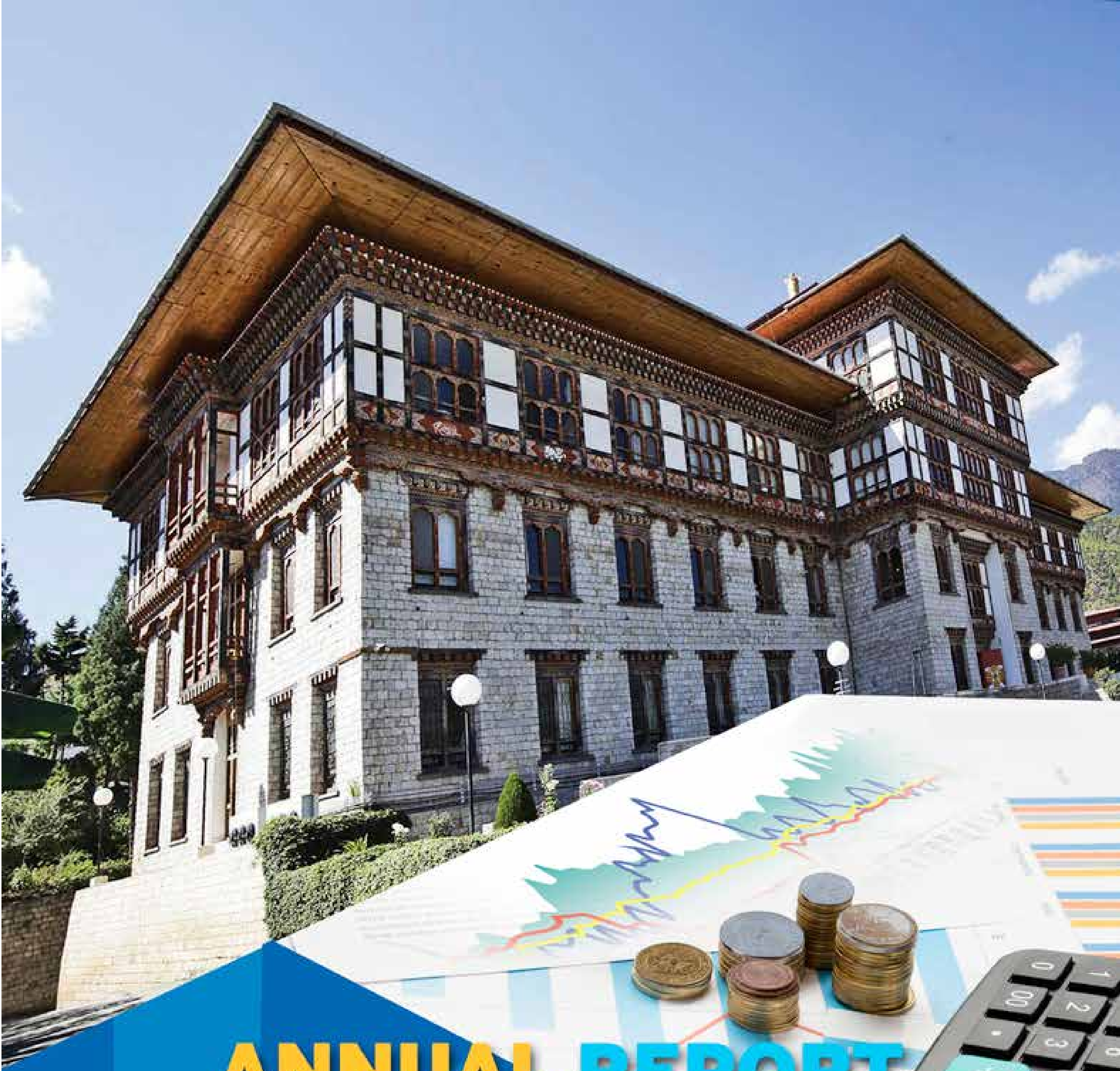
2019

Bhutan RMA AR 2018-19

Royal Monetary Authority of Bhutan (RMA)



ANNUAL REPORT 2019

ROYAL MONETARY AUTHORITY OF BHUTAN

Annual Report
2019

Statutory Requirements

In accordance with Chapter IX, Section 160 of the Royal Monetary Authority Act of Bhutan 2010, the Royal Monetary Authority hereby publishes and submits a copy of the Annual Report for the Financial Year (FY) 2018/19 to the Royal Government of Bhutan. As required, the Report will also be published on the RMA's webpage.

This Report reviews macroeconomic developments of the Bhutanese economy during the FY 2018/19. A summary of medium-term outlook for Bhutan, based on quarterly MFCC update as of September 2019, is also presented in this Report.

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

Statement from Governor

Building on past efforts and developments, 2019 was another eventful year in RMA's journey towards building a strong and resilient economy. As in the past, with the blessings and guidance of His Majesty the Druk Gyalpo, and the support of the Royal Government of Bhutan, the RMA was able to undertake several initiatives during the year. The second conference under the banner of the Bhutan Economic Forum for Innovative Transformation (BEFIT) on the theme of catalyzing the Cottage and Small Industries to drive Bhutan's economic diversification, was successfully conducted. The forum fostered renewed partnerships with key domestic and international partners, who engaged in meaningful dialogues to shape the future course of actions towards a more inclusive and resilient economy. Following the BEFIT 2019, work is underway to operationalise and strengthen E-commerce, Crowdfunding and Jabchor, which are all aimed at supporting entrepreneurship and providing alternative means of access to finance.

Most importantly, digital transformation has become a priority to harness the growing power of technology to drive a new era of progress and prosperity for Bhutan, as envisioned by His Majesty. The 112th National Day Address urged all of us to recalibrate ourselves to succeed in a fast-paced, technology-driven world and to collectively chart out a clear economic roadmap for the 21st century. The 21st century is a world of unprecedented technology-enabled innovations and disruptions. As the lifeblood of the economy, the financial sector must be prepared to lead a transformational digital drive that can allow Bhutan to confidently leverage the multitude of opportunities while efficiently addressing the increasing challenges as well. Guided by the profound wisdom from the Golden Throne, the RMA will spearhead the formulation of the blueprint for a 21st century Bhutanese financial sector in collaboration with all key partners.

Strengthening the financial sector on a solid IT-based foundation has immense potential to transform the financial and payment landscape of the country in the coming years. Developing a safe and robust payment system infrastructure that enables the efficient functioning of economic activities, while promoting financial innovation continues to remain one of our foremost priorities. Along this line, the RMA is committed to promoting and strengthening the payment landscape on three fronts – domestic, regional and international - while recognizing that cybersecurity will be the most important risk facing the financial sector.

On the domestic front, the operationalization of the Global Interchange for Financial Transaction and supporting the electronic Public Expenditure Management platforms of the Government were some of the important milestones achieved during the year. The RMA will continue to encourage domestic digital payments and enabling interoperability of the various payment channels will be an important work in the coming year. On the regional and international fronts, the connection of Bhutan's Financial Switch with the National Financial Switch of India was a historic project that will facilitate seamless cross-border digital payments and further boost trade and economic cooperation between the two countries.

The connection will allow travelers in both countries to seamlessly use their domestic RuPay branded cards at ATMs and POS terminals. The RMA is also currently exploring ways to collaborate on enhancing regional connectivity beyond India while also expanding to alternative payment channels with India such as with the Bharat Ineterface for Money app. Focus also continues on strengthening the international payments gateway and integration with regional and international markets.

The RMA also successfully adopted the Bhutan Accounting Standards (BAS) in 2019. The RMA worked closely with the IMF while ensuring that sufficient in-house capacity in BAS was built over the past two years, as a result of which, the first BAS compliant financial statements for the financial year ending 30th June 2019 was successfully published. The transition to BAS accounting has entailed several accounting policies changes, one among them being the recognition of unrealized gains/losses in the Statement of Comprehensive Income. The BAS transition has enabled the RMA to account realization of gains on net sale of foreign assets, which amounted to Nu 1.95 billion for the financial year 2018/2019. In addition, the RMA's regular net operating profit also amounted to Nu 1.47 billion for the year, which is also a record high, resulting in a total net surplus transfer to the Government of Nu 3.01 billion.

To promote effective macroeconomic data analytics and evidence based policy making, developing a suitable macroeconomic Data Warehouse within RMA is also underway. This initiative is expected to help implement and ensure a robust, automated, scalable data management system.

On the macroeconomic front, economic growth slowed down to 3.0 percent in 2018 from 4.7 percent in 2017. Headline inflation increased moderately to 2.7 percent in June 2019 from 2.6 percent in June 2018, largely due to increase in non-food inflation.

During the FY 2018/19, the growth in assets of the financial sector was largely contributed by growth in loans and advances. The total credit outstanding of financial institutions during the year recorded Nu 129.59 billion, with a growth of 20.3 percent as compared to the last financial year. Credit to private sector had played a vital role in promoting domestic investment and economic growth in the country. During the last five years, the overall credit to GDP underwent unprecedented expansion from 58.2 percent to 79.6 percent in 2019, contributing almost 8 percent annually in terms of Gross Value Added to GDP. The sectors including building and construction, services and tourism, trade and commerce and manufacturing topped the credit portfolios of the financial institutions. As a result, the credit to private sector has been the main driver of economic growth in recent years, cushioning slowdown in hydropower investment and government capital expenditure.

While the capital and liquidity positions of financial institutions remained comfortable within the minimum prudential requirements, there was an increase in the NPL ratio to 16.5 percent. This was largely on account of increase in the NPLs of the non-bank financial institutions. However, the asset quality usually improves towards the year end due to rigorous recovery process by financial institutions.

Being vigilant on the systemic risk in the financial sector, the RMA implemented both micro and macro prudential regulations. Currently it is moving gradually towards risk based supervision, which is a structured process, aimed at identifying critical risks of financial institutions and assessing the management and mitigation of those risks by financial institutions.

On the external front, the trade deficit widened slightly from 17.3 percent of GDP to 17.5 percent during FY 2018/19, resulting in a current account deficit of 23.7 percent of GDP. However, with positive overall balance of payments, the foreign currency reserves remained adequate to finance 12.9 months of merchandise imports and 22 months of essential imports.

Moving ahead, the medium-term growth prospects remain favourable. Real GDP is projected to grow at an average of 6.4 percent, supported by full commissioning of the Mangdechhu hydropower project. Inflation is anticipated to pick up and external imbalance is expected to improve with the current account deficit at 14.9 percent of GDP due to improvement in trade balance. Being mindful of potential risks, the RMA will continue to monitor and build sound macroeconomic fundamentals through necessary interventions in the monetary and financial sector.

In conclusion, I would like to express my sincere gratitude to the Board of Directors and Staff of the RMA for their hard work, commitment, and creativity. I also wish to gratefully acknowledge all the Honorable Members of Parliament, donors and development partners, financial institutions, representatives from the private sector and NGOs, media fraternity and all other stakeholders for their continued support and cooperation during the year.

Tashi Delek!

