities and managed fund also contributed to this decrease.

Assets

The total assets of the RMA comprises of foreign assets, domestic assets, and non- financial assets. Foreign Assets increased by 4.6 percent from Nu.73.27 billion in 2017 to Nu.76.66 billion in 2018, mainly on account of the significant increase in term deposits from abroad which has increased to Nu. 49.74 billion in 2018 compared to Nu.42.15 billion in 2017.

Domestic Assets increased from Nu. 598.57 million in 2017 to Nu. 750.33 million on account of increase in cash in hand, balances with banks and other financial assets which increased by 487.7 percent, 27 percent and 14 percent respectively.

Non-Financial Assets includes fixed assets, inventories and other assets, increased by 12.9 percent from Nu.308.29 million in 2017 to Nu. 348.16 million in 2018. The increase was contributed by increase in fixed assets and inventories during the year.

Income and expenditure

The total operating income of the RMA in 2018 was Nu.2.10 billion, which improved by 7.3 percent from Nu.1.95 billion in 2017.

The contributing factor for this improvement was owing to higher interest on foreign investment, interest of ways and means advance from RGOB, commission and fees, income from other sources and other income. On ther hand, components such as interest on rupee investment, interest on domestic investment, royalty from commemorative coins and sale of foreign currencies experienced a decline in the review period.

The total operating expenses decreased by 13.5 percent from Nu. 385.28 million in 2017 to Nu. 333.38 million in 2018. The decrease was mainly contributed by extraordinary expenses and hospitality and entertainment by 87.9 percent and 80.8 percent respectively.

The surplus generated during the year was Nu. 1,763.35 million, recording growth of 12.5 percent. After accounting for the cost of monetary policy operation of Nu. 519.71 million, the net surplus of Nu.1,585.24 million was transferred to the balance sheet.

[1]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, and Kuwait Central Bank, GOI Stand-by credit facility.

ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2018

(Amount in Nu.)

Particulars	Note	June 30, 2018	June 30, 2017
CAPITAL AND LIABILITIES			
Capital and Reserves			
Capital	20	800,000,000	800,000,000
General Reserve	20	2,000,000,000	2,000,000,000
Revaluation Reserve	20	13,607,898,894	13,946,883,353
Profit and Loss	20	1,585,242,684	1,068,931,766
Revaluation Gain/Loss	20	2,939,486,713	-
Other Reserves	21	-	243,250
Total Capital and Reserves		20,932,628,290	17,816,058,369
Foreign Liabilities			
Due to IMF	22	2,096,913,407	1,933,723,176
Due to Government	23	206,766,699	164,579,439
Due to International Institutions	24	10,853,121,663	3,898,134,129
Interest Accrued	25	71,086,222	30,654,838
GOI Standby Credit Facility	26	7,000,000,000	7,000,000,000
Total Foreign Liabilities		20,227,887,991	13,027,091,582
Domestic Liabilities			
Currency in Circulation	27	12,268,289,126	11,528,963,176
Due to Banks	28	21,201,466,336	22,798,896,432
Due to Government	29	424,351	718,424,351
Sweepings Accounts of Banks	30	2,813,221,000	6,269,216,197
Due to other Financial Institutions	31	557,278	557,278
Other Liabilities	32	273,299,538	1,745,131,013
Managed Fund	33	43,444,444	276,158,532
Total Domestic Liabilities		36,600,702,073	43,337,346,978
Total Capital and Liabilities		77,761,218,355	74,180,496,929

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[2]Consists of notes and coins in circulation, due to banks, due to government (MoF Refundable deposit & MoF revaluation reserve), sweeping accounts and other miscellaneous liabilities.

(Amount in Nu.)

Particulars	Note	June 30, 2018	June 30, 2017
ASSETS			
Foreign Assets			
Cash in Hand	04	589,977,737	530,458,297
Balances with Banks - India	05	597,361	293,609
Balances with Banks - Abroad	06	1,798,815,384	1,662,407,190
Term Deposits - India	07	16,172,435,000	16,874,707,600
Term Deposits - Abroad	08	49,738,004,920	42,154,364,082
Short Term Investment Securities (India)	09	2,192,668,138	6,144,751,320
Short Term Investment Securities (Abroad)	10	3,412,886,867	3,211,136,951
Long Term Investment Securities - Abroad	11	2,537,070,145	2,337,041,431
Non-Monetary Gold and Silver	12	-	4,436,795
Accrued interest on Foreign Investment	13	220,272,612	354,043,746
Total Foreign Assets		**76,662,728,165**	**73,273,641,021**
Domestic Assets			
Cash in Hand	14	1,171,498	199,338
Balances with Banks	15	657,756,299	518,052,942
Other Financial Assets	16	91,402,536	80,169,794
Accrued Interest	17	-	143,249
Total Domestic Assets		**750,330,332**	**598,565,323**
Non-Financial Assets			
Fixed Assets	02	134,564,596	90,032,196
Inventories	18	102,854,508	85,559,351
Other Assets	19	110,740,753	132,699,039
Total Non-Financial Assets		**348,159,858**	**308,290,586**
Total Assets		**77,761,218,355**	**74,180,496,929**

For Rinzing Financial Group, Thimphu
Firm License 1036380

Rinzing Financial Gr. Thimphu, Bhutan

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Chairman

Director

Director

Director

Director

Director

Director

ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF INCOME & EXPENDITURE FOR THE YEAR ENDED JUNE 30, 2018

(Amount in Nu.)

Particulars	Note	June 30, 2018	June 30, 2017
Income			
Interest on Foreign Investment	34	952,107,961	702,299,618
Interest on Rupee Investment	35	1,046,512,328	1,157,212,648
Interest on Staff Loans	36	1,700,662	1,671,354
Interest on Domestic Investment	37	110,096	162,401
Interest on Ways and Means Advance from RGoB	44	10,740,835	5,390,164
Royalty from Commemorative Coins	38	732,603	1,426,858
Gain or Loss on Sale of Foreign Currencies	39	53,494,072	71,452,610
Commission and Fees	40	9,174,929	5,751,651
Income from Other Sources	41	11,638,219	6,534,126
Other Income	42	8,704,615	932,351
Penalties & Charges Received	43	940,500	306,800
Gain/Loss on Sale of Securities (RAMP)	45	868,485	199,702
Total Operating Income		**2,096,725,304**	**1,953,340,281**

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Particulars	Note	June 30, 2018	June 30, 2017
Expenses			
Commission and Fees Paid- Foreign Banks	47	16,752,121	10,927,739
Commission and Fees Paid- Domestic Banks	48	100	212
Security Printing and Minting	49	75,986,602	83,325,193
Salaries, Allowances and Other Staff Cost	50	149,858,294	135,664,598
Staff Superannuation Fund	51	-	19,845,907
Director's Fees & Expenses	52	1,579,864	1,150,995
Auditor's Fees & Expenses	53	572,209	505,105
Rent & Insurance	54	1,497,687	1,311,191
Electricity, Water and Other Charges	55	1,353,300	1,313,880
Postage & Telecommunication	56	7,503,631	5,630,869
Remittances of Notes and Coins	57	487,530	655,280
Stationery & Supplies	58	2,374,156	3,159,897
Publications	59	370,100	574,530
Computer Software	60	2,206,982	-
Agency & Contractual Services	61	10,485,213	7,248,556
Miscellaneous Expenses	62	13,111,455	16,297,666
Depreciation	02	19,098,239	12,123,925
Repairs & Maintenance	63	9,063,493	5,817,637
Write off - Fixed Assets	64	31,621	284,923
Prior Period Adjustment (Refer Note no.1.13)	65	-	2,200,323
Membership & Subscriptions	66	5,110,026	2,250,015

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Loss on Sale of Securities (RAMP)	67	6,191,847	5,443,979
Extraordinary Expenses (Refer Note no. 1.13.2)	68	6,183,593	51,000,000
Hospitality & Entertainment	69	3,558,725	18,548,804
Total Operating Expenses		**333,376,788**	**385,281,225**
Surplus / (Deficit)		**1,763,348,517**	**1,568,059,056**
Less:			
Cost of Monetary Policy Tools (Ref. Note no. 1.15)	46	519,705,721	499,127,290
Add:			
Prior Period Adjustment (Refer Note no.1.13)	65	4,661,181	-
Realized Gains from Revaluation Reserve on Sale of Foreign Currencies	39	325,213,680	-
Staff Superannuation Fund	51	11,725,028	-
Net Surplus / (Deficit)		**1,585,242,684**	**1,068,931,766**

For Rinzing Financial Group, Thimphu
Firm License 1036380

Tashi Rinzing Schmidt
Partner
CPA License No. 34762

Rinzing Financial Group, Thimphu, Bhutan

Chairman

Director **Director**

Director **Director**

Director **Director**

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STATISTICAL TABLES

TABLE 1. Gross Domestic Product at Current Prices

Ngultrum in Million

Sector	Year					Share of GDP in 2017 (%)
	2013	2014	2015	2016	2017	
1. Agriculture, livestock and forestry	16,969.71	20,050.39	22,084.67	24,825.54	28,591.14	17.37
1.1 Crops	9,404.66	12,029.02	13,442.91	15,044.50	17,513.39	10.64
1.2 Livestock	4,537.22	4,869.27	5,210.04	5,789.16	7,057.30	4.29
1.3 Forestry and logging	3,027.84	3,152.09	3,431.72	3,991.88	4,020.45	2.44
2. Mining and quarrying	2,793.69	3,376.43	4,484.27	6,455.09	6,954.62	4.22
3. Manufacturing	8,778.67	9,705.14	10,543.50	11,085.11	11,938.23	7.25
4. Electricity and water	15,230.29	16,917.83	18,933.11	19,909.45	21,766.87	13.22
5. Construction	17,826.07	18,479.70	20,649.74	24,280.44	26,126.36	15.87
6. Wholesale and retail trade	6,823.31	8,471.66	10,233.35	11,798.32	13,460.01	8.18
7. Hotels and restaurants	1,616.37	2,045.91	2,485.70	2,863.56	3,476.78	2.11
8. Transport, storage and communication	9,806.81	11,508.69	11,892.66	13,157.69	14,923.42	9.06
9. Financing, insurance and real estate	8,064.75	9,048.88	9,746.42	10,892.39	11,667.34	7.09
9.1 Finance	5,781.09	6,461.22	6,905.29	7,574.04	7,945.71	4.83
9.2 Real estate	2,198.01	2,489.76	2,738.74	3,176.94	3,408.28	2.07
9.3 Business services	85.66	97.89	102.39	141.41	313.35	0.19
10. Community, social and personal services	11,536.50	12,953.67	14,854.26	16,488.73	16,981.78	10.32
10.1 Public Administration	6,981.50	8,079.11	9,888.87	11,209.69	11,647.29	7.07
10.2 Education and health	4,555.00	4,874.55	4,965.38	5,279.03	5,334.49	3.24
11. Private social, personal and recreational services	436.86	471.81	503.70	532.45	654.69	0.40
12. Plus indirect taxes less subsidies	5,495.31	6,515.65	5,729.34	6,863.02	8,086.67	4.91
Gross Domestic Product	105,378.35	119,545.75	132,140.72	149,151.78	164,627.92	100.00
Nominal GDP Growth Rate (%)	**8.13**	**13.44**	**10.54**	**12.87**	**10.38**	

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

TABLE 2. Gross Domestic Product in 2000 Prices

Ngultrum in Million

	Year					Growth:
Sector	2013	2014	2015	2016	2017	2016 to 2017 (%)
1. Agriculture, livestock and forestry	6,984.06	7,149.38	7,502.09	7,795.20	8,059.79	3.39
1.1 Crops	3,376.83	3,511.27	3,749.41	3,996.17	4,249.02	6.33
1.2 Livestock	2,006.01	2,052.41	2,111.32	2,246.31	2,345.45	4.41
1.3 Forestry and logging	1,601.21	1,585.69	1,641.35	1,552.73	1,465.32	-5.63
2. Mining and quarrying*	1,303.18	1,524.82	1,728.88	1,927.27	2,062.29	7.01
3. Manufacturing	4,670.71	5,098.82	5,323.89	5,452.90	5,752.99	5.50
4. Electricity and water	9,771.36	9,495.01	10,200.17	10,478.90	10,079.84	-3.81
5. Construction	7,474.56	7,963.34	8,807.57	10,009.13	10,644.07	6.34
6. Wholesale and retail trade	3,798.48	4,317.04	4,866.06	5,463.64	6,032.45	10.41
7. Hotels and restaurants	665.04	780.65	906.70	1,011.06	1,164.78	15.20
8. Transport, storage and communication	4,976.83	5,425.06	5,905.80	6,409.82	7,184.61	12.09
9. Financing, insurance and real estate	4,576.39	4,751.27	5,016.40	5,553.21	5,755.46	3.64
9.1 Finance	3,627.16	3,765.64	3,998.28	4,400.51	4,525.81	2.85
9.2 Real estate	908.27	942.38	973.87	1,094.41	1,106.59	1.11
9.3 Business services	40.97	43.26	44.26	58.29	123.06	111.12
10. Community, social and personal services	5,519.38	5,885.01	6,275.95	6,797.76	6,767.94	-0.44
10.1 Public administration	3,339.28	3,574.51	4,178.07	4,621.39	4,641.93	0.44
10.2 Education and health	2,180.10	2,310.49	2,097.89	2,176.37	2,126.01	-2.31
11. Private social, personal and recreational services	211.21	214.78	221.13	229.49	277.08	20.74
12. Plus indirect taxes less subsidies	2,655.25	3,023.75	2,570.56	2,955.97	3,269.58	10.61
Gross Domestic Product	52,606.45	55,628.93	59,325.23	64,084.36	67,050.89	4.63
Real GDP Growth Rate (%)	**2.14**	**5.75**	**6.64**	**8.02**	**4.63**	

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

Table 3. Gross Domestic Product by Expenditure at Current Prices

Ngultrum in million

Sectors	Year					Share of GDP in 2017 (%)
	2013	2014	2015	2016	2017	
Investment	48,388.06	61,813.47	71,286.96	82,700.52	84,386.26	51.26
Private	36,390.20	51,848.17	59,298.45	63,062.63	61,332.33	37.26
Public	12,544.02	12,153.67	12,337.22	18,751.81	23,228.76	14.11
Change in stocks	-546.17	-2,188.36	-348.70	886.08	-174.83	-0.11
Consumption	79,934.41	82,900.68	100,468.87	100,544.91	113,926.90	69.20
Private	61,659.96	62,706.64	77,003.33	75,483.52	86,867.04	52.77
Public	18,274.46	20,194.04	23,465.55	25,061.39	27,059.85	16.44
Net exports	-22,988.64	-25,168.39	-39,615.12	-34,093.64	-33,685.24	20.46
Exports	42,636.41	43,376.76	43,896.30	40,891.01	47,893.47	29.09
Imports	65,625.05	68,545.15	83,511.42	74,984.65	81,578.71	49.55
Gross Domestic Product	105,333.83	119,545.75	132,140.72	149,151.78	164,627.92	100.00
GDP Growth Rate	**8.13**	**13.49**	**10.54**	**12.87**	**10.38**	

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

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

Ngultrum in million

Sectors	Year					Growth: 2016-2017 (%)
	2013	2014	2015	2016	2017	
Investment	20,623.88	26,157.55	30,468.29	34,115.16	34,075.46	-0.12
Private	15,546.28	22,119.11	25,499.84	26,256.46	24,902.87	-5.26
Public	5,328.63	5,005.12	5,118.67	7,491.99	9,242.30	23.36
Change in stocks	-251.03	-966.69	-150.23	366.71	-69.72	-119.01
Consumption	42,576.86	40,623.22	45,594.41	44,024.88	46,207.11	4.96
Private	33,836.11	31,675.47	35,680.17	33,692.89	35,422.64	5.13
Public	8,740.74	8,947.76	9,914.24	10,331.98	10,784.47	4.38
Net exports	-10,995.56	-11,151.84	-16,737.47	-14,055.69	-13,231.67	5.86
Exports	20,393.16	19,219.77	18,546.28	16,858.02	18,812.72	11.60
Imports	31,388.72	30,371.60	35,283.75	30,913.70	32,044.39	3.66
Gross Domestic Product	**52,205.18**	**55,628.93**	**59,325.23**	**64,084.36**	**67,050.89**	**4.63**
GDP Growth Rate	**1.36**	**6.56**	**6.64**	**8.02**	**4.63**	

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

Table 5: Consumer Price Index

		Period																					
Item	**Weight in percent %**	**2013**				**2014**				**2015**				**2016**				**2017**				**2018**	
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
		Index																					
Food	39.9	209.61	104.86	109.64	114.46	115.51	117.69	120.32	121.26	121.09	121.12	122.94	124.60	124.87	125.61	127.92	131.12	133.33	135.23	137.04	139.99	142.42	142.50
non-Food	60.1	172.06	105.23	108.37	109.27	110.49	111.66	116.33	117.10	118.52	119.10	120.89	121.85	122.21	122.86	123.45	125.29	127.42	127.79	128.27	127.96	127.97	128.75
Total	**100.0**	**183.95**	**105.08**	**108.87**	**111.31**	**112.47**	**114.03**	**117.91**	**118.75**	**119.54**	**119.90**	**121.71**	**122.94**	**123.24**	**123.95**	**125.22**	**127.59**	**129.74**	**130.71**	**131.70**	**132.63**	**133.55**	**134.07**
		Percentage Change (y-o-y)																					
Food	39.9	7.86	2.81	9.41	14.46	13.26	12.33	9.95	5.96	4.83	2.92	2.18	2.75	2.91	3.54	3.88	5.06	6.82	7.66	7.13	6.76	6.82	5.37
Non-food	60.1	8.66	7.14	8.89	9.27	7.02	6.11	7.35	7.17	7.27	6.66	3.92	4.06	3.11	3.16	2.12	2.83	4.26	4.01	3.90	2.13	0.44	0.75
Total	**100.0**	**8.37**	**5.51**	**9.12**	**11.31**	**9.47**	**8.55**	**8.38**	**6.68**	**6.28**	**5.15**	**3.23**	**3.53**	**3.03**	**3.31**	**2.82**	**3.71**	**5.27**	**5.45**	**5.18**	**3.96**	**2.94**	**2.57**
PPN	1.00	0.54	0.94	0.91	0.89	0.89	0.87	0.85	0.84	0.84	0.83	0.82	0.81	0.81	0.81	0.80	0.78	0.77	0.77	0.76	0.75	0.75	0.75

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. As of 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 6: Domestic and imported inflation

Domestic Inflation

December 2012=100

		Index						Percent Change (%)					
Item	**Weight in percent %**	**2018**						**2018**					
		Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Food	17.77	145.54	146.02	146.16	145.66	145.79	144.45	6.25	5.03	8.53	4.04	4. 33	3.73
Non-food	30.24	130.39	130.57	130.57	130.68	130.68	130.67	0.13	0.11	0.10	0.17	0.17	0.16
Total	**48.01**	**135.81**	**136.09**	**136.14**	**136.04**	**136.08**	**135.61**	**2.35**	**1.90**	**3.14**	**1.59**	**1.69**	**1.47**

Imported inflation

December 2012=100

		Index						Percent Change (%)					
Item	**Weight in percent %**	**2018**						**2018**					
		Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Food	22.15	138.92	139.43	140.22	140.32	140.32	139.76	7.06	6.67	7.27	6.69	6.49	6.20
Non-food	29.84	125.32	125.51	125.51	126.21	126.94	127.30	1.04	0.81	0.46	1.09	1.32	1.63
Total	**51.99**	**130.94**	**131.26**	**131.58**	**132.04**	**132.48**	**132.47**	**3.56**	**3.27**	**3.31**	**3.44**	**3.49**	**3.56**

Source: National Statistics Bureau, Bhutan

Table 7: Annual and Monthly PPI and Inflation by Industry

Sectors	Weights (%)	Index level (September 2011=100)						Monthly Inflation (%)			Annual Inflation (%)		
		Apr-17	May-17	Jun-17	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18
All Industry	**100.00**	**121.11**	**120.93**	**120.80**	**125.62**	**126.09**	**126.05**	**0.18**	**0.37**	**-0.04**	**3.73**	**4.27**	**4.35**
Logging	0.72	134.79	134.79	134.79	134.79	134.79	134.79	0.00	0.00	0.00	0.00	0.00	0.00
Mining and quarrying	5.81	127.41	127.49	125.85	124.86	125.56	125.17	1.76	0.56	-0.31	-2.00	-1.51	-0.54
Manufacturing	47.66	120.74	120.35	120.28	131.67	132.48	132.42	0.14	0.62	-0.05	9.05	10.08	10.09
Electricity, gas, steam and air conditioning supply	35.35	123.80	123.80	123.80	123.80	123.80	123.80	0.00	0.00	0.00	0.00	0.00	0.00
Water supply; sewerage, waste management and remediation activities	0.08	109.39	109.39	109.39	109.39	109.39	109.39	0.00	0.00	0.00	0.00	0.00	0.00
Transport	5.91	128.39	128.34	128.35	121.15	122.10	122.23	0.28	0.78	0.10	-5.64	-4.86	-4.77
Information and communication	4.47	89.76	89.76	89.76	89.57	89.57	89.57	0.00	0.00	0.00	-0.20	-0.20	-0.20

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

Table 8: Annual and Monthly PPI Inflation by Product

Description	Share (%)	Index level (September 2011=100)						Monthly Inflation (%)			Annual Inflation (%)		
		Apr-17	May-17	Jun-17	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18	Apr-18	May-18	Jun-18
All Products	**100.00**	**121.11**	**120.93**	**120.80**	**125.62**	**126.09**	**126.05**	**0.18**	**0.37**	**-0.04**	**3.73**	**4.27**	**4.35**
Logging	0.72	134.79	134.79	134.79	134.79	134.79	134.79	0.00	0.00	0.00	0.00	0.00	0.00
Ores and minerals; electricity, gas and water	5.81	127.41	127.49	125.85	124.86	125.56	125.17	1.76	0.56	-0.31	-2.00	1.51	-0.54
Food products, beverages and tobacco; textiles, apparel and leather products	3.56	112.63	112.38	112.44	113.46	113.39	113.39	-0.12	-0.06	0.00	0.74	0.90	0.85
Other transportable goods, except metal products, machinery and equipment	15.36	126.06	127.34	127.44	118.92	120.27	117.39	0.37	1.14	-2.39	-5.67	-5.55	-7.88
Metal products, machinery and equipment	28.75	119.01	117.77	117.59	141.61	142.22	143.95	0.04	0.43	1.22	18.99	20.76	22.41
Distributive trade services; accommodation, food and beverage serving services; transport services; and electricity, gas and water distribution services	41.34	124.42	124.41	124.41	123.39	123.53	123.55	0.04	0.11	0.01	-0.83	-0.71	-0.70
Business and production services	4.47	89.76	89.76	89.76	89.57	89.57	89.57	0.00	0.00	0.00	-0.20	-0.20	-0.20

Source: National Statistics Bureau.