(Dasho Penjore)
Governor

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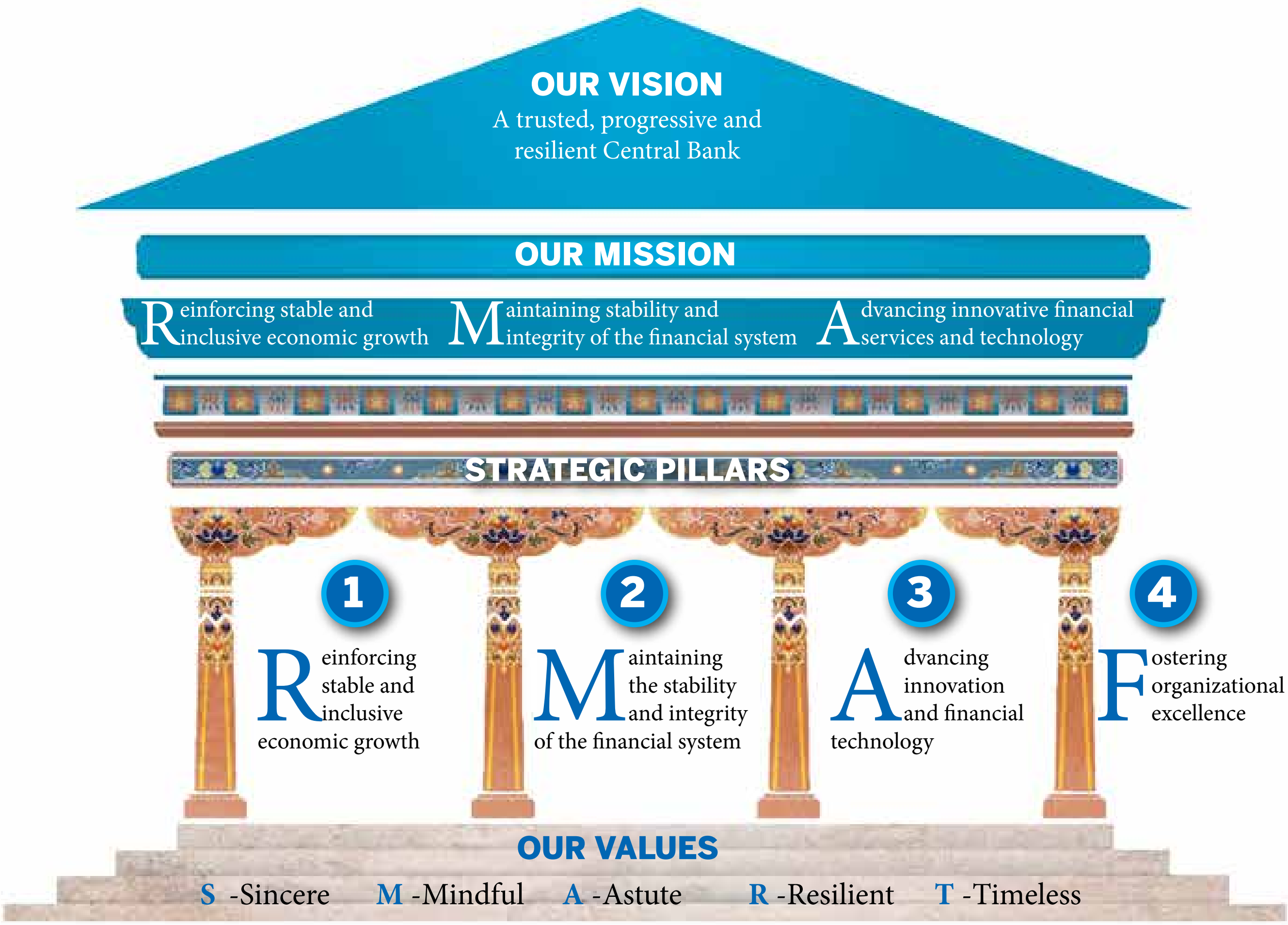
1

Vision, Mission, Values and Organizational Structure



Our Vision

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

- A Trusted, Progressive and Resilient Central Bank

Our Mission

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

Renforcing stable and inclusive economic growth

Maintaining stability and integrity of the financial system

Advancing innovative financial services and technology

Our Values

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

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

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

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

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

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

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

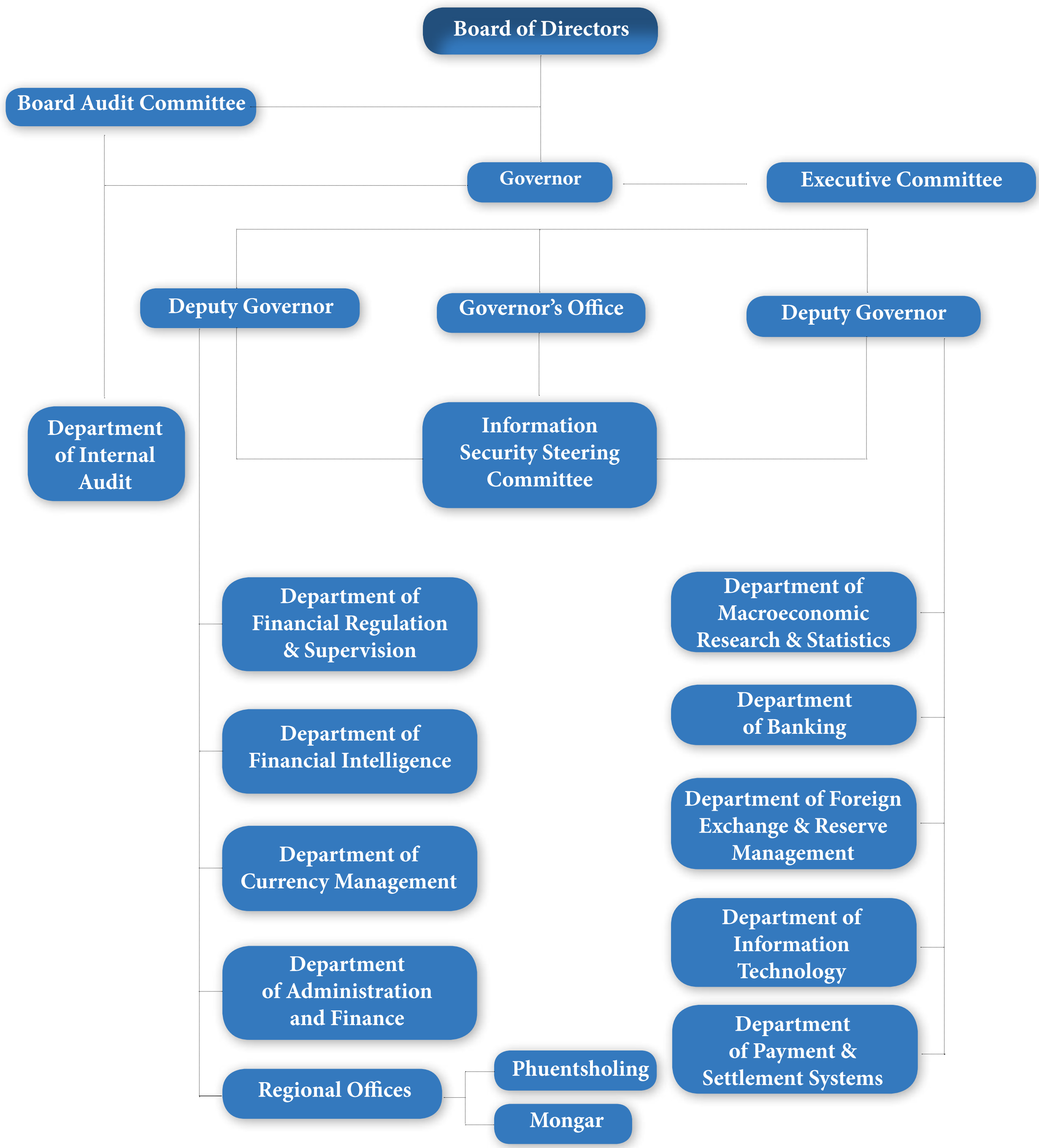
The RMA shall lead the financial sector in adopting and keeping abreast of the latest developments in financial technologies in improving the delivery of efficient and convenient financial services to the public. We shall take advantage of greater network connectivity and mobile penetration throughout 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.

Organizational Chart



1. Board of Directors

Chairman

Dasho Penjore was appointed as the Governor of the RMA on 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 King of Bhutan and was conferred Red Scarf title of "Dasho" in 2008 for his distinguished service to the Nation. Before being appointed as the Governor, he was the Chief Executive Officer of the National Pension and Provident Fund. Dasho holds a Master's degree in Economics from the Northwestern University, Boston, USA.

His Majesty the King awarded Druk Thuksey Medal to Dasho Penjore during the 110th National Day Celebration in December 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 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. 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

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

Member

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

2. Executive Directors and Directors

Mr. Jai Narayan Pradhan
Executive Director
Department of Currency Management

Mr. Phub Dorji Tangbi
Executive Director
Department of Internal Audit

Mr. Namgay Tshering
Executive Director
Department of Financial Intelligence

Mr. Julien Gurung
Executive Director
Department of Administration & Finance

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

Mrs. Tshering Dema
Director Department of Banking

Mr. Gopal Giri
Director
Department of Macroeconomic Research & Statistics

Mrs. Tshering Wangmo
Director
Department of Payment & Settlement Systems

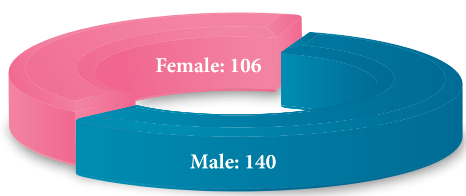
Mrs. Gopi Nepal
Director
Department of Financial Regulation & Supervision

Mr. Sherab Jamtsho
Director
Department of Information Technology

Mr. Dophu Dorji
Regional Director
Phuentsholing Regional Office

3.Staff Strength

As of June 2019, RMA's total staff strength was 246 (Male:140, Female:106). Of the total, 230 employees were stationed at the Head Office, 11 employees at the Phuentsholing Regional Office and 5 employees at the Mongar Regional Office.



Total Staff Strength: 246

Launch of New Commemorative Coins

The RMA launched new commemorative coins themed 'The Four Harmonious Friends' - ***Thuenpa Puen Zhi*** - to mark the 112th National Day. ***Thuenpa Puen Zhi*** - an elephant, a monkey, a rabbit and a bird - epitomise friendship and cooperation. The story is showcased in colour on a 4 oz rectangular coin bar, 1 oz silver normal circular coin and a mini gold coin (the smallest gold coin).

100 Ngultrum
The Four Harmonious Friends Silver Proof (124.40 grams) @ Nu 10,000

1 Sertum
The Four Harmonious Friends Gold Proof (0.50 grams) @ Nu 4000

50 Ngultrum
The Four Harmonious Friends Silver Proof (31.10 grams) @ Nu 3000

2

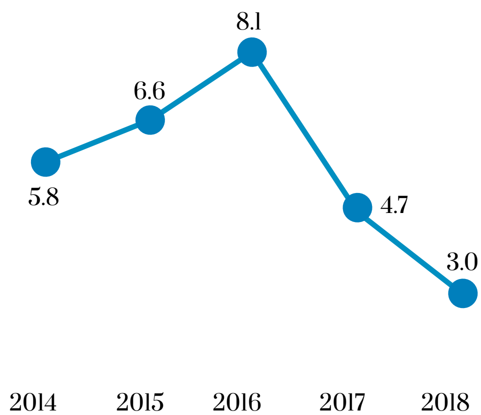
KEY MACROECONOMIC HIGHLIGHTS

KEY HIGHLIGHTS-FY 2018/19

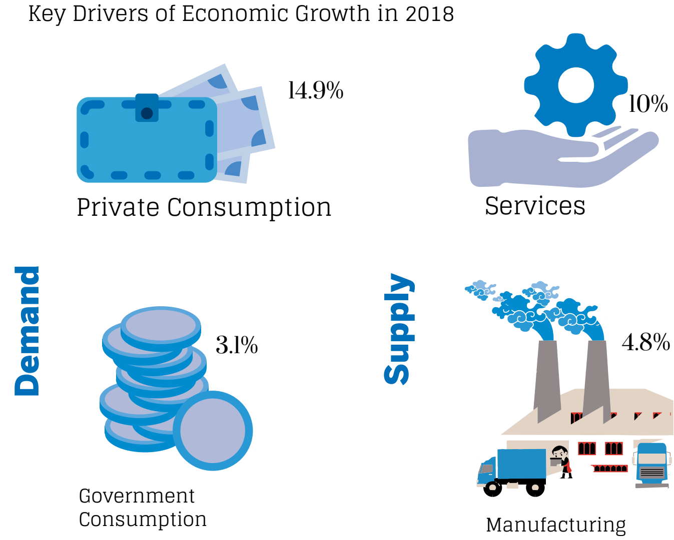
Macroeconomic and Financial Sector Developments

Economic growth slumps to 4 year low of 3% in 2018

Real GDP (Growth, %)