TABLE 9. Indian Wholesale Price Index of all Commodities

2011-12 =100

Period	Year					
	2013	2014	2015	2016	2017	2018
Jan	108.00	113.60	110.80	108.00	112.60	115.80
Feb	108.40	113.60	109.60	107.10	113.00	116.10
Mar	108.60	114.30	109.90	107.70	113.20	116.30
Apr	108.60	114.10	110.20	109.00	113.20	117.30
May	108.60	114.80	111.40	110.40	112.90	117.90
Jun	110.10	115.20	111.80	111.70	112.70	119.10
Jul	111.20	116.70	111.10	111.80	113.90	
Aug	112.90	117.20	110.00	111.20	114.80	
Sep	114.30	116.40	109.90	111.40	114.30	
Oct	114.60	115.60	110.10	111.50	115.50	
Nov	114.30	114.10	109.90	111.90	116.40	
Dec	113.40	112.10	109.40	111.70	115.70	
	Percentage change on the previous year					
Jan	8.0	5.2	-2.5	-2.5	4.3	2.8
Feb	8.4	4.8	-3.5	-2.3	5.5	2.7
Mar	8.6	5.2	-3.8	-2.0	5.1	2.7
Apr	3.7	5.1	-3.4	-1.1	3.9	3.6
May	3.1	5.7	-3.0	-0.9	2.3	4.4
Jun	4.6	4.6	-3.0	-0.1	0.9	5.7
Jul	4.7	4.9	-4.8	0.6	1.9	
Aug	5.6	3.8	-6.1	1.1	3.2	
Sep	6.2	1.8	-5.6	1.4	2.6	
Oct	6.7	0.9	-4.8	1.3	3.6	
Nov	6.5	-0.2	-3.7	1.8	4.0	
Dec	5.9	-1.1	-2.4	2.1	3.6	

Source: Reserve Bank of India. Effective April 2011, the RBI has revised the base year from 2004-05 to 2011-12, creating a break in the continuity and comparison of data. The newly-calculated WPI commences from the month of April 2011 onwards.

TABLE 10. Summary of Budgetary Operations

Ngultrum in Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18 (r)	2018/19 (est.)
Revenue & Grants	**37,819.12**	**36,231.05**	**42,039.30**	**42,673.13**	**54,666.72**	**40743.07**
Domestic Revenue	23,244.61	25,141.03	28,033.81	29,713.60	36,178.37	35,855.00
Tax	16,182.77	18,387.34	19,884.63	21,707.00	26,173.13	26,150.96
Non-tax	7,061.84	6,753.69	8,149.19	8,006.60	10,005.25	9,704.04
Other Receipts (Net)	338.16	1,135.00	-884.13	-7.23	1,055.27	0.00
Grants	14,236.35	9,955.02	14,889.61	12,986.75	17,433.08	4,888.07
GOI	10,684.43	6,593.76	10,721.70	9,882.57	13,781.13	2,117.52
Others	3,551.92	3,361.26	4,167.91	3,104.18	3,651.95	2,770.54
Program	1,749.69	2,125.00	2,340.02	2,125.00	1,700.00	150.00
GOI	1,625.00	2,125.00	1,275.00	2,125.00	1,700.00	0.00
Others	124.69	0.00	1,065.02	0.00	0.00	150.00
Project tied	12,486.66	7,830.02	12,549.60	10,861.75	15,733.08	4,738.07
GOI	9,059.43	4,468.76	9,446.70	7,757.57	12,081.13	2,117.52
Others	3,427.23	3,361.26	3,102.90	3,104.18	3,651.95	2,620.54
Outlay	**33,522.83**	**34,334.26**	**43,603.00**	**48,017.99**	**56,513.50**	**38,307.49**
Total expenditure	34,609.90	36,475.85	44,688.45	49,966.61	58,607.28	39,847.47
Current	17,941.15	21,032.04	22,880.59	24,129.59	28,616.64	29,075.17
Capital	16,668.75	15,443.80	21,807.86	25,837.02	29,990.64	10,772.30
Net Lending	-1,331.99	-2,552.75	-1,885.33	-2,003.12	-2,093.78	-1,539.97
Advances/Suspense (Net)	244.92	411.16	799.88	54.50	0.00	0.00
Overall Balance	**4,296.29**	**1,896.79**	**-1,563.70**	**-5,344.86**	**-1,846.78**	**2,435.57**
Financing	-4,296.29	-1,896.79	1,563.70	5,344.86	1,846.78	-2,435.57
Net Borrowing	**-1,042.31**	**-1,086.41**	**-1,215.48**	**524.33**	**203.21**	**-2,435.57**
Borrowing	1,534.54	1,685.27	1,818.68	3,227.66	3,023.53	1,248.76
External	1,534.54	1,685.27	1,818.68	3,227.66	1,073.53	1,248.76
Internal	0.00	0.00	0.00	0.00	1,950.00	0.00
Repayment	2,576.86	2,771.68	3,034.16	2,703.34	2,820.32	3,684.34
External	2,401.55	2,596.37	2,850.33	2,694.14	2,810.41	2,016.09
Internal	175.30	175.30	183.83	9.19	9.91	1,668.25
Resource Gap	**3,253.98**	**810.39**	**-2,779.19**	**-4,820.54**	**-1,643.57**	**0.00**

Source: National Budget Report FY 2018-19 and Annual Financial Statements FY 2016-17, Ministry of Finance. Figures may not add up due to rounding.

Table 11: Monetary Survey[1]

Ngultrum in Million

	2013/14	2014/15	2015/16	2016/17	2017/18
Broad Money (M2)	**63,387.80**	**68,344.29**	**79,162.74**	**104,113.59**	**114,973.69**
Narrow Money (M1)	39,701.84	41,675.50	44,933.63	60,723.28	66,295.05
Currency Outside Banks	5,704.58	5,946.06	6,101.73	8,787.66	9,234.04
Transferable Deposits	33,997.26	35,729.44	38,831.90	51,935.62	57,061.00
Current Deposits	17,670.73	16,831.69	17,570.69	24,952.19	25,465.20
Saving Deposits	16,326.54	18,897.75	21,261.22	26,983.43	31,595.81
Other Deposits	23,685.96	26,668.79	34,229.10	43,390.31	48,678.64
Time Deposits	21,952.33	25,446.51	32,640.45	41,285.46	46,163.85
Foreign Currency Deposits	1,733.63	1,222.28	1,588.65	2,104.85	2,514.79
Sources of Broad Money					
Foreign Assets (Net)	53,886.46	58,248.74	67,815.59	68,186.68	66,006.28
Indian Rupee	265.22	4,034.37	7,316.83	18,236.56	6,423.31
Convertible Foreign Currency	53,621.24	54,214.37	60,498.75	49,950.12	59,582.97
Net Domestic Assets	9,501.34	10,095.56	11,347.15	35,926.92	48,967.41
Domestic Credit	52,299.01	56,255.12	65,692.70	85,084.84	100,320.53
Claims on Government	-1,978.01	-7,739.70	-5,570.48	2,852.93	5,029.42
Claims on Other Public Sector [2]	4,438.35	7,174.29	6,106.02	7,046.82	8,306.02
Claims on Private Sector	49,838.67	56,820.54	65,157.15	75,185.09	86,985.09
Other Items Net [3]	42,797.67	46,159.57	54,345.54	49,447.26	51,353.12
Percent Change (y-o-y)					
Broad Money (M2)	**6.62**	**7.82**	**15.83**	**31.52**	**10.43**
Narrow Money (M1)	5.05	4.97	7.82	35.14	9.18
Currency Outside Banks	0.41	4.23	2.62	44.02	5.08
Transferable Deposits	5.87	5.10	8.68	33.74	9.87
Current Deposits	-6.88	-4.75	4.39	42.01	2.06
Saving Deposits	24.28	15.75	12.51	26.91	17.09
Other Deposits	9.37	12.59	28.35	26.76	12.19
Time deposits	7.75	15.92	28.27	26.49	11.82
Foreign Currency Deposits	35.07	-29.50	29.97	32.49	19.48
Foreign Assets (Net)	10.95	8.10	16.42	0.55	-3.20
Indian Rupee	-82.23	1421.14	81.36	149.24	-64.78
Convertible Foreign Currency	13.91	1.11	11.59	-17.44	19.28
Domestic Assets	-12.71	6.25	12.40	216.62	36.30
Domestic Credit	6.50	7.56	16.78	29.52	17.91
Claims on Government	-159.52	291.29	-28.03	-151.22	76.29
Claims on Other Public Sector	94.27	61.64	-14.89	15.41	17.87
Claims on Private Sector	6.44	14.01	14.67	15.39	15.69
Other Items Net	3.01	7.86	17.73	-9.01	3.85

1. Excludes figures from non-banks. 2. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations. 3. Other Items (Net) includes money market instruments. 4. Source: RMA and Commercial Banks.

Note: An entry of "0.0" indicates a marginal value compared to "-" which indicate no value for the particular item

Table 12: Royal Monetary Authority Survey

Ngultrum in Million

	2013/14	2014/15	2015/16	2016/17	2017/18
Assets					
Foreign Assets	60,575.31	62,112.52	77,976.85	71,820.66	75,193.96
Indian Rupee	9,493.07	9,826.55	19,017.73	23,496.07	18,614.44
Convertible Foreign Currency	51,082.23	52,285.98	58,959.11	48,324.59	56,579.52
Claims on DMBs	281.55	1,696.88	266.59	578.36	709.32
Claims on Government	0.00	0.00	0.00	0.00	0.00
Claims on Private Sector	13.60	28.33	33.32	36.33	31.98
Claims on NBFIs	0.00	0.00	0.00	0.00	0.00
Govt. securities	0.00	0.00	0.00	0.00	0.00
Liabilities					
Reserve Money	26,638.21	26,248.81	27,802.92	34,327.86	33,469.76
o/w Currency Outside Banks	5,704.58	5,946.06	6,101.73	8,787.66	9,234.04
Foreign liabilities	10,000.00	7,000.00	13,804.08	7,000.00	13,776.26
Indian Rupee	10,000.00	7,000.00	13,804.08	7,000.00	13,776.26
Convertable foreign currency	0.00	0.00	0.00	0.00	0.00
Government Deposits	3854.84	7779.70	10200.06	7152.22	3020.41
RMA Bills outstanding	0.00	0.00	0.00	0.00	0.00
Capital Accounts	3,013.60	3,597.10	3,686.83	3,951.51	4,357.71
Other Items (Net)	17,363.80	19,212.12	22,782.87	20,003.76	21,311.12
Percent Change (y-o-y)					
Foreign Assets	8.82	2.54	25.54	-7.89	4.70
Indian Rupee	-11.33	3.51	93.53	23.55	-20.78
Convertible Foreign Currency	13.62	2.36	12.76	-18.04	17.08
Reserve Money	11.00	-1.46	5.92	23.47	-2.50
Foreign liabilities	-0.32	-30.00	97.20	-49.29	96.80
Other Items Net [1]	-22.24	10.64	18.59	-12.20	6.54

1. Other Items (Net) includes money market instruments. 2. Source: RMA and Commercial Banks. Note: An entry of "0.0" indicates a marginal value compared to "-" which indicate no value for the particular item