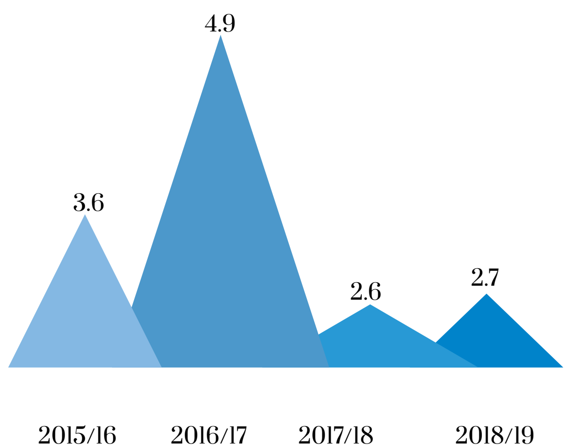


Key Drivers of Economic Growth in 2018

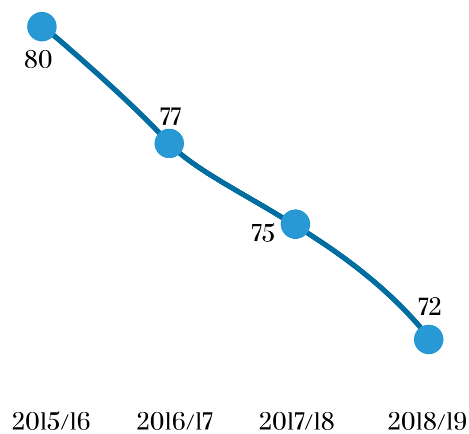


Headline inflation remained moderate in FY 2018/19

Headline Inflation (Growth, %)



Purchasing Power of Ngultrum (2012=100)



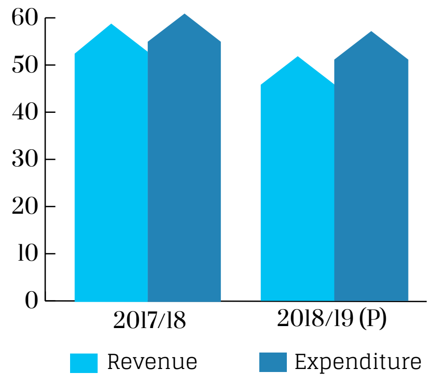
The weights distribution
in the CPI basket:

Food: 45.9%
Non-Food: 54.1%

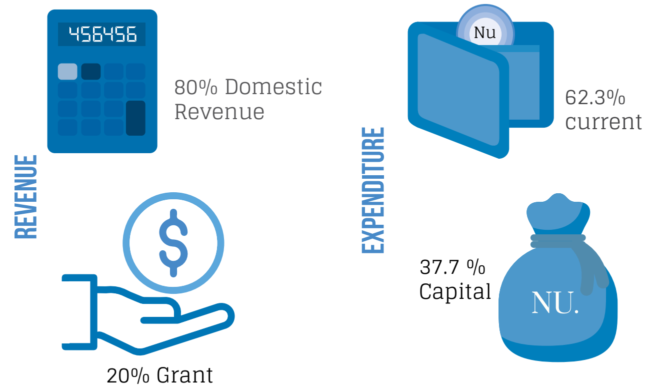
Nu 100 in June 2012 is
worth only Nu 72 in
June 2019 prices

Fiscal deficit remains manageable

Budgetary Operations (Nu in billion)

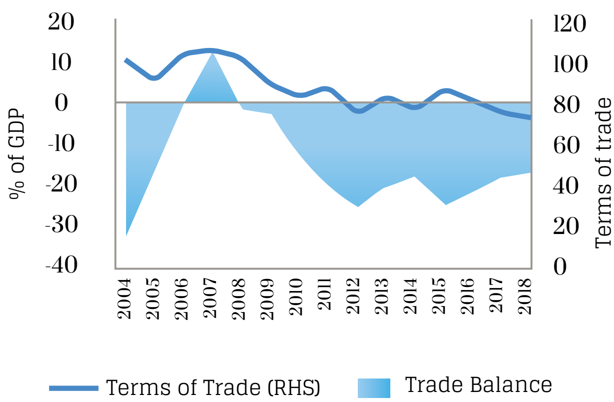


Key Contributors (in % share)

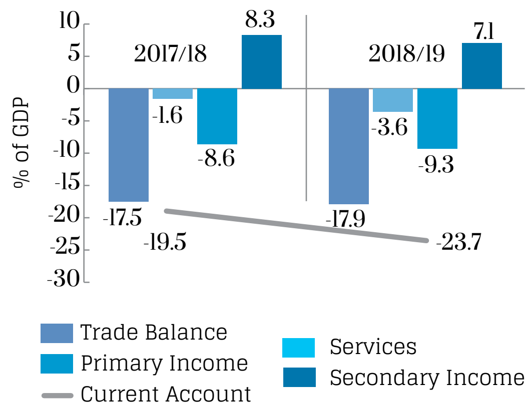


Trade and current account deficit persist

Trade Balance

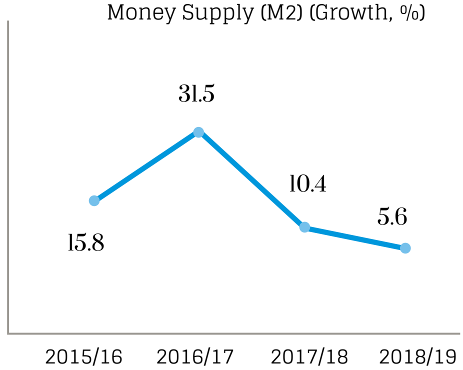


Current Account Balance

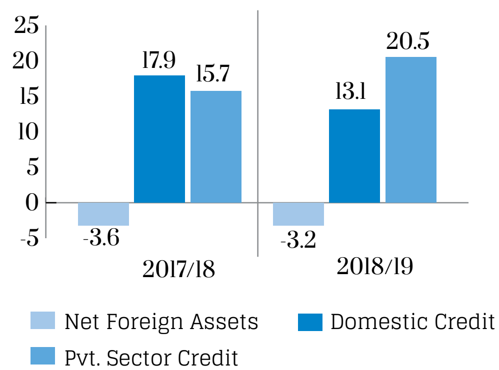


Money supply growth continues to slow down

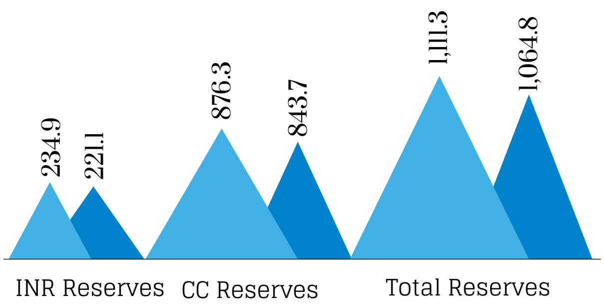
Money Supply (M2) (Growth, %)

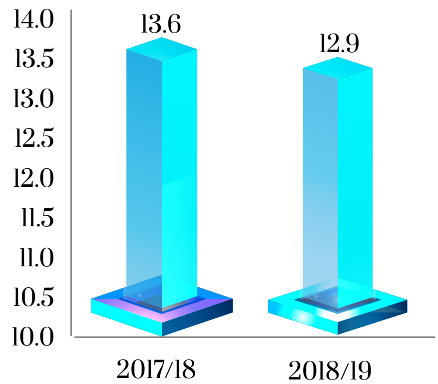


Source of Money Supply (Growth, %)

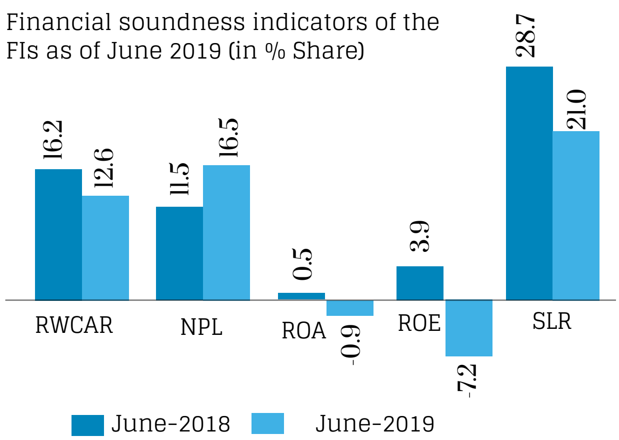


Trend in Foreign Exchange Reserves





Financial sector vulnerability indicators



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

SERVICES & TOURISM

NPL: 31.1%,
O/w: Hotels & Restaurants: 13%
Construction: 61%
Share to total loan: 24.3%

TRADE & COMMERCE

NPL: 21.5%
Share to toal loan: 13.7%

HOUSING

NPL :11.4%
Share to total loan: 25.1%

Policy Initiatives and Interventions

1. Deepening financial sector, managing systemic risk and promoting governance

Rules and Regulations

i. The Crowdfunding Rules and Regulations 2019 was issued to provide alternate source of financing for CSIs and start-up companies.

ii. Issued Risk Management Guidelines 2019 to strengthen risk governance, risk culture and overall risk management of the financial sector.

iii. Issued Abandoned Property Rules and Regulations 2018 to manage the abandoned/unclaimed properties of financial sector.

iv. Issued Penalty Rules and Regulations 2019 that provides broad framework for imposition of penalty for non-compliance to regulatory requirements.

v. Issued Fund Management Rules and Regulations 2019 to protect investors, maximize returns, ensure risk management and promote the domestic financial market.

vi. To combat Money Laundering and Financing of Terrorism, the following regulations and guidelines were issued:

- Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Rules and Regulations 2018
- AML/CFT Risk Based Framework for Banks 2019
- Beneficial Ownership Guidelines for Reporting Entities 2019

Prudential Measures

i. Issued directives on amendment of Section 3.4.2 of the Prudential Regulations (PR) 2017 for the computation of credit exposure limit.

ii. Issued directives on revised enhancement of loan to value (LTV) ratio and loan tenure for Electric Vehicles and Passenger buses from 50 percent to 70 percent and from five years to seven years respectively.

Promoting Financial Access

i. Issued license to two Deposit-taking Microfinance Institutions to promote saving culture and access to finance for rural population and micro business.

ii. Issued one new license to securities brokerage firm to promote the capital market and encourage market participants.

iii. Issued in-principle approval to a new CSI Bank to provide easy access to finance for CSI sector.

2. Digital Drive Continues

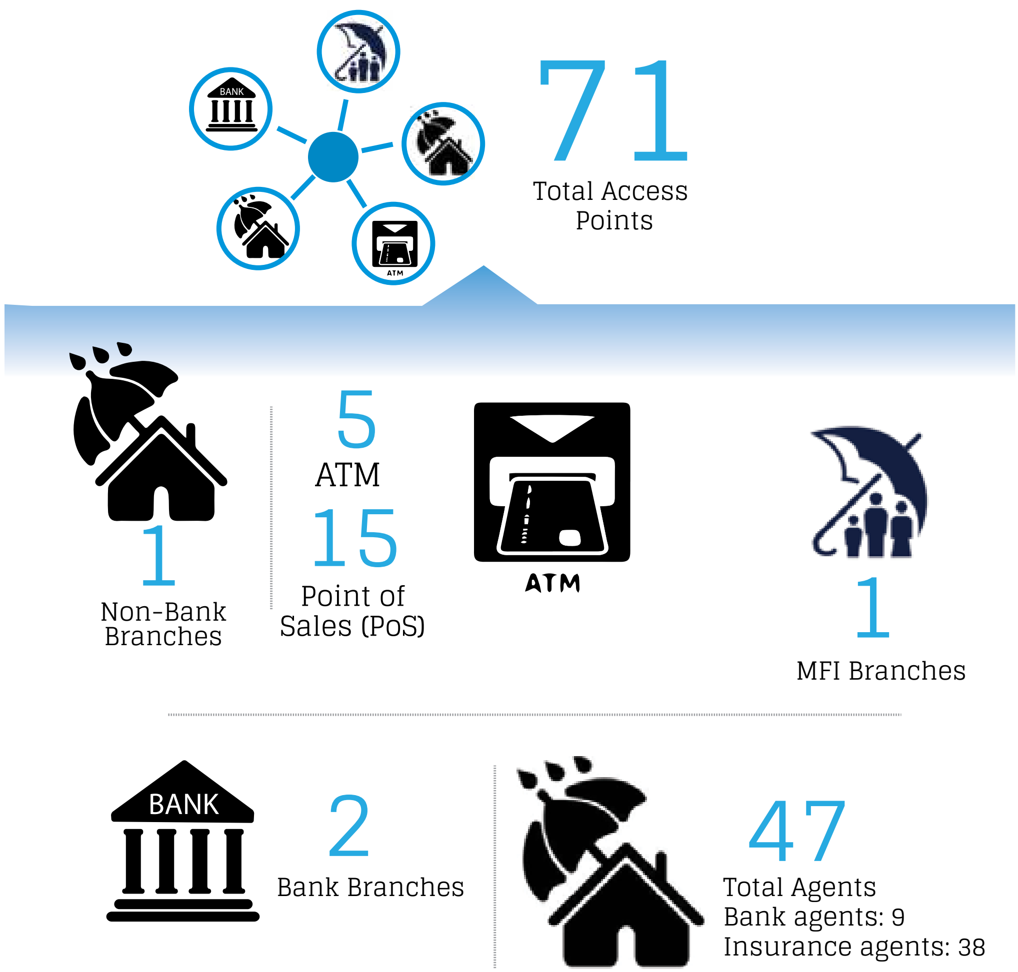
(Going cashless and electronic with interoperability facility)

Implemented the Global Interchange for Financial Transaction (GIFT) payment system to enhance public expenditure management. The electronic based platform using GIFT and electronic Public Expenditure Management System (e-PEMS) helped to transform the government payment such as salaries, including third party payments to vendors/suppliers, on real time basis. The event was launched by Hon'ble Lyonpo Namgay Dorji, Finance Minister, on 22nd July 2019.