Table 13. Deposit Money Banks Survey

Ngultrum in Million

	2013/14	2014/15	2015/16	2016/17	2017/18
Assets					
Reserves	21,088.03	19,549.26	17,852.87	25,197.82	23,752.50
Foreign Assets	3,311.16	3,136.21	3,642.82	3,655.35	5,356.82
Indian Rupee	772.15	1,207.82	2,103.18	1,740.48	1,585.13
Convertible Foreign Currency	2,539.01	1,928.39	1,539.64	1,914.87	3,771.70
Claims on Government	1,876.83	40.00	4,629.58	10,005.15	8,049.83
Claims on Other Public Sector [1]	4,438.35	7,174.29	6,106.02	7,046.82	8,306.02
Claims on Private Sector [2]	49,825.07	56,792.21	65,123.84	75,148.76	86,953.11
Capital Accounts	15,117.20	16,713.71	18,029.27	16,915.42	18,019.31
Other Items Net [3]	6,602.13	6,683.62	5,561.65	8,253.50	7,727.31
Liabilities					
Demand Depsoits	33,997.26	35,729.44	38,831.90	51,935.62	57,061.00
Current Deposits	17,670.73	16,831.69	17,570.69	24,952.19	25,465.20
Saving Deposits	16,326.54	18,897.75	21,261.22	26,983.43	31,595.81
Time Deposits	21,952.33	25,446.51	32,640.45	41,285.46	46,163.85
Foreign Currency Deposits	1,733.63	1,222.28	1,588.65	2,104.85	2,514.79
Percent Change (y-o-y)					
Reserves	18.59	-7.30	-8.68	41.14	-5.74
Foreign Assets	12.90	-5.28	16.15	0.34	46.55
Claims on Other Public Sector	94.27	61.64	-14.89	15.41	17.87
Claims on Private Sector	6.44	13.98	14.67	15.39	15.71
Capital Accounts	16.19	10.56	7.87	-6.18	6.53
Other Items Net	73.07	1.23	-16.79	48.40	-6.38
Demand Depsoits	5.87	5.10	8.68	33.74	9.87
Current Deposits	-6.88	-4.75	4.39	42.01	2.06
Saving Deposits	24.28	15.75	12.51	26.91	17.09
Time Deposits	7.75	15.92	28.27	26.49	11.82
Foreign Currency Deposits	35.07	-29.50	29.97	32.49	19.48

1. Claims on Other Public Sectors includes claims on Government Corporations and Public Corporations 2. Claims on Private Sectors includes Claims on NBFIs. 3. Other Items (Net) includes money market instruments. 4. Source: RMA and Commercial Banks

Note: An entry of "0.0" indicates a marginal value compared to "-" which indicate no value for the particular item

TABLE 14. Financial Sector Investment by Economic Activity

Millions of Nu.

Economic Sector/Source	2013/14	2014/15	2015/16	2016/17	2017/18
Agriculture	**2,287.09**	**3,487.37**	**4,457.86**	**5,069.48**	**5,632.90**
Bank of Bhutan	0.30	17.46	30.59	41.52	100.72
Bhutan National Bank	0.76	0.71	0.73	0.71	13.00
Bhutan Development Bank Limited	2,283.73	3,467.05	4,413.97	5,003.62	5,508.05
TBank Limited	1.51	1.52	1.43	0.39	0.00
Druk PNB Bank Limited	0.78	0.64	10.18	15.72	2.48
Royal Insurance Corporation of Bhutan	0.00	0.00	0.00	3.40	4.07
Bhutan Insurance Limited	0.00	0.00	0.96	4.12	4.58
Service and Tourism	**9,896.11**	**12,402.70**	**11,323.89**	**20,017.94**	**24,844.15**
Bank of Bhutan	4,362.83	5,570.79	3,163.48	5,648.65	8,463.88
Bhutan National Bank	2,606.74	3,171.62	3,636.83	4,476.84	4,706.49
Bhutan Development Bank Limited	1,825.39	2,057.50	2,384.24	2,948.58	2,886.77
TBank Limited	245.26	328.72	479.43	440.54	559.76
Druk PNB Bank Limited	655.87	916.10	896.46	1,505.02	2,139.92
Royal Insurance Corporation of Bhutan	183.03	325.21	706.10	4,924.60	5,980.03
Bhutan Insurance Limited	16.99	32.76	57.34	73.71	107.31
Manufacturing	**9,915.87**	**10,088.94**	**10,433.67**	**12,767.13**	**13,416.74**
Bank of Bhutan	3,184.24	3,522.69	3,485.91	3,724.18	3,944.25
Bhutan National Bank	4,216.69	3,537.49	3,610.96	4,480.91	4,438.67
Bhutan Development Bank Limited	780.29	858.23	816.09	830.68	1,038.18
TBank Limited	217.03	199.50	182.32	197.68	257.91
Druk PNB Bank Limited	522.45	651.85	740.24	1,453.97	1,525.68
Royal Insurance Corporation of Bhutan	972.98	1,270.83	1,479.79	1,939.60	2,046.18
Bhutan Insurance Limited	22.19	48.35	118.37	140.11	165.87
Building & Construction	**15,785.01**	**17,371.53**	**19,244.02**	**21,704.88**	**25,405.83**
Bank of Bhutan	5,317.37	5,370.00	5,263.38	6,032.53	7,873.24
Bhutan National Bank	5,661.12	6,181.31	6,665.29	6,962.93	7,727.03
Bhutan Development Bank Limited	1,324.75	1,856.53	2,447.17	2,776.32	3,230.44
TBank Limited	480.86	465.67	500.88	1,329.41	1,909.95
Druk PNB Bank Limited	933.28	1,067.94	1,340.56	1,532.29	1,703.80
Royal Insurance Corporation of Bhutan	2,047.24	2,387.62	2,911.52	2,811.91	2,638.77
Bhutan Insurance Limited	20.39	42.46	115.22	259.49	322.61
Trade & Commerce	**8,703.66**	**11,250.20**	**17,621.37**	**13,285.10**	**15,044.08**
Bank of Bhutan	970.57	1,277.25	1,736.84	1,320.83	1,985.13
Bhutan National Bank	3,601.64	4,269.41	6,675.50	5,123.43	5,934.15
Bhutan Development Bank Limited	945.23	1,246.47	1,552.85	1,637.12	1,587.69
TBank Limited	471.49	495.55	453.99	785.07	761.44
Druk PNB Bank Limited	472.60	484.94	654.10	433.06	839.87
Royal Insurance Corporation of Bhutan	2,173.13	3,374.72	6,393.68	3,801.22	3,695.60
Bhutan Insurance Limited	69.00	101.86	154.41	184.36	240.21

Transport (Heavy + Light)	**3,758.69**	**2,617.82**	**4,816.25**	**5,003.48**	**6,884.77**
Bank of Bhutan	747.12	522.73	875.74	1,008.86	1,841.84
Bhutan National Bank	793.23	696.40	1,041.49	1,334.38	1,753.39
Bhutan Development Bank Limited	202.31	432.07	1,120.60	1,193.53	1,144.87
TBank Limited	246.37	189.31	116.98	251.21	222.31
Druk PNB Bank Limited	130.63	102.96	159.01	134.39	160.95
Royal Insurance Corporation of Bhutan	503.50	533.16	940.08	644.00	587.24
Bhutan Insurance Limited	128.52	141.19	281.18	437.12	586.94
Personal Loans	**11,991.02**	**11,750.89**	**11,818.30**	**13,636.56**	**12,894.64**
Bank of Bhutan	5,724.07	5,479.55	5,597.03	5,463.27	5,480.13
Bhutan National Bank	1,136.46	1,034.04	1,098.62	1,294.99	1,207.32
Bhutan Development Bank Limited	2,590.99	2,718.49	2,633.45	2,972.26	2,407.45
TBank Limited	316.22	510.51	504.19	914.74	1,057.57
Druk PNB Bank Limited	545.13	509.97	555.75	532.00	324.32
Royal Insurance Corporation of Bhutan	1,535.36	1,437.62	1,364.55	2,399.61	2,250.64
Bhutan Insurance Limited	71.39	60.71	64.72	59.67	83.61
Loan Against Shares	**640.48**	**667.28**	**402.84**	**432.73**	**214.24**
Bank of Bhutan	118.83	171.58	6.67	32.83	0.06
Bhutan National Bank	133.02	106.36	77.87	0.00	0.00
Bhutan Development Bank Limited	0.00	0.00	98.40	0.00	0.00
TBank Limited	14.27	11.44	5.72	138.83	37.07
Druk PNB Bank Limited	250.00	261.47	88.71	98.81	89.30
Royal Insurance Corporation of Bhutan	96.41	77.55	92.25	111.23	45.42
Bhutan Insurance Limited	27.95	38.88	33.21	51.04	42.39
Government (Short term loans)	**0.00**	**0.00**	**4,605.47**	**515.19**	**445.30**
Bank of Bhutan	0.00	0.00	4,605.47	0.00	0.00
Bhutan National Bank	0.00	0.00	0.00	515.19	445.30
Bhutan Development Bank Limited	0.00	0.00	0.00	0.00	0.00
TBank Limited	0.00	0.00	0.00	0.00	0.00
Druk PNB Bank Limited	0.00	0.00	0.00	0.00	0.00
Royal Insurance Corporation of Bhutan	0.00	0.00	0.00	0.00	0.00
Bhutan Insurance Limited	0.00	0.00	0.00	0.00	0.00
Credit Card	**7.18**	**8.77**	**11.27**	**10.42**	**15.85**
Bank of Bhutan	2.50	3.58	5.34	6.00	12.82
Bhutan National Bank	4.68	5.19	5.93	4.42	3.04
Bhutan Development Bank Limited	0.00	0.00	0.00	0.00	0.00
TBank Limited	0.00	0.00	0.00	0.00	0.00
Druk PNB Bank Limited	0.00	0.00	0.00	0.00	0.00
Royal Insurance Corporation of Bhutan	0.00	0.00	0.00	0.00	0.00
Bhutan Insurance Limited	0.00	0.00	0.00	0.00	0.00
Others [1]	**1,280.24**	**1,863.52**	**2,150.54**	**2,615.72**	**3,592.74**
Bank of Bhutan	330.69	319.48	362.22	668.33	857.67
Bhutan National Bank	221.88	231.59	277.02	331.09	384.83
Bhutan Development Bank Limited	283.44	607.96	459.27	508.54	823.19
TBank Limited	195.97	344.24	310.46	379.12	791.54
Druk PNB Bank Limited	204.73	93.30	287.00	235.55	219.05
Royal Insurance Corporation of Bhutan	12.99	236.61	429.01	459.88	487.69
Bhutan Insurance Limited	30.53	30.35	25.57	33.21	28.77
Total	**64,265.35**	**71,509.01**	**86,885.47**	**95,058.63**	**108,791.26**

1. Other includes staff loans, EDP and SBAS 2. Source: RMA and Commercial Banks. Note: An entry of “0.0” indicates a marginal value compared to “-” which indicate no value for the particular item