3. Financial Inclusion at Glance

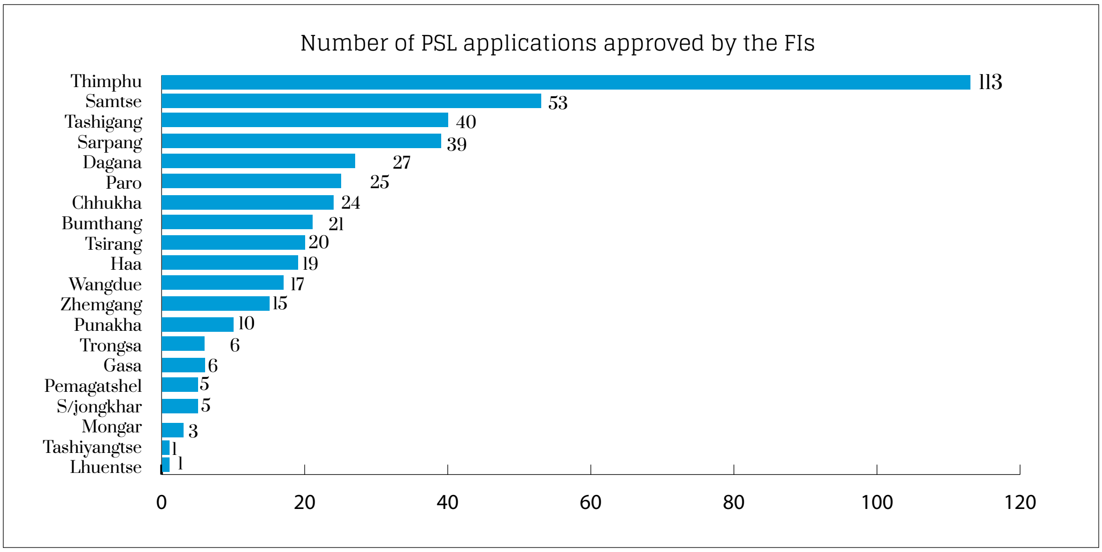
(Access Points, Angel-Investors and Money Week)

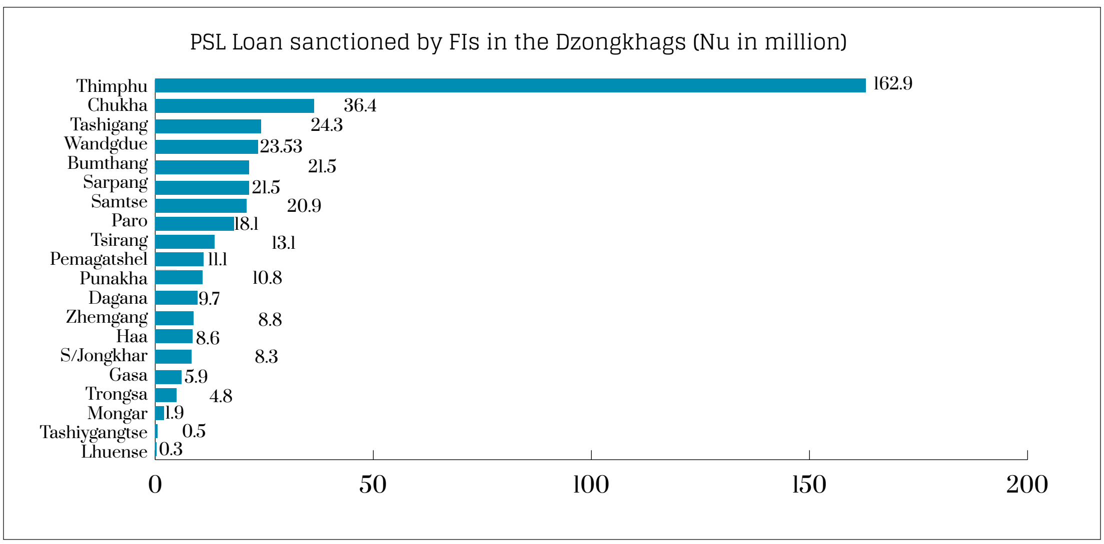
Key Access Points per 10,000 Adults (2018)

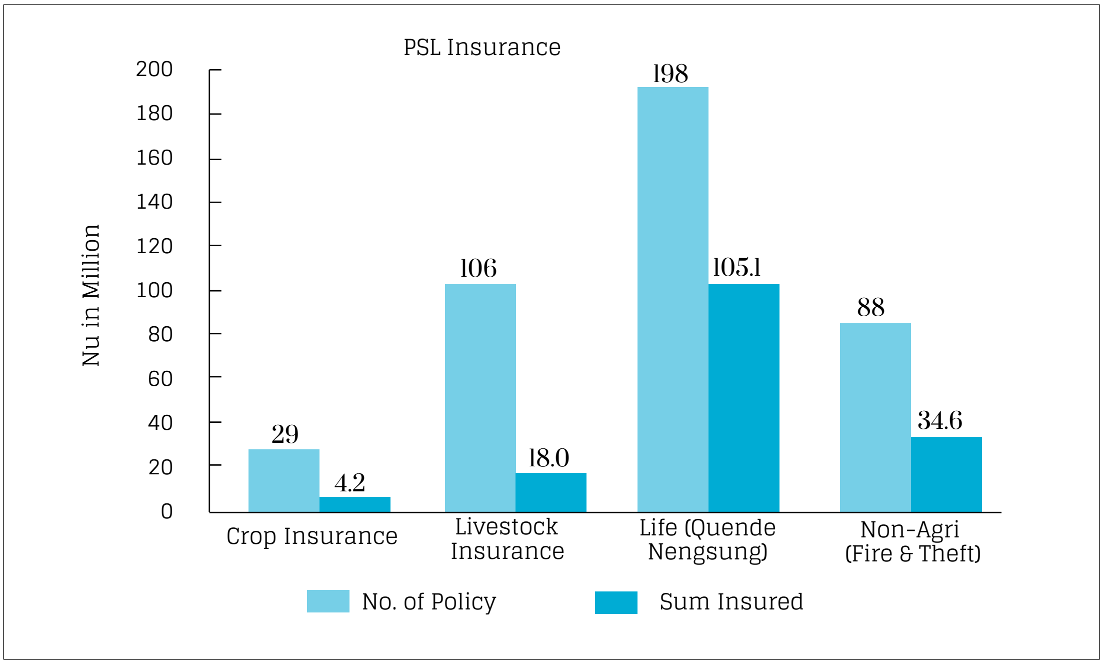


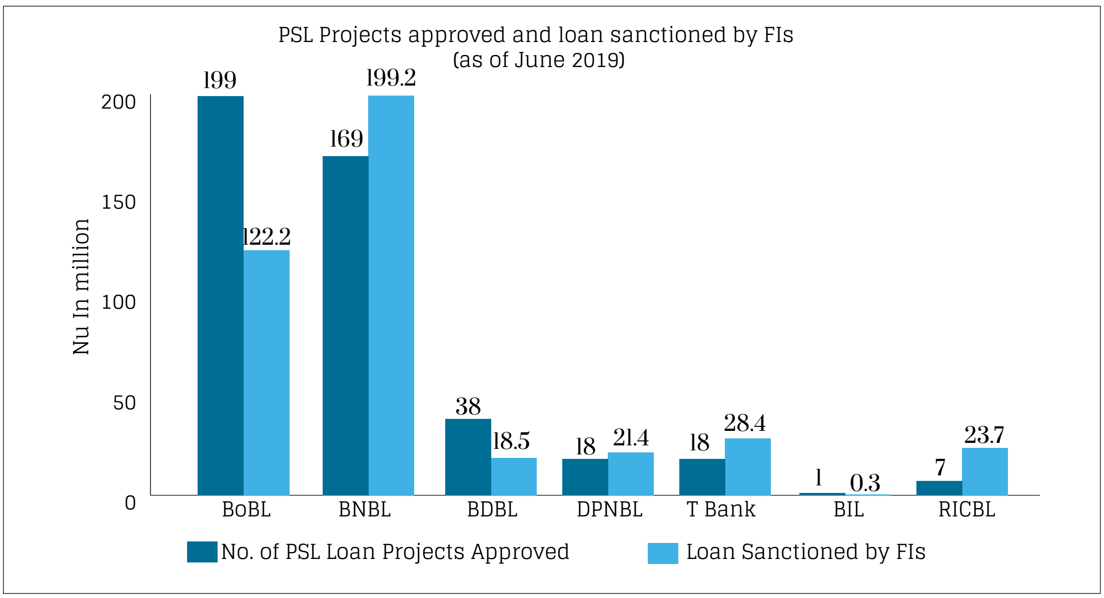
Priority Sector Lending (PSL)

- Dzongkhags collectively received 1,486 PSL applications, of which 1,205 projects were approved.
- The financial institutions collectively assessed 1,002 projects, of which 450 projects were approved.
- The financial insitutions collectively sanctioned Nu 413.62 million, of which Nu 289 million were disbursed.
- The Dzongkhags collectively approved 253 Non-Agri PSL projects (21%) and 952 Agri based PSL projects (79 %).
- The financial institution collectively approved 129 Non-Agri PSL projects (29 %) and 321 Agri based PSL projects (71 %).






PSL Insurance
Nu in Million
200
180
160
140
120
100
80
60
40
20
0
29
4.2
106
18.0
198
105.1
88
34.6
Crop Insurance
Livestock Insurance
Life (Quende Nengsung)
Non-Agri (Fire & Theft)
No. of Policy
Sum Insured


PSL Projects approved and loan sanctioned by FIs
(as of June 2019)
Nu In million
200
150
100
50
0
199
122.2
169
199.2
38
18.5
18
21.4
18
28.4
1
0.3
7
23.7
BoBL
BNBL
BDBL
DPNBL
T Bank
BIL
RICBL
No. of PSL Loan Projects Approved
Loan Sanctioned by FIs

Key Macroeconomic Indicators

Indicator	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
GDP Growth and Prices (% change)						
GDP at Constant (2000) Price (a), (b)	2.14	5.8	6.6	8.1	4.7	3.0
Consumer Prices - June end (b)	8.55	4.8	3.6	4.9	2.6	2.7
Government Budget (Nu in millions) (d)						
Total Revenue and Grants	37,819.12	36,231.1	42,039.3	42,673.1	52,113.2	42,949.1
of which: Foreign Grants	14,236.35	9,955.0	14,889.6	12,986.8	14,847.1	8,262.9
Total Expenditure*	33,522.83	36,475.8	44,688.4	48,018.0	56,331.4	46,724.9
of which: Current Expenditure	5,641.62	21,032.0	22,880.6	24,129.6	27,494.7	29,105.5
Overall Balance	4,296.29	1,896.8	-1,563.7	-5,344.9	-545.5	-3,775.5
(in percent of GDP)	4.08	1.6	-1.2	-3.7	-0.3	-2.0
Money and Credit (% change, end of period)						
Broad Money, M2	6.62	7.8	15.8	31.5	10.4	5.6
Credit to Private Sector	6.44	14.0	14.7	15.4	15.7	20.5
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	4.75-6.50
Lending Rate	10.0-16.0	11.7-17.0	11.7-15.0	8.0-14.0	9.9-13.0	7.94-14.0
91-day RMA Bills/ Treasury Bills	2.28	0.1	5.5	0.7	2.5	4.3
Balance of Payments (Nu in millions)						
Trade Balance(Goods)	-24170.51	-26,662.8	-35,519.1	-31,350.0	-27,956.2	-29,880.3
With India	-17362.45	-18,963.1	-28,878.4	-24,165.4	-25,453.2	-29,363.3
Current Account Balance	-30116.10	-34,177.2	-41,436.1	-36,371.6	-31,604.5	-39,677.4
(In percent of GDP)	-28.58	-28.6	-32.2	-25.1	-19.5	-23.7
With India	-25594.89	-28,684.8	-38,312.6	-33,868.1	-34,014.9	-42,275.7
(In percent of GDP)	-24.29	-24.0	-29.8	-23.3	-21.3	-25.3
RGOB Loans	15331.40	17,838.3	30,052.8	13,078.4	10,655.5	-14,238.6
Of which: India	12742.01	16,600.4	28,574.1	10,093.1	8,176.3	-14,471.9
Errors and Omissions	3179.18	-1,505.3	-1,944.5	6,690.4	-3,899.2	10,464.9
Overall Balance	4280.49	-570.8	12,585	-1,565	4,857.2	621.9
(In percent of GDP)	4.06	-0.5	9.8	-1.1	3.0	0.4
External Indicators (end of period)						
Gross Official Reserves in millions of USD	997.89	958.5	1,118.8	1,103.8	1,111.3	1,064.8
Reserves in months of merchandise imports	12.61	11.7	12.9	12.5	13.6	12.9
External Debt outstanding (USD millions)	1758.96	1,854.6	2,315.6	2,505.4	2,642.1	2,728.4
External Debt (percent of GDP)	102.61	98.9	118.6	108.6	110.1	112.4
CC debt outstanding (USD millions)	628.95	581.2	609.0	663.2	699.8	720.1
CC debt (percent of GDP)	36.69	31.8	32.0	29.5	30.1	29.7
Rupee debt outstanding (INR millions)	67870.15	81,183.6	115,393.8	118,770.1	133,190.7	138,409.4
Rupee debt (percent of GDP)	64.41	67.9	89.8	81.9	83.5	82.7
Debt-Service Ratio (e)	22.71	19.8	14.5	24.8	23.4	37.1
Memorandum Items						
(Nu in million unless otherwise indicated)						
Nominal GDP (a), (b)	105378.35	119,545.8	128,534.6	145,072.9	159,571.7	167,326.8
Ngultrum per USD (fiscal year average)	61.47	62.1	66.3	66.4	65.1	70.6
Money Supply, M2 (end of period)	63387.80	68,344.3	79,162.7	104,113.6	114,973.7	121,416.7
Money Supply, M1 (end of period)	39701.84	41,675.5	44,933.6	60,723.3	66,295.0	69,203.4
Counterparts						
Foreign Assets (Net)	53886.46	58,248.7	67,815.6	68,186.7	66,006.3	63,920.6
Domestic Credit	52299.01	56,255.1	65,692.7	85,084.8	100,320.5	113,488.2
Claims on Private Sector	49838.67	56,820.5	65,157.2	75,185.1	86,985.1	104,850.5
Components						
Currency Outside Banks	5704.58	5,946.1	6,101.7	8,787.7	9,234.0	9,744.1
Transferable Deposits	33997.26	35,729.4	38,831.9	51,935.6	57,061.0	59,459.3
Other Deposits	23685.96	26,668.8	34,229.1	43,390.3	48,678.6	52,213.4
Reserve Money, M0 (end of period)	26638.21	26,248.8	27,802.9	34,327.9	33,469.8	31,973.9
of which: Banks' Deposits	18543.67	16,916.6	18,132.0	22,798.9	24,235.7	18,923.7
Money Multiplier (M2/M0)	2.38	2.6	2.8	3.0	3.4	3.8
Income Velocity (GDP/M2)	1.66	1.7	1.6	1.4	1.4	1.4
Unemployment Rate (a)	2.90	2.6	2.5	2.1	2.4	3.4

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.
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.

3 MACROECONOMIC REVIEW

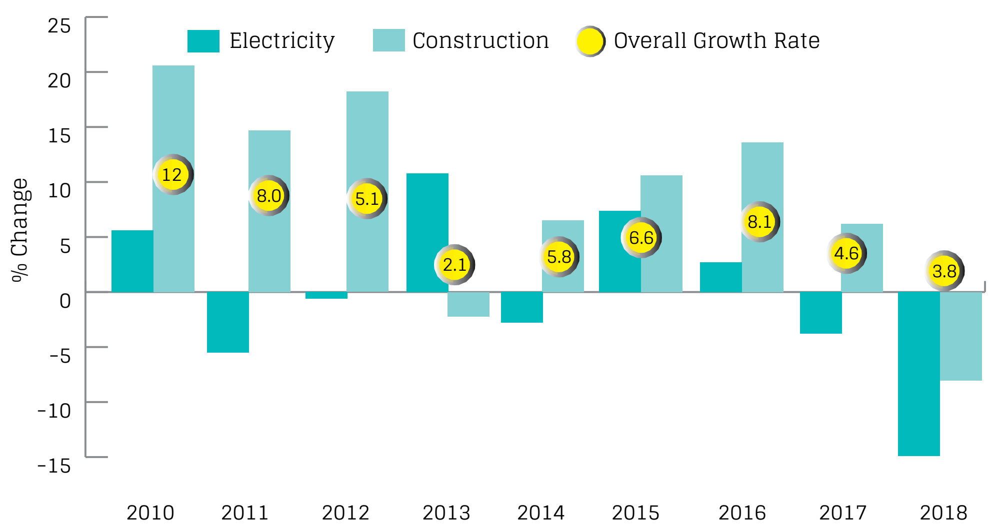
3. Macroeconomic Review

3.1 Real Sector

Economic growth slumps to 4-year low of 3.0 percent in 2018

Successive decline in hydro-electricity production and public investment slowed growth to 3.0 percent in 2018 from 4.7 percent in 2017. Growth has dipped to its lowest level since 2014. Due to lower hydrological flows in 2018, the Gross Value Added (GVA) of the electricity sector dropped by 14.9 percent from 2017. Given that existing hydropower plants are run-of river, the drop in hydrological flows adversely affect generation. During the period, the combined effect of Chhukha and Tala power plants constituted about 85 percent of the decline in generation. At the same time, construction activities decreased by 8.0 percent due to slash in government capital budget allocation in the interim budget of FY 2018/19, falling by more than two thirds, followed by slowing hydropower construction activities. These are the main contributing factors for slippage in growth trajectory by almost 2 percentage points in 2018.

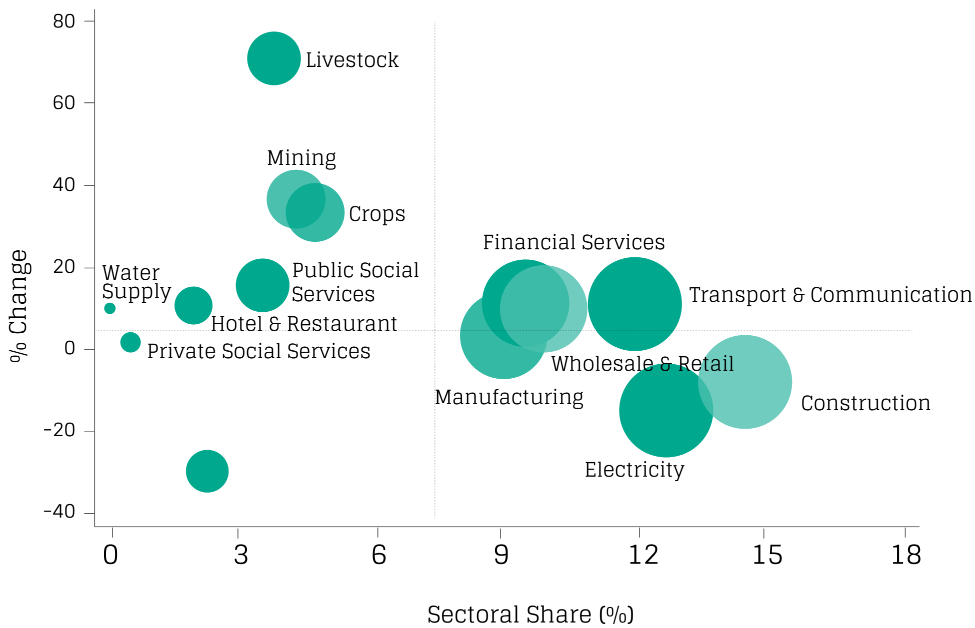
Chart 3.1.1 GDP Growth Trend



Driven by growth in tourism and increased domestic credit financing, trade and restaurant (10.2%), transport and communication (10.9%), and financial activities (11.7%) consequently expanded in 2018. There has been a simultaneous expansion in mining and quarrying, induced by growth in housing construction activities, especially residential construction activities in urban areas. The growth in agriculture sector rebounded through targeted policy interventions undertaken in the recent years, contributing an average growth of 4.4 percent compared to 2.9 percent in 2017.

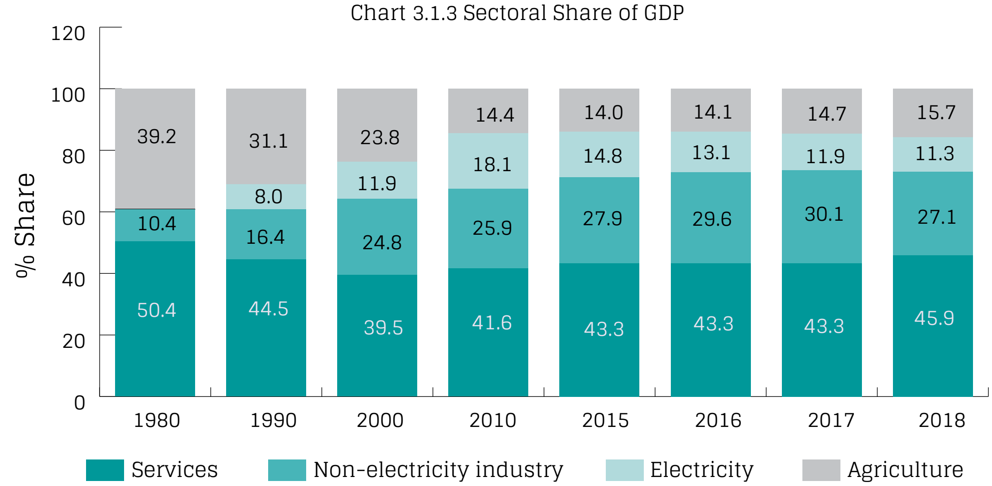
On the other hand, the manufacturing sector growth slowed down significantly to 3.7 percent compared to 6.5 percent in 2017, largely on account of lower domestic demand and weakening external demand for domestic products. This was in particular predisposed to high concentration of exports in few selected manufacturing goods which are dependent on selected markets.

Chart 3.1.2 Sectoral Drivers of Growth: 2018



In terms of broad sectoral development, service sector (tertiary) continues to dominate the GDP. In nominal terms, the service sector constituted about 45.9 percent, followed by industry sector (non-electricity industry sector and electricity) with 38.4 percent and remaining by the agriculture sector at 15.7 percent. The fall in industry sector is attributed to low level of electricity production, uncompetitive manufacturing sector and lack of new construction of hydropower projects. As a result, the dominance of service sector has been consistently increasing since 2014 without a significant change in the structure of the economy in the recent years.

Chart 3.1.3 Sectoral Share of GDP



On the expenditure front, expenditure on goods and services was dominated by consumption demand

With increased government consumption growth by 8.1 percent and a rebound in private consumption at 3.2 percent, from a negative 4.5 percent in 2017, domestic expenditure growth sustained at 3.0 percent in 2018. On the other hand, investment level fell consecutively with an average of 2.1 percent and 5.6 percent in 2017 and 2018 respectively.

A slash in government capital expenditure and slowdown in hydropower investment resulted in a 5.6 percent drop in overall investment expenditure in 2018. During the interim period, between the transition from the 11th FYP to the 12th FYP, capital budget was limited to spillover projects. As such, government investment decreased by 9.7 percent in real terms. At the same time, the near completion of ongoing hydropower projects and slower kick start of pipeline projects resulted in a 4.3 percent drop in private investment. Despite uptick in non-hydro goods (ferro silicon) exports and simultaneous drop in hydro-related imports, the trade deficit slightly improved.