Table 15. Deposits Base of Commercial Banks by Sectors

Ngultrum in Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18
Total Deposits	**57,683.20**	**62,398.20**	**73,061.00**	**95,325.90**	**105,739.60**
Individuals	33,070.10	35,929.40	46,976.40	65,663.90	73,851.60
Govt. Corps.	8,480.70	7,684.40	8,746.70	8,716.40	10,901.50
Govt.					
Others	16,132.30	18,784.30	17,337.90	20,945.70	20,986.60
Demand deposits	33,997.30	35,729.40	38,831.90	51,935.60	57,061.00
Individuals	24,050.10	24,608.70	29,482.10	47,724.00	51,135.00
Govt. Corps.	4,369.70	3,111.70	3,724.00	920.90	1,352.40
Others	5,577.40	8,009.00	5,625.70	3,290.8 0	4,573.70
Time Deposits	**23,686.00**	**26,668.80**	**34,229.10**	**43,390.30**	**48,678.60**
Individuals	9,020.00	11,320.70	17,494.25	17,939.88	22,716.60
Govt. Corps.	4,111.00	4,572.80	5,022.64	7,795.54	9,549.10
Others	10,554.90	10,775.30	11,712.22	17,654.90	16,412.90
% of total deposits					
Individuals	57.3	57.6	64.3	68.9	69.8
Govt. Corps.	14.7	12.3	12.0	9.1	10.3
Others	28.0	30.1	23.7	22.0	19.8
Demand deposits	**58.9**	**57.3**	**53.1**	**54.5**	**54.0**
Individuals	41.7	39.4	40.4	50.1	48.4
Govt. Corps.	7.6	5.0	5.1	1.0	1.3
Others	9.7	12.8	7.7	3.5	4.3
Time Deposits	41.1	42.7	46.9	45.5	46.0
Individuals	15.6	18.1	23.9	18.8	21.5
Govt. Corps.	7.1	7.3	6.9	8.2	9.0
Others	18.3	17.3	16.0	18.5	15.5

Source: Commercial Banks. Note: An entry of “0.0” indicates a marginal value compared to “-” which indicate no value for the particular item

TABLE 16. Annual Overall Balance of Payments Estimates

Ngultrum in Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18 (p)
A. CURRENT ACCOUNT	**-30,116.10**	**-34,177.40**	**-41,436.09**	**-36,142.83**	**-31,306.95**
Goods and Services	**-28,168.49**	**-30,970.32**	**-39,604.39**	**-34,560.70**	**-30,310.35**
Goods: Net (Trade Balance)	-24,170.51	-26,662.76	-35,519.11	-31,149.17	-26,959.11
Exports (fob)	32,876.57	35,982.17	32,789.32	36,872.02	38,859.25
Imports (fob)	57,047.07	62,644.93	68,308.43	68,021.19	65,818.35
Services	-3,997.99	-4,307.56	-4,085.28	-3,411.53	-3,351.24
Credit	7,646.23	7,784.24	9,659.81	10,469.87	11,921.05
Debit	11,644.22	12,091.80	13,745.09	13,881.40	15,272.29
Primary Income	**-7,859.65**	**-8,250.49**	**-11,385.40**	**-13,211.01**	**-14,187.50**
Credit	1,192.43	2,575.68	1,623.07	1,998.95	2,133.11
Debit	9,052.09	10,826.17	13,008.47	15,209.96	16,320.60
Secondary Income	**5,912.05**	**5,043.42**	**9,553.70**	**11,628.88**	**13,190.90**
Credit	7,333.36	6,874.16	11,358.47	13,256.53	15,019.13
o.w. Budgetary grants	3,856.53	4,785.01	8,373.35	6,415.85	6,204.86
Debit	1,421.31	1,830.74	1,804.76	1,627.65	1,828.24
B. CAPITAL ACCOUNT	**16,901.74**	**13,981.04**	**12,668.05**	**12,391.57**	**11,884.00**
o.w. Budgetary grants for investment *	7,541.54	4,408.03	6,114.55	3,532.33	7,348.03
**C. FINANCIAL ACCOUNT ** **	**-14,315.68**	**-21,130.69**	**-43,297.11**	**-15,763.23**	**-27,703.60**
Direct Investment in Bhutan: net incurrence of liabilities	1,427.39	394.85	788.41	-1,601.51	218.99
o.w. Equity capital	1,413.89	306.66	677.77	-521.08	255.16
Other Investment	-12,888.29	-20,735.84	-42,508.70	-17,364.73	-27,484.64
Net acquisition of financial assets	-327.54	-820.49	1,450.83	734.24	1,078.70
Net incurrence of financial liabilities	12,560.75	19,915.35	43,959.52	18,098.97	28,563.33
o.w. RGOB loans ***	15,331.40	17,838.32	30,052.75	13,078.38	6,079.24
o.w. Other loans	-3,125.50	1,990.28	14,050.35	3,682.33	20,657.83
D. Net Errors & Omissions	**3,179.18**	**-1,505.16**	**-1,944.53**	**6,422.74**	**-3,415.40**
E. Overall Balance	**4,280.49**	**-570.83**	**12,584.54**	**-1,565.30**	**4,865.20**
F. Reserve Assets	**4,280.49**	**-570.83**	**12,584.54**	**-1,565.30**	**4,865.20**

* Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards. ** Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. *** Includes hydropower loans & accrued interest. BoP statistics were revised from 2013/14 to include improvements in data coverage and classifications.

TABLE 17. Annual Balance of Payments Estimates with India

Ngultrum in Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18 (provisional)
A. CURRENT ACCOUNT	**-25,594.89**	**-28,684.94**	**-38,312.61**	**-34,006.52**	**-34,479.42**
Goods and Services	**-21,486.96**	**-23,023.80**	**-33,478.52**	**-28,105.44**	**-27,431.24**
Goods: Net (Trade Balance)	-17,362.45	-18,963.13	-28,878.42	-24,303.76	-25,146.64
Exports (fob)	29,908.13	31,946.83	29,870.13	32,637.08	31,465.85
Imports (fob)	47,270.58	50,909.96	58,748.55	56,940.84	56,612.49
Services	-4,124.51	-4,060.68	-4,600.10	-3,801.67	-2,284.60
Credit	1,428.88	1,212.99	2,940.35	2,887.24	4,742.04
Debit	5,553.39	5,273.67	7,540.45	6,688.91	7,026.63
Primary Income	**-7,507.50**	**-8,256.43**	**-10,878.33**	**-12,798.71**	**-13,803.18**
Credit	390.33	1,362.17	817.45	1,157.21	1,046.51
Debit	7,897.83	9,618.60	11,695.79	13,955.92	14,849.69
o.w. Interest on hydropower loans *	1,445.41	1,445.41	1,344.56	1,243.71	1,325.22
Secondary Income	3,399.57	2,595.30	6,044.24	6,897.63	6,754.99
Credit	4,473.91	4,022.32	7,399.71	8,179.76	7,840.36
o.w. Budgetary grants	2,175.74	3,346.01	7,099.34	4,566.53	3,600.90
Debit	1,074.35	1,427.02	1,355.47	1,282.13	1,085.37
B. CAPITAL ACCOUNT	**16,417.86**	**13,650.46**	**12,122.05**	**12,337.75**	**11,8628.20**
o.w. Budgetary grants for investment **	7,057.66	4,077.45	5,568.55	3,478.50	7,326.19
o.w. Grants for hydro power	9,360.20	9,573.01	6,553.50	8,859.24	4,536.00
C. FINANCIAL ACCOUNT ***	**-11,202.87**	**-18,874.12**	**-40,782.09**	**-12,777.02**	**-25,628.49**
Direct Investment in Bhutan: net incurrence of liabilities	93.84	-152.24	337.16	63.66	14.17
o.w. Equity capital	150.84	-146.97	313.02	0.00	1.94
Other Investment	-11,109.02	-19,026.36	-40,444.93	-12,713.36	-25,614.32
Net acquisition of financial assets	-680.27	-21.73	1,310.37	481.31	-494.47
Net incurrence of financial liabilities	10,428.75	19,004.62	41,755.30	13,194.67	25,119.85
o.w. Hydro power loans (incl. accrued interest)*	12,742.01	16,600.36	28,574.07	10,093.09	3,600.00
o.w. Other loans	-2,178.23	2,059.89	13,443.85	2,840.26	21,194.48
D. Net Errors & Omissions	**-3,244.80**	**-3,104.54**	**-4,648.04**	**8,269.28**	**-4,762.80**
E. Overall Balance	**-1,218.96**	**735.10**	**9,943.50**	**-622.47**	**-1,751.50**
F. Reserve Assets	**-1,218.96**	**735.10**	**9,943.50**	**-622.47**	**-1,751.50**

* Includes accrued interest (from FY 2006/07 onwards), and are therefore not comparable with figures published by the Ministry of Finance. ** Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards. *** Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; Excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. BoP statistics were revised from 2013/14 onwards to include improvements in data coverage & classifications.

TABLE 18. Annual Balance of Payments Estimates with Countries Other Than India (COTI)

Ngultrum in Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18 (provisional)
A. CURRENT ACCOUNT	**-4,521.21**	**-5,492.46**	**-3,123.47**	**-2,136.31**	**3,172.47**
Goods and Services	**-6,681.54**	**-7,946.52**	**-6,125.87**	**-6,455.27**	**-2,879.11**
Goods: Net (Trade Balance)	-6,808.06	-7,699.64	-6,640.69	-6,845.41	-1,812.46
Exports (fob)	2,968.44	4,035.34	2,919.19	4,234.95	7,393.40
Imports (fob)	9,776.49	11,734.97	9,559.88	11,080.35	9,205.86
Services	126.52	-246.88	514.82	390.14	-1,066.65
Credit	6,217.35	6,571.25	6,719.46	7,582.63	7,179.01
Debit	6,090.83	6,818.13	6,204.64	7,192.49	8,245.66
Primary Income	**-352.15**	**5.94**	**-507.06**	**-412.30**	**-384.32**
Credit	802.10	1,213.51	805.62	841.74	1,086.59
Debit	1,154.26	1,207.57	1,312.68	1,254.04	1,470.91
Secondary Income	**2,512.48**	**2,448.12**	**3,509.46**	**4,731.25**	**6,435.90**
Credit	2,859.44	2,851.83	3,958.75	5,076.78	7,178.77
o.w. Budgetary grants	1,680.79	1,439.01	1,274.01	1,849.32	2,603.96
Debit	346.96	403.71	449.29	345.52	742.87
B. CAPITAL ACCOUNT	**483.88**	**330.58**	**546.00**	**53.83**	**21.84**
o.w. Budgetary grants for investment *	483.88	330.58	546.00	53.83	21.84
C. FINANCIAL ACCOUNT **	**-3,112.81**	**-2,256.57**	**-2,515.02**	**-2,986.20**	**-2,075.07**
Direct Investment: net incurrence of liabilities	1,333.55	547.09	451.25	-1,665.17	204.75
o.w. Equity capital	1,263.05	453.63	364.75	-521.08	257.16
Other Investment	-1,779.26	-1,709.48	-2,063.77	-4,651.38	-1,870.32
Net acquisition of financial assets ***	352.74	-798.76	140.45	252.92	1,573.16
Net incurrence of financial liabilities	2,132.00	910.72	2,204.22	4,904.30	3,443.48
o.w. RGOB loans	2,589.39	1,237.96	1,478.68	2,985.28	2,479.24
o.w. Other loans	-947.26	-69.61	606.50	842.08	-536.65
D. Net Errors & Omissions	**6,423.98**	**1,599.38**	**2,703.50**	**-1,846.55**	**1,347.35**
E. Overall Balance	**5,499.46**	**-1,305.93**	**2,641.05**	**-942.83**	**6,616.73**
F. Reserve Assets	**5,499.46**	**-1,305.93**	**2,641.05**	**-942.83**	**6,616.73**

* Segregation of budgetary grants into Secondary Income and Capital Transfers carried out from FY 2006/07 onwards.
** Net acquisition of financial assets minus net incurrence of financial liabilities; (+) figure denotes net lending and (-) figure denotes net borrowing; excludes reserve assets. Financial Account sign convention: (+) = increase in assets or liabilities; (-) = decrease in assets or liabilities. *** Data on net acquisition of financial assets were compiled from FY 2007/08 onwards. BoP statistics were revised from 2013/14 onwards to include data improvements in coverage and classification.