Receding investment and saving rate have weakened domestic demand and income growth

Domestic demand is largely supported by consumption growth through increasing government operation expenditures. During the period, fall in both hydropower investment and government capital expenditure had a double effect on output growth. The deterioration in domestic savings and slowing investment rate in the recent past have also contributed in weakening economic growth. Due to subsequent fall in investment rate in 2018 to 46.5 percent (54.2% in 2016) and domestic saving rate to 26.7 percent (30.9% in 2016) the growth trajectory has fallen to 3.0 percent (8.1% in 2016).

Against this backdrop, slowing economic growth impacted income prospects. Income level, as measured by the per capita gross domestic income(GDI), increased to Nu 207,334 in 2018 from Nu 198,099 in 2017, equivalent to a 4.6 percent growth in nominal terms and only 2.7 percent increase in real value. However, in terms of US dollar, with depreciation of domestic currency, the per capita GDP fell to USD 3,031 in 2018 from USD 3,043 in 2017. As a result, weak income growth was not able to boost real domestic demand in the economy.

Chart 3.1.4 Domestic demand growth and contribution

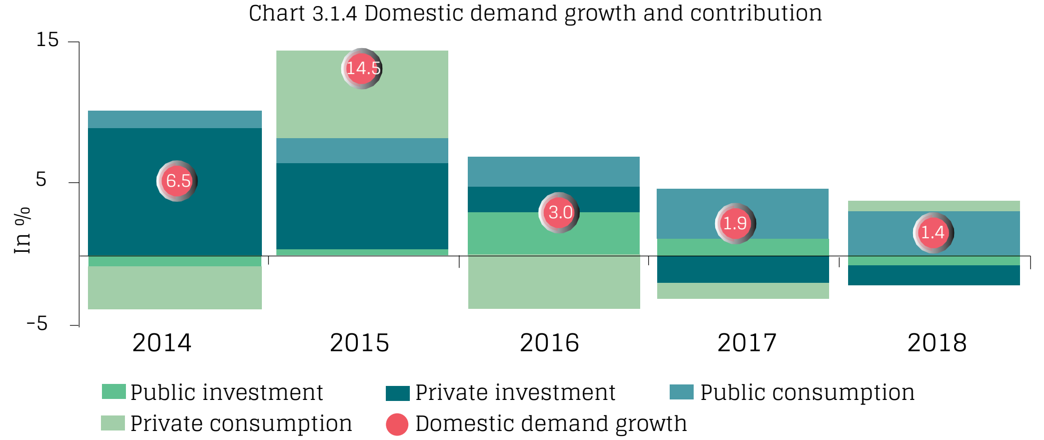
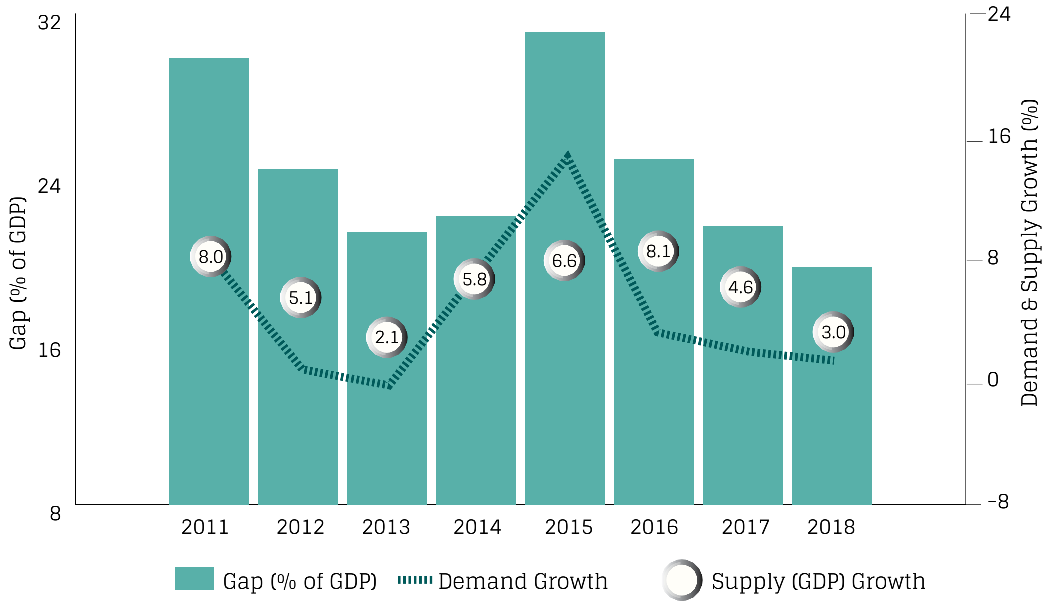
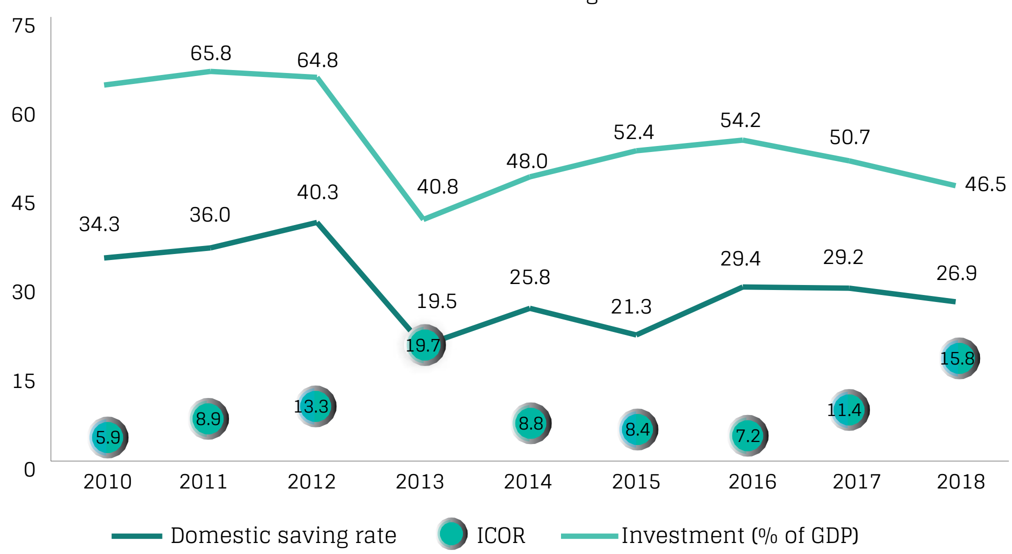


Chart 3.1.5 Supply and Demand Gap: Trade Deficit



As indicated by Incremental Capital Output Ratio (ICOR), the productivity of capital worsened from 7.2 in 2016 to 15.8 in 2018. This reflects lower investment rate in the recent past reflecting an under-average economic performance. Cut back in government capital expenditure at a time of declining hydropower investment has translated into lacklustre growth in 2018.

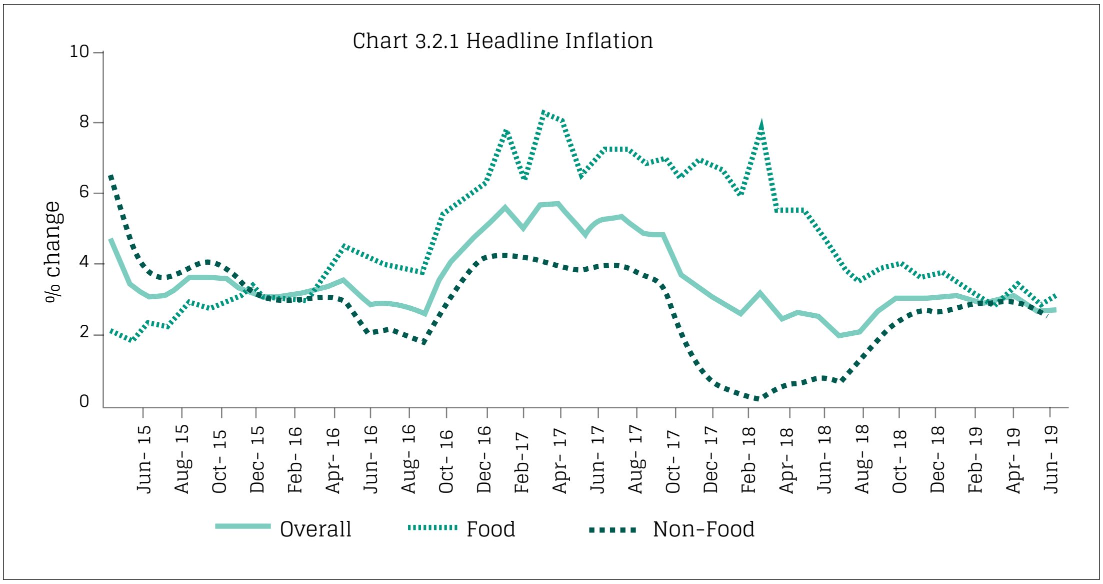
Chart 3.1.6 Domestic Saving and Investment Rate



3.2. Inflation

With slowing food price pressure, headline inflation remained at a lower level of 2.7 percent in June 2019

The annual headline inflation rose moderately to 2.7 percent in June 2019 from 2.6 percent in June 2018 due to favourable supply, especially in the agriculture sector, and moderate increase in consumer demand. The enhancement in agriculture production on the supply front and moderate consumption growth resulted in lower inflation of food prices, from 5.1 percent in June 2018 to 3.1 percent in June 2019. However, non-food inflation, which comprises about 60 percent of the total consumer basket, elevated to 2.6 percent in June 2019 (0.9 % in June 2018).



With slowing inflationary pressure in the region, particularly in India, the imported inflation comprising about 52 percent of total consumer basket, experienced lower inflationary pressure compared to domestic inflation. Therefore, the relative contribution of imported inflation to headline inflation slowed down to 40 percent in June 2019 compared to 72 percent of the previous review period.

Inflation driven by prices of non-tradable goods

With a temporary ban on fish import on health grounds, the price of fish increased significantly, averaging 8.2 percent increase throughout the twelve months period. A disinflation in bread and cereal (3.4%), vegetables (3.3%) and fruits (3.4%) in June 2019 from 5.8 percent, 5.3 percent and 9.4 percent respectively in June 2018 tempered food inflation. In terms of weights of the total food basket, bread and cereal comprise (24.4%), vegetables (19.6%) followed by milk, cheese and eggs (17.2%).

Despite persistent increase in supply of residential housing in urban areas, house rents experienced constant rise from January 2019. A speculation in civil service pay and allowances revision had a corresponding effect on the demand side, increasing housing rental to 3.1 percent in June 2019 (0.7% in June 2018). Similarly, transportation prices increased by 2.5 percent from a negative of 1.2 percent in June 2018, although there was only a moderate increase in fuel prices. House rent and transportation were the main contributing factors that impacted prices of non-tradable goods under non-food category.

Slowing inflation in India subdued imported inflation at 2.1 percent in June 2019

A large share of consumer demand for goods and services are met from external supply, constituting about 52 percent of the consumption basket. Imports from India constitute more than three fourths of total imports. The slowing inflation in India towards June end 2019 has resulted in lowering food inflation in Bhutan. The imported food inflation dropped by 3.5 percentage points, to 2.7 percent, from June 2018. This was largely driven by a downward trend in inflationary pressure on edible items with favourable agriculture production in India. During the period, non-food imported inflation also increased moderately at 1.7 percent.