TABLE :19 Composition of Imports from Countries Other Than India (COTI)

Ngultrum in Million

Sl	IMPORT CATEGORY	2013	2014	2015	2016	2017	% Share in Total	Annual % change
1	Live Animals & Animal Products	49.47	69.45	92.12	107.45	109.67	0.84	2.07
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	65.70	50.25	111.95	83.98	85.82	0.66	2.19
3	Animal or Vegetable Fats & Oils	1.91	10.78	14.26	8.92	2.76	0.02	-69.09
3.1	Palm Oil (Crude & Other)	-	*10.31*	*11.90*	*7.19*	*0.00*	*0.00*	*-99.99*
4	Processed Foods & Beverages	262.61	334.93	493.92	482.23	618.49	4.75	28.26
5	Mineral Products inc. oils & fuels	151.54	237.74	120.60	351.77	99.22	0.76	-71.79
6	Products of Chemical & Allied Industries	905.61	740.91	700.66	427.25	456.77	3.51	6.91
6.1	Medicines / Pharmaceutical Products	*458.12*	*270.86*	*309.14*	*50.86*	*96.24*	*0.74*	*89.23*
6.2	Photographic / Cinematographic goods	*1.93*	*14.85*	*11.56*	*0.80*	*10.97*	*0.08*	*1,270.96*
7	Plastic & Rubber Products	694.29	863.85	905.96	832.16	758.39	5.82	-8.87
8	Wood and Wood Products	18.38	23.73	21.29	27.99	27.56	0.21	-1.51
9	Wood Pulp Products	271.57	83.39	187.41	173.05	123.32	0.95	-28.73
10	Textiles, Footwear & Hats/ Headgear	273.16	195.85	208.95	280.37	305.42	2.35	8.94
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	56.06	57.82	57.46	68.23	76.77	0.59	12.52
11.1	Ceramic Products	*15.17*	*21.98*	*16.50*	*17.28*	*33.62*	*0.26*	*94.54*
12	Pearls and Products of Precious/Semi-precious Metal & Stones	70.87	8.84	14.20	39.53	41.58	0.32	5.17
13	Base Metals and Articles of Base Metal	794.70	1,494.43	978.93	856.82	838.92	6.44	-2.09
14	Machinery, Mechanical/ Electrical Appliances & Equipment and Parts	4,755.91	3,894.79	4,607.76	6,021.01	7,887.08	60.56	30.99
14.1	Magnetic Discs & Media (recorded/unrecorded)	*14.49*	*128.52*	*387.84*	*199.41*	*339.17*	*2.60*	*70.09*
15	Transport Vehicles & Aircraft and Engines & Parts	467.37	502.71	5,199.76	1,612.95	996.39	7.65	-38.23
16	Optical, Photographic, Cinematographic & Measuring Equipment	340.44	242.16	349.62	478.29	357.47	2.74	-25.26
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	3.26	0.97	8.50	7.81	0.86	0.01	-89.00
18	Miscellaneous Manufactured Products	200.77	224.32	223.47	215.31	236.94	1.82	10.05
	TOTAL	**9,383.63**	**9,036.92**	**14,296.82**	**12,075.13**	**13,023.45**	**100.00**	**7.85**

TABLE : 20 Composition of Exports to Countries Other Than India (COTI)

Ngultrum in Million

SI	EXPORT CATEGORY	2013	2014	2015	2016	2017	% Share in Total	Annual % change
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,185.96	1,387.46	1,284.80	1,342.87	1,259.40	22.18	-6.22
1.1	Oranges	489.01	520.11	446.55	425.60	470.75	8.29	10.61
1.2	Apples	51.40	59.10	61.43	39.72	21.93	0.39	-44.79
1.3	Cardamoms	365.63	421.42	565.41	708.53	552.61	9.73	-22.01
2	Processed Foods & Beverages	41.01	43.50	24.93	19.81	5.25	0.09	-73.49
3	Mineral Products inc. oils & fuels	583.30	770.46	713.81	1,205.96	2,218.96	39.07	84.00
3.1	Limestone & other calcereous stone	307.07	348.31	338.08	169.44	319.02	5.62	88.28
3.2	Dolomite	141.46	169.67	520.30	205.60	241.60	4.25	17.51
3.3	Bituminous Coal	29.37	74.99	-	-	5.00	0.09	-
4	Products of Chemical & Allied Industries	23.72	34.08	645.16	263.60	134.10	2.36	-49.13
5	Plastic & Rubber Products	0.09	0.01	0.02	2.28	0.01	0.00	-99.74
6	Wood and Wood Products	1.35	0.97	0.77	3.87	0.36	0.01	-90.60
7	Wood Pulp Products	0.65	0.00	0.09	1.11	0.41	0.01	-63.01
8	Textiles, Footwear & Hats/ Headgear	0.79	0.54	4.70	2.90	2.01	0.04	-30.60
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	0.44	0.38	2.33	5.26	0.64	0.01	-87.78
10	Articles of Precious/Semi-precious Metals	0.00	-	0.00	-	-	-	-
11	Base Metals and Articles of Base Metal	1,034.02	1,541.02	745.11	353.19	2,054.12	36.17	481.60
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	0.21	-	-	0.02	-	-	-100.00
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	-	-	-	-	-	-	-
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	1.51	3.96	4.60	1.64	3.41	0.06	107.42
14	Miscellaneous Manufactured Products	0.73	1.16	1.64	3.19	0.47	0.01	-85.31
	TOTAL	**2,873.79**	**3,783.55**	**3,427.96**	**3,205.70**	**5,679.14**	**100.00**	**77.16**

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

TABLE 21. Composition of Imports from India

Ngultrum in Million

Sl	IMPORT CATEGORY	2013	2014	2015	2016	2017	% Share in Total	Annual % change
1	Live Animals & Animal Products	2,331.06	2,674.73	2,755.49	2,713.71	2,690.20	4.98	-0.87
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	3,260.87	3,551.30	3,412.86	3,756.99	3,738.06	6.93	-0.50
3	Animal or Vegetable Fats & Oils	978.43	1,005.55	976.01	1,032.24	1,129.42	2.09	9.41
4	Processed Foods & Beverages	1,812.37	2,024.26	2,159.53	2,306.03	2,375.86	4.40	3.03
5	Mineral Products inc. oils & fuels	12,848.24	13,329.63	12,341.91	12,423.94	13,963.50	25.87	12.39
6	Electricity	222.92	319.02	249.65	172.95	74.94	0.14	-56.67
7	Products of Chemical & Allied Industries	1,885.03	1,954.89	2,098.72	2,129.60	2,098.01	3.89	-1.48
7.1	Medicine / Pharmaceutical Products	200.31	173.54	338.18	297.15	262.46	0.49	-11.67
8	Plastic & Rubber Products	1,627.85	1,727.67	1,793.07	1,807.81	2,105.70	3.90	16.48
9	Wood and Wood pulp products	1,911.86	2,349.58	2,391.06	1,868.29	2,330.12	4.32	24.72
9.1	Wood and Wood Products	1,200.04	1,611.34	1,683.13	1,183.67	1,585.37	2.94	33.94
9.2	Wood Pulp Products	711.82	738.24	707.93	684.63	744.75	1.38	8.78
10	Textiles, Footwear & Hats/ Headgear	738.56	835.44	925.18	826.70	874.26	1.62	5.75
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	925.99	803.45	899.08	905.06	1,111.27	2.06	22.78
11.1	Ceramic Products	340.90	254.02	320.14	316.16	329.26	0.61	4.14
12	Pearls and Products of Precious/ Semi-precious Metal & Stones	16.16	1.07	0.90	0.28	0.79	0.00	182.99
13	Base Metals and Articles of Base Metal	7,535.04	8,407.03	9,257.00	6,298.39	6,876.47	12.74	9.18
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	6,550.70	6,604.79	9,282.39	12,197.97	9,302.14	17.23	-23.74
14.1	Magnetic Discs & Media (recorded/unrecorded)	19.20	16.21	21.79	13.97	19.36	0.04	38.52
15	Transport Vehicles & Aircraft and Engines & Parts	625.45	1,623.92	4,319.48	5,758.68	4,268.65	7.91	-25.87
16	Optical, Photographic, Cinematographic & Measuring Equipment	256.33	227.22	300.77	497.22	449.81	0.83	-9.53
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.03	1.84	0.38	0.04	0.02	0.00	-33.06
18	Miscellaneous Manufactured Products	362.49	406.23	577.04	588.83	583.45	1.08	-0.91
	TOTAL	**43,889.37**	**47,847.62**	**53,740.51**	**55,284.73**	**53,972.67**	**100.00**	**-2.37**

TABLE 22. Composition of Exports to India

Ngultrum in Million

Sl	EXPORT CATEGORY	2013	2014	2015	2016	2017	% Share in Total	Annual % change
1	Live Animals & Animal Products	2.55	2.91	6.81	12.94	20.88	0.07	61.41
1.1	Raw Hides & Skins	-	-	-	-	-	-	-
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	976.69	1,475.16	1,131.99	1,535.74	1,562.71	4.94	1.76
2.1	Potatoes	360.13	686.30	370.90	542.11	458.69	1.45	(15.39)
3	Animal or Vegetable Fats & Oils	2.94	13.71	8.04	9.74	9.52	0.03	(2.24)
3.1	Palm Oil	-	0.00	-	-	-	-	-
4	Processed Foods & Beverages	578.91	838.00	897.39	1,067.38	1,010.70	3.20	(5.31)
5	Mineral Products inc. oils & fuels	3,308.93	4,800.19	4,813.75	4,646.48	4,683.21	14.81	0.79
6	Electricity	11,227.26	10,633.64	12,124.49	13,032.05	11,983.49	37.90	(8.05)
7	Products of Chemical & Allied Industries	1,885.13	1,953.88	1,989.97	1,714.73	1,722.12	5.45	0.43
8	Plastic & Rubber Products	462.58	635.97	678.76	678.21	783.67	2.48	15.55
9	Wood and Wood Pulp Products	314.58	380.69	353.03	318.19	255.91	0.81	(19.57)
9.1	Wood Pulp Products	17.55	15.44	19.80	14.66	19.23	0.06	31.18
10	Textiles, Footwear & Hats/Headgear	43.95	29.93	10.81	1.11	2.38	0.01	114.01
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	152.40	196.47	168.41	150.24	113.03	0.36	(24.77)
12	Base Metals and Articles of Base Metal	10,004.89	10,826.22	9,605.77	8,874.63	9,459.03	29.92	6.59
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	3.69	3.00	2.29	3.22	4.68	0.01	45.27
14	Transport Vehicles & Aircraft and Engines & Parts	0.33	-	-	-	0.06	0.00	-
15	Optical, Photographic, Cinematographic & Measuring Equipment	0.02	-	0.04	-	-	-	-
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.10	0.13	-	0.26	-	-	(100.00)
17	Miscellaneous Manufactured Products	14.22	11.55	9.80	7.51	6.71	0.02	(10.67)
	TOTAL	**28,979.16**	**31,801.45**	**31,801.35**	**32,052.42**	**31,618.09**	**100.00**	**(1.36)**

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

TABLE 23. Direction of Trade *

Ngultrum in Million

Item	2013	2014	2015	2016	2017
Exports					
India	28,979.16	31,801.45	31,801.35	32,052.42	31,618.09
Bangladesh	1,464.98	1,661.89	1,817.47	2,397.96	3,486.28
Italy	191.13	477.66	152.18	26.96	428.20
Netherlands	154.71	227.67	434.09	51.19	350.96
Nepal	87.09	178.49	80.69	152.40	321.21
Germany	298.31	597.10	186.17	121.96	186.77
Hongkong	234.72	252.91	110.09	77.19	138.47
Japan	65.67	14.06	16.76	22.13	103.88
Turkey	-	83.33		0.05	96.13
Spain	0.16	0.06	7.63	0.03	81.83
Singapore	17.28	61.69	169.82	7.64	62.99
Switzerland	0.61	0.25	10.73	0.30	56.05
Poland	3.89	-		0.04	51.64
Vietnam	1.93	9.33	4.14	26.20	50.19
Austria	0.04	11.52		0.12	46.54
UAE	-	10.23	15.59	0.00	35.41
Thailand	28.93	32.49	23.06	40.61	33.64
United States	25.33	30.66	292.88	171.20	29.34
Malaysia	13.67	12.32	10.98	16.04	24.53
France	152.10	0.23	70.46	0.39	15.26
Others	133.24	121.67	25.22	93.27	79.07
Total Exports	**31,852.95**	**35,585.00**	**35,229.31**	**35,258.11**	**37,296.47**

Imports					
India	43,889.37	47,847.62	53,740.51	55,284.73	53,972.67
South Korea	280.77	240.71	344.14	1,262.69	2,592.21
Japan	295.68	1,401.10	1,466.62	1,298.87	1,655.01
China	1,089.31	949.86	1,333.48	1,476.22	1,609.89
Thailand	1,080.89	812.15	1,168.95	1,486.73	1,262.09
Singapore	969.73	724.56	1,391.27	1,206.31	1,066.04
Germany	304.20	478.37	416.77	407.65	577.33
Sweden	816.95	244.20	732.84	260.20	496.64
UAE	69.90	150.24	161.15	306.61	372.09
Bangladesh	161.43	170.34	169.66	218.17	329.18
United States	183.60	137.54	176.78	360.93	224.08
United Kingdom	207.7	90.9	172.9	112.1	220.77
Italy	193.07	314.41	111.37	444.30	181.75
Austria	695.52	295.95	19.79	40.95	178.96
Hong Kong	90.55	119.41	133.73	179.14	154.55
Saudi Arabia	174.46	221.25	271.55	159.87	148.22
Norway	11.88	24.97	14.13	78.52	147.25
Vietnam	47.07	102.41	98.60	39.95	107.26
Qatar	152.13	202.86	136.88	147.63	103.70
Israel	60.52	34.36	199.82	92.20	91.71
Others[1]	2,498.22	2,321.28	5,776.34	2,496.08	1,504.61
Total Imports	**53,272.99**	**56,884.54**	**68,037.33**	**67,359.84**	**66,996.00**

*By latest year rankings. 1) Others include imports from COTI routed through India from 2012 onwards. An entry of “0.0” indicates a marginal value compared to “-” which indicates no value for that particular item. Source: Bhutan Trade Statistics, Department of Revenue and Customs.

TABLE 24. Bhutan's Outstanding External Loan

In Million

Item	Rupee/Ngultrum in Million			USD Million		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
1. Convertible Currency Debt	**41,178.49**	**42,759.00**	**47,990.20**	**609.00**	**663.22**	**699.82**
i. Public	**40,502.32**	**40,824.86**	**45,932.94**	**599.00**	**633.22**	**669.82**
World Bank	12,507.16	13,475.71	17,058.67	184.97	209.02	248.76
IFAD	2,442.71	2,275.99	2,491.39	36.13	35.30	36.33
ADB	17,115.05	17,700.47	18,996.95	253.12	274.55	277.02
Govt of Austria	4,918.12	4,315.46	4,139.71	72.74	66.94	60.37
Govt. of Denmark	48.83	0.00	0.00	0.72	0.00	0.00
JICA	2,997.52	2,593.68	2,742.56	44.33	40.23	39.99
Deutsche Investment (hydro)	472.93	463.56	503.65	6.99	7.19	7.34
ii. Private	**676.17**	**1,934.15**	**2,057.26**	**10.00**	**30.00**	**30.00**
2. Indian Rupee Debt	**115,393.81**	**118,770.09**	**133,190.70**	**1,706.59**	**1,842.21**	**1,942.25**
i. Hydro Power debt	**101,676.99**	**111,770.09**	**119,452.84**	**1,503.73**	**1,733.64**	**1,741.92**
Tala	3,356.48	2,013.89	671.30	49.64	31.24	9.79
Punatsangchhu-I	42,543.69	44,543.69	46,043.69	629.19	690.91	671.43
Punatsangchhu-II	27,487.50	35,982.19	39,182.19	406.52	558.11	571.37
Mangdechhu	282,89.33	29,230.33	32,706.59	418.38	453.38	476.94
Nikachhu Project (SBI)			849.08			12.38
ii. Other						
GOI Line of Credit	7,000.00	7,000.00	7,000.00	103.52	108.58	102.08
RBI Swap	6,716.82	0.00	6,737.86	99.34	0.00	98.25
3. Total Debt (CC + INR)	**156,572.31**	**161,529.09**	**181,180.90**	**2,315.59**	**2,505.43**	**2,642.07**
As a % of Total Debt						
Convertible Currency	26.30	26.47	26.49			
Rupee Debt	73.70	73.53	73.51			
Total Loans in % of GDP	**118.60**	**108.64**	**110.05**			
Nominal GDP (Calendar Year)	132,021.30	148,678.93	164,627.92			
Exchange rate (Nu./USD)	67.62	64.47	68.58			

Note: Debt data published by the RMA includes 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. Hydro power debt excludes accrued interest.

Source: Department of Public Accounts, Royal Monetary Authority of Bhutan & private sector enterprises.

Table 25. External Debt Indicators

External Debt Indicators	2013/14	2014/15	2015/16	2016/17	2017/18
Total Outstanding (USD millions)	**1,758.36**	**1,854.58**	**2,315.59**	**2,505.43**	**2,642.07**
Convertible Currency (USD millions)	628.95	581.21	609.00	663.22	699.82
Indian Rupee (in millions)	67,870.15	81,183.64	115,393.81	118,770.09	133,190.70
Debt/GDP ratio *					
Total	**100.27**	**98.9 1**	**118.6 0**	**108.64**	**110.05**
Convertible Currency	35.87	31.00	31192	28.76	29.15
Indian Rupee	64.4 1	67.9 1	87.4 1	79.88	80.90
Debt service ratio * (including OD)					
Total debt service ratio	**22.71**	**19.8 2**	**12.94**	**24.77**	**23.40**
Convertible Currency	9.326	16.84	13.74	16.72	15.98
Indian Rupee loan	30.11	20.69	12.58	27.45	26.39
GDP (Nu. in Millions)	**105,378.435**	**119,545.75**	**132,021.30**	**148,678.93**	**164,627.92**

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

TABLE 26. Rupee Debt Indicators

Millions of Indian Rupees

	2013/14	2014/15	2015/16	2016/17	2017/18
Total INR Debt Outstanding	**67,870.15**	**81,183.64**	**115,393.81**	**118,770.09**	**133,190.70**
Hydro power	**56,595.90**	**73,196.26**	**101,676.99**	**111,770.09**	**119,452.84**
Chhukha	0.00	0.00	0.00	0.00	0.00
Kurichhu	373.33	186.67	0.00	0.00	0.00
Tala	6,041.66	4,699.07	3,356.48	2,013.89	671.30
Punatsangchhu - I	25,738.07	31,423.69	42,543.69	44,543.69	46,043.69
Punatsangchhu - II	14,029.00	20,984.33	27,487.50	35,982.19	39,182.19
Mangdechhu	10,413.84	15,902.51	28,289.33	29,230.33	32,706.59
Nikachhu Project					849.08
Non-hydro power	**11,274.25**	**7,987.38**	**13,716.82**	**7,000.00**	**13,737.86**
GOI Line of Credit	10,000.00	7,000.00	7,000.00	7,000.00	7,000.00
Overdraft Facility	0.00	0.00	0.00	0.00	0.00
RBI SWAP	0.00	0.00	6,716.82	0.00	6,737.86
Dungsam Cement Corp. Ltd	1,274.25	987.38	0.00	0.00	0.00
Debt Service Payments	**9,437.08**	**6,858.98**	**4,127.61**	**9,802.25**	**9,555.95**
Principal	7,227.76	4,816.13	2,423.30	8,059.41	7,749.42
Interest	2,209.31	2,042.85	1,704.31	1,742.84	1,806.53
Debt Service Ratio (%)	**30.11**	**20.69**	**12.58**	**27.45**	**26.39**
Debt Outstanding % of GDP	**64.41**	**67.91**	**87.41**	**79.88**	**80.90**

Source: Department of Public Accounts & RMA

TABLE 27. Gross International Reserves (*)

Ngultrum In Million

Item	2013/14	2014/15	2015/16	2016/17	2017/18
1. Indian Rupee Reserves (INR in Million)	**10,133.27**	**10,865.88**	**20,811.87**	**21,092.36**	**16,085.82**
Royal Monetary Authority of Bhutan	9,493.07	9,826.55	19,017.73	19,433.11	14,534.35
Bank of Bhutan Limited	447.91	598.04	830.28	1,075.85	363.20
Bhutan National Bank Limited	61.91	193.91	141.99	212.23	514.57
T Bank Limited	74.91	77.25	175.94	122.35	479.97
Druk PNB Limited	55.47	170.14	645.92	248.81	193.74
2. Convertible Currency Reserves (USD in Million)	**829.26**	**788.02**	**810.98**	**776.60**	**876.34**
Royal Monetary Authority of Bhutan (1)	789.15	759.44	789.51	748.79	824.30
Bank of Bhutan Limited	22.71	20.26	13.37	10.99	36.18
Bhutan National Bank Limited	14.80	6.94	5.77	7.30	5.03
T Bank Limited	0.13	0.11	0.44	0.85	5.76
Druk PNB Limited	2.48	1.26	1.88	8.68	5.06
3.Total Reserves (USD in Million) (1+2)	**997.89**	**958.45**	**1,118.77**	**1,103.76**	**1,110.91**
4. Exchange rates used	60.09	63.75	67.62	64.47	68.58
5. Months of Merchandise Imports (2)					
Total Reserves	**12.61**	**11.71**	**12.92**	**12.56**	**13.01**
Indian Rupee Reserves	2.57	2.56	4.25	4.45	3.29
Convertible Currency Reserves	61.17	51.37	57.11	54.29	62.59
6. Months of Imports (Merchandise + Services) (2)					
Total Reserves	10.48	9.81	10.80	10.42	10.88
Rupee Reserves	2.30	2.32	3.77	3.98	2.91
Convertible Currency Reserves	37.69	32.49	37.12	32.80	40.68

(*) Excludes cash in hand of commercial banks.

(1) Convertible currency reserves of RMA have been revised in 2013 to exclude the US dollar pledge on any outstanding overdraft as of each reference period. Reserves also exclude (from July 2007 onwards) the local currency component of Bhutan's IMF Quota and the Kuwait Fund Investment; (2) Imports on fob basis. Figures differ from previous publications due to revision in import figures - data for 2015/16 onwards are based on provisional import figures for 2015/16 and are subject to change. From March 2017, reserve figures have been revised due to conversion of Kuwait fund into Indian Rupee.