Chart 3.2.2 Drivers of Food Inflation

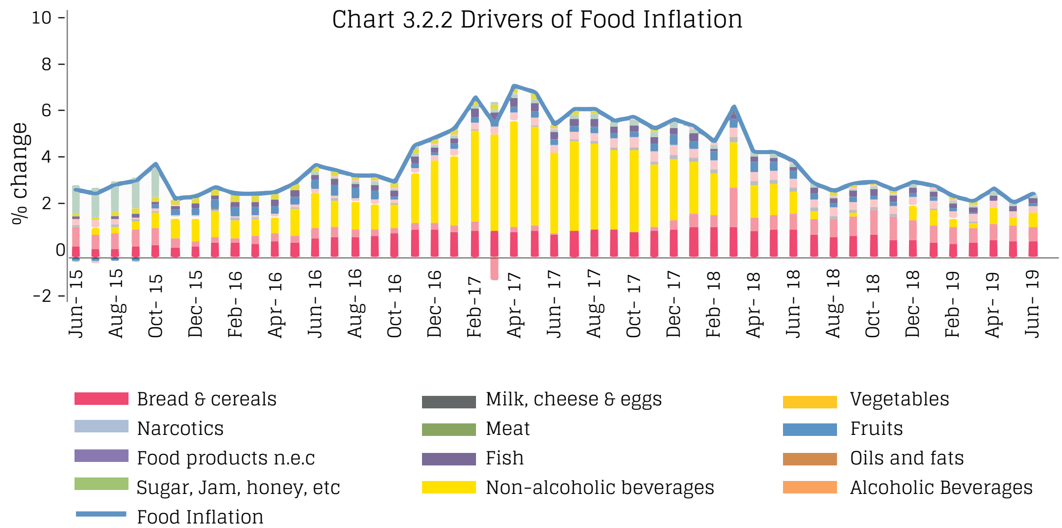
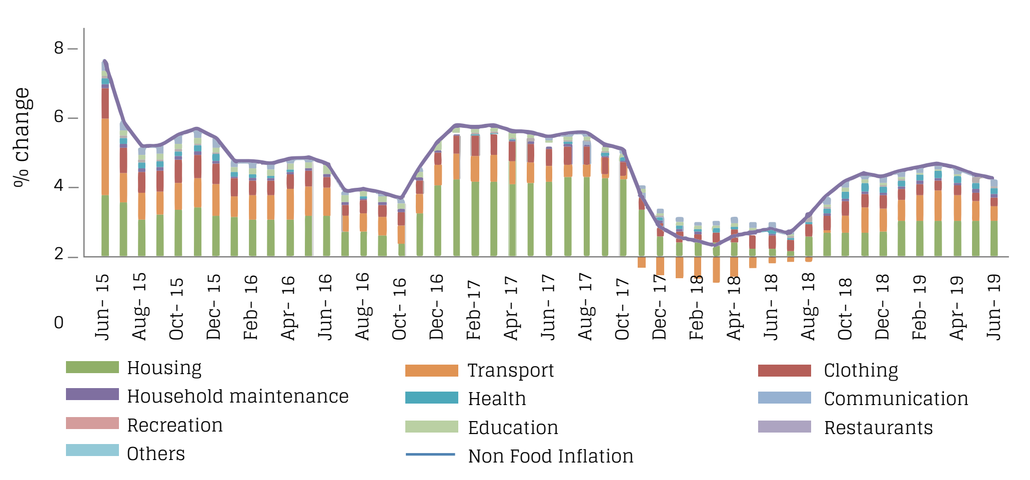
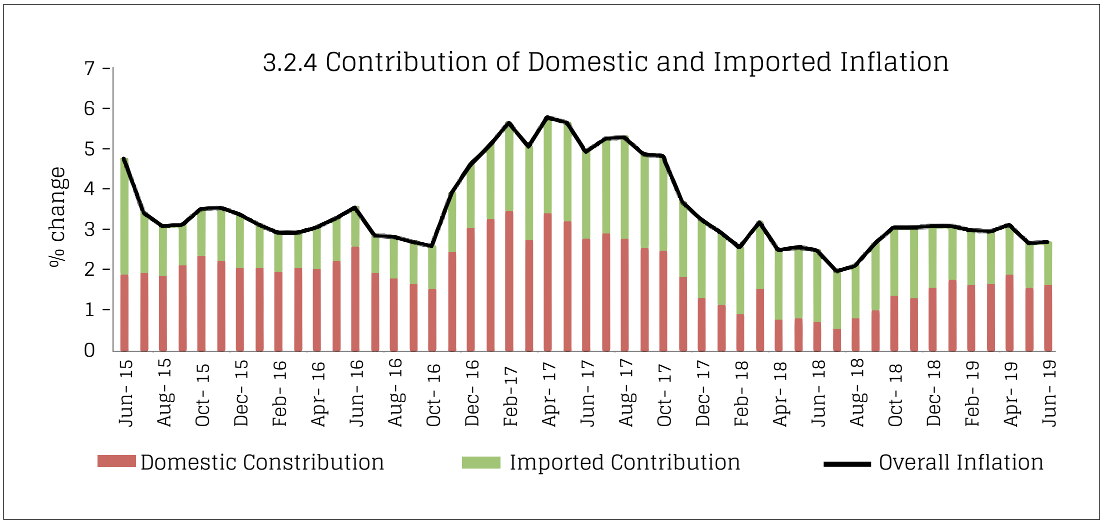
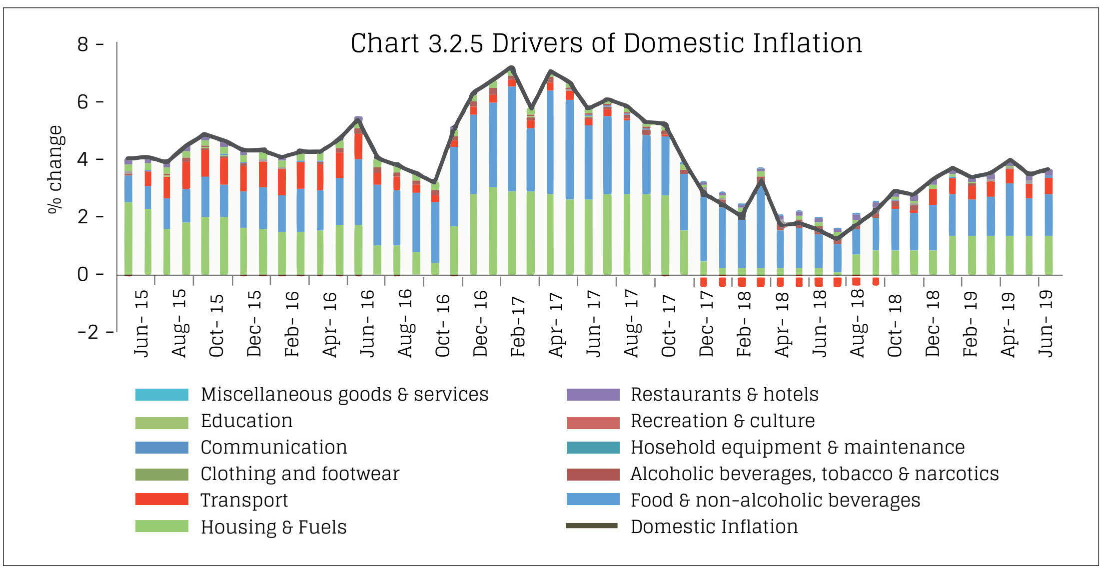


Chart 3.2.3 Drivers of Non-Food Inflation





Despite subdued domestic food inflation and favorable imported food prices, non-food prices in the domestic market increased to 3.5 percent in June 2019 (0.2% in June 2018). The domestic non-food items classified under domestic consumer basket constitutes about 67 percent and largely comprises non-tradable goods and services such as housing, transportation and restaurant. During the period, housing and transportation prices in the domestic market increased by 6.0 percent and 7.5 percent respectively.



In tandem with rising prices of non-tradable items, core inflation steadily increased to 2.7 percent in June 2019 (1.1% in June 2018)

The underlying consumer price inflation is measured through core inflation, which excludes volatile items like food and fuel. It reflects the true relationship between prices of goods and services and consumer demand. Excluding food and fuel prices from the headline price index, core inflation increased to 2.7 percent, which is 1.6 percentage points higher than the previous year.

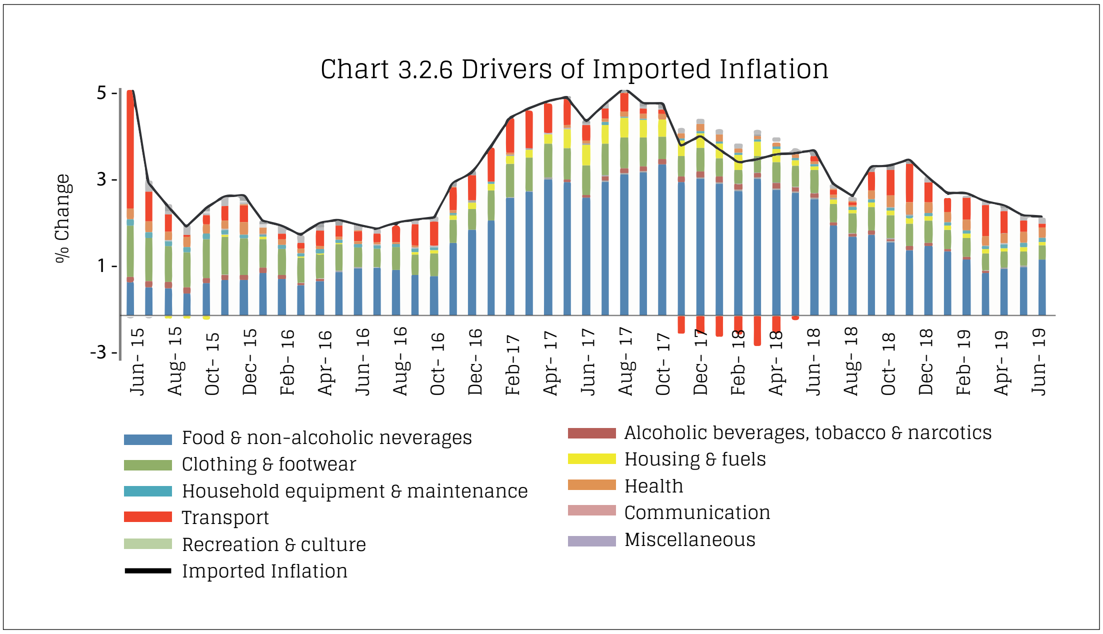


Chart 3.2.6 Drivers of Imported Inflation

The acceleration in housing, transportation and restaurant services are the key factors for uptick in core inflation. Unlike other tradable goods, prices of non-tradable goods and services have limited the scope for price adjustment through substitution effect between domestic and foreign products. Compared to price of services, prices of goods was observed to be more volatile in nature, while the price of other core goods and services (clothing, education, health, and communication) experienced a moderate inflationary pressure. The rise in housing inflation, especially in the urban areas, has also induced core inflationary pressure.