10

CHRONOLOGY, GLOSSARY AND ACRONYMS

CHRONOLOGY OF MAJOR DEVELOPMENTS

2015

- The Macro Prudential Regulations on Disclosure Requirement was issued to financial institutions for implementation after RMA Board approved in January 2015.
- In January 2015, the Investment Guidelines for Insurance Business was issued for implementation to carry out the insurance business.
- Issued Securities Broker's license to Drukyul Securities Private Limited to conduct security activities in February 2015.
- Issued a directive on abandonded Property (in line with Sectiion 245 of FSA) in February 2013.
- The CRR was increased to 10 percent from 5 percent in order to manage liquidity in the banking system in March 2015.
- The Credit Information Bureau Regulations was issued in March 2015 to safeguard the credit data and consumers' interests.
- Launched the Commemorative coins for the 60th Birth Anniversary celebration of His Majesty the Fourth Druk Gyalpo Jigme Singye Wangchuck on November 6, 2015.

2016

- Launched INR exchange counters at RMA on January 12, 2016. The Global Money Week was launched on March 3, 2016.
- Renewed the Bilateral Currency Swap arrangement with RBI for INR/NU equivalent of USD 100 million on March 17, 2016.
- REDCL and RENEW was registered as micro-Loan Institutions on May 21, 2016.
- Based rate was replaced by the Minimum Lending Rate on August 1, 2016
- On 21 September, 2016, His Excellency, Lyonchhen Dasho Tshering Tobgay launched the Nu.1,000 Denomination Commemorative Banknote to celebrate the birth of HRH the Gyalsey. On the same day, RemitBhutan was launched to provide Foreign Currency Account facility for Non-Resident Bhutanese. The RMA also handed over surplus profit (of new Nu.874 Million) to the RGoB
- Parliament endorsed waiver on tax on interest earned from fixed deposits of individuals on November 28, 2016.
- Recorded historic growth in the country's INR reserves of 31.74 billion on December 2, 2016.
- Approved the Rules and Regulations for Deposit Taking Microfinance Institution (DTMFI) on December 29, 2016.

2017

- Signed Board-Management Performance Commitments and implemented the guidelines on Certificate of Deposits (CDs) on January 3, 2017.
- Bhutan Immediate Payment Service (BIPS) was launched on January 27, 2017.
- The new design of Nu.100 Denomination Commemorative Banknote was launched on February 5, 2017 to celebrate the First Birth Anniversary of His Royal Highness The Gyalsey, Jigme Namgyel Wangchuck.
- RemitBhutan was launched in Perth, Australia by Finance Minister on February 5, 2017.
- Implemented the New Private Money Lending Rules and Regulations on April 1, 2017.
- In collaboration with the Ministry of Labour and Human Resources and Ministry of Finance, the RMA introduced the Overseas Education and Skill Development Scheme on April 7, 2017.
- Signed MoU on Cross Border Supervision with the Reserve Bank of India on April 13, 2017.
- As the inaugural BEFIT event, the International Financial Inclusion Summit on the theme "Equitable Growth through Financial Inclusion"

was hosted on May 24-26, 2017.

- Launched the Internet-based Point of Sales (PoS) at fuel stations in collaboration with the commercial banks and the Department of Trade, Ministry of Economic Affairs (MoEA) on June 15, 2017.
- Signed the MoU on Money Laundering and Terrorist Financing with Bhutan Narcotic Control Agency on July 7, 2017. The MoU on Money Laundering and Terrorist Financing was also signed with FIU Sri Lanka and FIU Cambodia on July 16 and 19, 2017 respectively.
- Implemented web based Cheque Truncation System (CTS) on August 15, 2017. Approved the e-Money Issuer Rules and Regulations during its 130th Board Meeting held on September 29, 2017.
- Opened Currency Exchange Counter at the Paro International Airport on October 9, 2017.
- Launched the Remit Bhutan in United Arab Emirates (UAE) and Kuwait respectively on October 19 and 21, 2017.
- Signed the MoU with Myanmar Financial Intelligence Unit concerning cooperation in the exchange of financial intelligence relating to money laundering associated predicate offences and terrorist financing on October 31, 2017.
- Lyonchhen Dasho Tshering Tobgay launched the Guidelines for Priority Sector Lending (PSL) on December 13, 2017.
- His Majesty awarded the prestigious Druk Thuksey medal to Dasho Penjore and the RMA during the 110th National Day Celebrations in Haa on December 17, 2017.

2018

- Implemented the Reserve Management Policy with effect from January 1, 2018.
- Implemented the Whistle Blowing (WB) Policy as proposed on December 29, 2017.
- The RMA Board endorsed the adoption of the BAS in Accounting Policy from January 1, 2018.
- Signed a Memorandum of Understanding (MoU) with Royal Bhutan Police and Civil Society Organizations Authority on February 20, 2018.
- Launched Druk MicroFin an integrated MFI and CSI banking platform on May 16, 2018.
- Approved the Amended Regulation for establishment of commercial banks and RENEW's proposal for establishment of DMFI (RENEW Microfinance Private Ltd) on May 22, 2018.
- Received the Country Award from the Child Youth Finance International (CYFI) for Regional Winner-Asia & the Pacific and Certificate for the Global Finalist-Asia & the Pacific for Global Money Week 2018 held during the 7th Global Inclusion Awards 2018.
- Implemented Rules and Regulations for Insurance & Reinsurance Companies in Bhutan on July 1, 2018, and the Corporate Governance Rules and Regulations 2018 (CGRR 2018) on July 1, 2018.
- Opened the INR Exchange Counter at the Department of Immigration Office in Phuentsholing on July 6, 2018.
- Signed a Memorandum of Understanding (MoU) with Financial Intelligence Unit (FIU), India on July 26, 2018, during the 21st Annual Meeting of Asia Pacific Group (APG) in Kathmandu, Nepal.
- Issued the Rules and Regulations for Cottage and Small Industries (CSI) Bank.
- Bhutan Care Credit Microfinance Project was licensed on July 1, 2018 and launched on August 14, 2018 as the 4th MFI.
- Introduced exchange counter at Mongar Regional Office on September 1 2018.
- Jointly conducted Workshop on the Modernization of Monetary Policy Frameworks in Bhutan, India and Nepal on September 10-11, 2018 in Paro.
- The RMA successfully closed accounts for the financial year 2017/18 and transferred a surplus of Nu. 1,550.24 million to the RGoB on October 3, 2018.

ABBREVIATIONS AND SYMBOLS

ADB	Asian Development Bank
ACU	Asian Clearing Union
AFI	Alliance for Financial Inclusion
APG	Asia Pacific Group on Money Laundering
ARNW	Average Return on Net Worth
ATM	Automated Teller Machine
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BEA	Bhutan Electricity Authority
BDBL	Bhutan Development Bank Limited
BHP	Basochhu Hydropower Plant
BHSL	Bhutan Hydropower Services Limited
BICMA	Bhutan InfoComm and Media Authority
BIL	Bhutan Insurance Limited
BNBL	Bhutan National Bank Limited
BOBL	Bank of Bhutan Limited
BOP	Balance of Payments
BPC	Bhutan Power Corporation
BPFFS	Budget Policy and Fiscal Framework Statement
BPM6	Balance of Payments Manual (Sixth edition)
CC	Convertible Currency
CDCL	Construction Development Corporation Limited
CHP	Chhukha Hydropower Plant
COTI	Countries Other Than India
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSI	Cottage and Small Scale Industries
CY	Calendar Year (Jan-Dec)
DANIDA	Danish International Development Agency
DCCL	Dungsam Cement Corporation Limited
DGPC	Druk Green Power Corporation
DHPCL	Dagachhu Hydro Power Corporation Limited
DHI	Druk Holding and Investments
DMB	Deposit Money Bank
DPNBL	Druk PNB Bank Limited
DPRs	Detailed Project Reports
DRC	Department of Revenue and Customs
DSPBL	Drukyul Securities Broker Private Limited
DWAL	Druk Wang Alloys Ltd.
ECIU	Energy and Climate Intelligence Unit
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FI	Financial Institution
FIRMA	Financial Institutions Ratio Management and Analysis System
FIU	Financial Intelligence Unit
FSA	Financial Services Act
FSDAP	Financial Sector Development Action Plan
FY	Fiscal Year (July-June)
FYP	Five Year Plan
GBRL	GIC-Bhutan Re. Limited
GDP	Gross Domestic Product
GEPF	Government Employees Provident Fund
GOI	Government of India
GPMS	Government Performance Management System
GVA	Gross Value Added
ICT	Information and Communication Technologies
IDA	International Development Association (World Bank)
IFAD	International Fund for Agricultural Development (UN)
IIP	International Investment Position
IMF	International Monetary Fund
INR	Indian Rupee
IPO	Initial Public Offering
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
JV	Joint Venture
KHP	Kurichhu Hydropower Plant
LPG	Liquid Petroleum Gas
M0	Reserve Money
M1	Narrow Money
M2	Broad Money
MFCC	Macroeconomic Framework Coordination Committee
MFCTC	Macroeconomic Framework Coordination Technical Committee
MFSM	Monetary and Financial Statistics Manual
MLR	Minimum Lending Rate
MOEA	Ministry of Economic Affairs
MOF	Ministry of Finance
MOLHR	Ministry of Labour and Human Resources
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
MPFA	Monetary Policy Framework Agreement

MW	Megawatt
NBFI	Non Bank Financial Institution
NFA	Net Foreign Assets
NGO	Non Governmental Organization
NPL	Non Performing Loans
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese
NSB	National Statistics Bureau
NTTFC	National Transport and Trade Facilitation Committee
ODF	Overdraft Facility
OIN	Other Items Net
PNB	Punjab National Bank
PPI	Producer Price Index
PPN	Purchasing Power of Ngultrum
PPP	Public Private Partnership
RAMP	Reserve Advisory Management Program
RBI	Reserve Bank of India
REDCL	Rural Enterprise Development Corporation Limited
RGOB	Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority
RNR	Renewable Natural Resources
RSEBL	Royal Securities Exchange of Bhutan Limited
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
SDR	Special Drawing Rights
SEACEN	South East Asian Central Banks
SME	Small and Medium Scale Enterprise
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
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
UNWTO	United Nations World Tourism Organization
USD	US Dollar
UTB	Unit Trust of Bhutan
WALR	Weighted Average Lending Rate
WEO	World Economic Outlook
WHO	World Health Organization
WPI	Wholesale Price Index

Statistical 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.

READERS' FEEDBACK ON THE ANNUAL REPORT

Dear Reader:

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

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You can also email us at: rsd@rma.org.bt

Please visit our website www.rma.org.bt for information on the RMA and to access all of 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.

Thank you.

USER SURVEY FOR RMA PUBLICATIONS

Please take a few minutes to answer the following questions to help to improve the quality and accessibility of the RMA's 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 (   ) ___________________________

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Annual Report (   )

Monetary Policy Statement (   )

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Annual Financial Statement (   )

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Q5. 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 ( )

Q6. 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

Q7. Do you use the data found in RMA publications?

Yes ( ) No ( ) Sometimes ( )

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Thank you for completing the survey. Kindly send it to the Department of Macroeconomic Research and Statistics, Royal Monetary Authority of Bhutan, by email, fax or post.

The questionnaire can also be accessed online at www.rma.org.bt

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