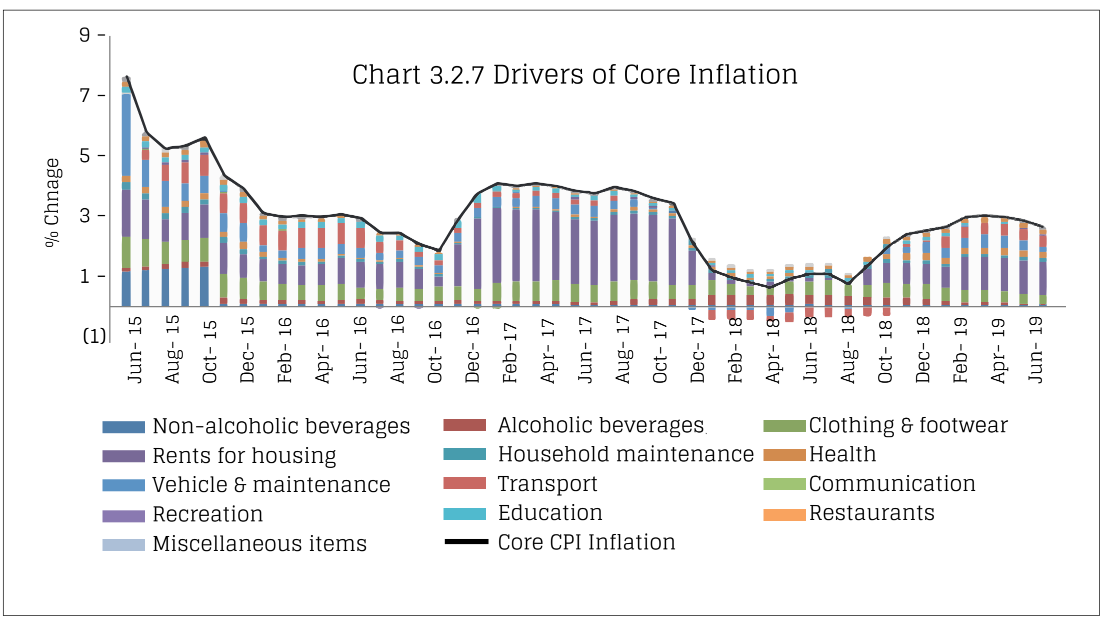


Chart 3.2.7 Drivers of Core Inflation

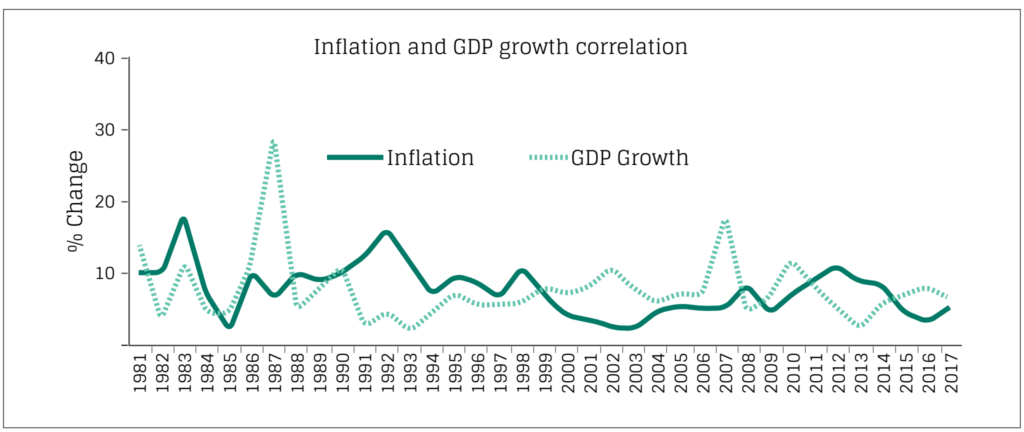
BOX 3.1.1 Estimation of Growth-Maximizing Inflation : Threshold Inflation

Inflation targeting is increasingly becoming the focus of macroeconomic policy programme in developing economies. This is due to price stability being chosen as one of the most important monetary policy objectives. Therefore, understanding the true relationship between economic growth and price level is critical for policy making. Existing literature on inflation and economic growth indicates that there is non-linear relationship between inflation and GDP growth. It is widely recognized that a higher inflation is harmful to economic growth and lower inflation supports growth. Higher price level brings uncertainty in the decision making of economic agents such as household utility maximization and profit maximization for producers.

Empirical studies have found that existence of non-linear relationship between inflation and economic growth varies from country to country and changes over the period. Economic growth is positively correlated when inflation is below a certain level and negatively thereafter, termed as threshold level of inflation, for economic growth. The existence of non-linear relationship between growth and inflation was initially explored by Fischer (1993). The Chakarvarty Committee (1985) concluded that 4 percent inflation is an acceptable price range for India. The threshold inflation for the Indian economy was conceptualized by Rangaran (1998) with the acceptable inflation rate estimated at 6-7 percent for the Reserve Bank of India (RBI). A recent study by Deepak Mohanty, A B Chakraborty et al. (2011) suggested 4-5.5 percent threshold inflation for India. Given the importance of determining the appropriate range of inflation level even for pegged exchange rate regimes in developing economy, Tara Prasaad Bhusal and Sajana Silpakar (2011) estimated the threshold inflation for Nepal at 6 percent which is slightly higher than in India.

Similarly, it is also important to examine the relationship between inflation and growth in Bhutan. For instance, expansionary monetary and fiscal policy is desirable to boost economic growth but at the same time simultaneous increase in price level may not generate expected welfare gain in the economy. Higher inflation negatively and strongly impacts the lower income group, distorts market pricing and financial assets valuation, and degrades central bank's policy credibility on price stability. Given the policy relevance on improving the living standard of the people through enhanced economic growth and price stability, finding the growth-maximizing level of inflation for Bhutan is essential.

Bhutan witnessed an average of 7.6 percent inflation, from the highest at 18.0 percent in 1983 to the lowest at 1.8 percent in 1985. On the other hand, annual GDP growth averaged 7.6 percent between 1981 and 2017, with 28.7 percent in 1987 and 1.4 percent in 1991. Till the



mid-1980s, volatility in inflation and economic growth was due to large investment for the first mega hydropower project . In some periods, trends depict episodes of higher inflation and lower economic growth. As illustrated in the figure above, in early 1990s, largely due to structural shift in development policy in India, higher inflationary pressure in India impacted Bhutan with double digit level of inflation, averaging 11.6 percent, with low economic growth at 3.2 percent. On the contrary, there has been co-existence of higher inflation and higher growth in the late 1990s and in 2007-2009. In the recent past, despite lower inflation, there has been slower economic growth. Given the historical relationship between inflation and growth, it is not straight forward to generalize and conceptualize a suitable threshold inflation for Bhutan. Even though trends and cluster analysis suggest negative effect of inflation on economic growth, the study focused on estimating the threshold inflation level above which inflation can adversely impact growth in Bhutan. Therefore, threshold inflation for Bhutan is estimated using the following methodology and models. The gross domestic product (GDP) at constant price, consumer price index (CPI) and real investment annual data from 1980 to 2017 are used for estimating ordinary least square (OLS) and quadratic equation model.

Non-linear OLS Model

Prior to model estimation, all-time series variables are tested for stationarity using augmented Dickey-Fuller Unit Root test. All the growth rates, including inflation are stationary at 1 percent and 5 percent significance level respectively. The Granger Causality test is applied to measure the causation or feedback relationship between inflation and economic growth. The test shows that inflation causes or affects economic growth while there is no causation or feedback from GDP to inflation. Investment does not have significant impact on GDP, however, it jointly causes GDP in the model. The test helps in model specification to choose the dependent and independent variables and helps in finding the existence of relationship between inflation and economic growth. The ordinary least square threshold estimation model is represented as follows:

$$Y_t=\beta_0+\beta_1 \pi_t+\beta_2 D_t*(\pi_t-\pi^*)+\beta_3 I_t+\beta_4 z_t+e_t \quad (1)$$

Where Y_t is the GDP growth rate, π_t is inflation, I_t is investment growth rate, z_t is dummy variable for one time high level of GDP growth during hydropower commissioning, π^* is threshold level of inflation, and D_t is the dummy variable defined as:

$D_t=1$ if $\pi_t > \pi^*$
$D_t=0$ if $\pi_t \leq \pi^*$

The parameter π^* represents the threshold inflation level with the property that the relationship between inflation and economic growth is measured by β_1 when inflation is lower than the assumed threshold and is equivalent to $\beta_1+\beta_2$ when inflation level is higher than assumed threshold.

In order to estimate the growth maximizing inflation, equation (1) is run at threshold values of inflation varying from 2.5-8.5 percent, of ten equations and selected results are reported in the output table. The equation with the minimum level of root mean square error (RMSE) is identified as threshold inflation. Except for the threshold value 2.5 percent below and above 8.5 percent, there is significant relationship between inflation and growth. The negative impact of inflation on growth increases largely when inflation level crosses above 7.0 percent level. From the estimates, GDP growth maximizes when inflation is within the range of 4.5-6.5 percent and based on computed RMSE, the threshold level of inflation is 6.3 percent for Bhutan. The results also show that both the coefficients of inflation and threshold inflation (β_1 & β_2) is not significant when threshold is 2.5 percent and below, implying no significant relationship between inflation and output growth. Similarly, when threshold level is 7.0 percent and above, estimated coefficient of inflation (β_1) on output growth is not significant but threshold inflation has significant effect on growth, entailing an inflation of 7.0 percent and above is intolerable for growth. Contrary to growth theory, when inflation is used as a determinant of output growth, investment has no impact on output growth even though direction of impact is positive, it is statistically insignificant at various time lags. This could be due to higher volatility and limited instantaneous effect on output such as hydropower investment, which is lumpy and takes longer to realize investment returns. The dummy GDP was used mainly to adjust the outliers in GDP growth and to fit model.

Table 5: Non-linear OLS Method for Threshold Inflation Estimation

Sl. #	Threshold Inflation*	GDP growth	Coefficients	Std. Error	t-Statistic	P-value	RMSE
1	2.5%	Inflation	5.340	5.331	1.000	0.325	3.416
		(Inflation- Inflation*)	-5.601	5.394	-1.040	0.308	
		Investment growth	0.009	0.033	0.270	0.790	
		Dummy GDP	0.000	0.000	0.000	0.000	
		Constant	10.655	1.850	5.760	0.000	
2	6.0%	Inflation	1.017	0.547	1.860	0.074	3.185
		(Inflation-Inflation*)	-1.740	0.746	-2.330	0.027	
		Investment growth	0.007	0.031	0.230	0.823	
		Dummy GDP	10.680	1.717	6.220	0.000	
		Constant	2.314	2.641	0.880	0.388	
3	6.3%	Inflation	0.902	0.492	1.830	0.077	3.175
		(Inflation-Inflation*)	-1.663	0.700	-2.380	0.024	
		Investment growth	0.006	0.031	0.190	0.848	
		Dummy GDP	10.666	1.712	6.230	0.000	
		Constant	2.693	2.471	1.090	0.285	
4	7.0%	Inflation	0.580	0.412	1.410	0.171	3.241
		(Inflation-Inflation*)	-1.353	0.653	-2.070	0.047	
		Investment growth	0.005	0.031	0.160	0.872	
		Dummy GDP	10.827	1.746	6.200	0.000	
		Constant	3.915	2.256	1.740	0.094	

Quadratic Model

Further to check the robustness of the estimated threshold inflation from OLS method, the quadratic equation model has been used. The following quadratic equation is specified to estimate the threshold inflation:

$$Y_t=\beta_0+\beta_1\,\pi_t+\beta_2\,\pi_t 2+\beta_3\,I_t+\beta_4\,z_t+e_t \qquad (2)$$

The threshold inflation is calculated from the estimated parameters from the model after having fulfilled following two conditions:

i. $dy_t/d\pi_t=0$ ii. $(d^2 y_t)/(d\pi_t^2)<0$

The threshold inflation $(\pi^*)= -\frac{\beta_1}{2\beta_2}$, which is at a point where GDP growth is at maximum and deteriorates thereafter. The quadratic equation result has determined the threshold inflation of 6.5 percent as given in the Table. Therefore, as per the quadratic equation model, output maximizes when inflation level is at 6.5 percent and it negatively affects growth when inflation marks higher than the estimated threshold level.

Table 6: Quadratic Equation Method for Threshold Inflation Estimation

GDP Growth	Coefficient	Standard Error	t-Statistic	P- value
Inflation (β_1) Inflation^2 (β_2) Investment growth (β_3) Dummy GDP (β_4) Constant (β_0)	2.374 -0.183 0.010 10.812 0.014	1.017 0.071 0.030 1.688 3.245	2.330 -2.560 0.330 6.400 0.000	0.027 0.016 0.742 0.000 0.996
Observation	33	Residual Sum of Square (RSS)		274.929
R^2	0.650	Model Sum of Square (MSS)		511.348
Adjusted R^2	0.600	Root Mean Square Deviation (RMSE)		3.134
Threshold Inflation	6.5			

Although the estimated inflation threshold is 0.2 percentage points higher compared to 6.3 percent of OLS estimation, the results are within a narrow range from 6.3-6.5 percent without much variation. Both models have estimated threshold inflation at a similar level, implying that the estimated results are robust.

The empirical results based on OLS method shows that economic growth maximize at 6.3 percent inflation, indicating that inflation at 6.3 percent and below supports growth. On the other hand, when inflation is beyond 6.3 percent, inflation deteriorates growth prospects. The result also indicates that there is regime switching from positive impact of inflation on growth when inflation is up to 6.3 percent to negative when inflation marks above 6.3 percent. Therefore, estimated threshold inflation for growth is at 6.3 percent for Bhutan. The given result is further tested and confirmed using quadratic model which estimates threshold inflation at 6.5 percent with a minimal deviation. The sensitivity test also shows that the results are robust, concluding that the threshold inflation for Bhutan is within the range of 6.3 and 6.5 percent.

The empirical findings suggest that policy makers need to cautiously take inflation level at maximum of 6.5 percent as red alert for economic growth, while formulating macroeconomic policy, especially for monetary policy operation. The concerned authorities must ensure growth-supportive monetary policy framework by containing inflation below 6.5 percent, above which growth is likely to be costlier.

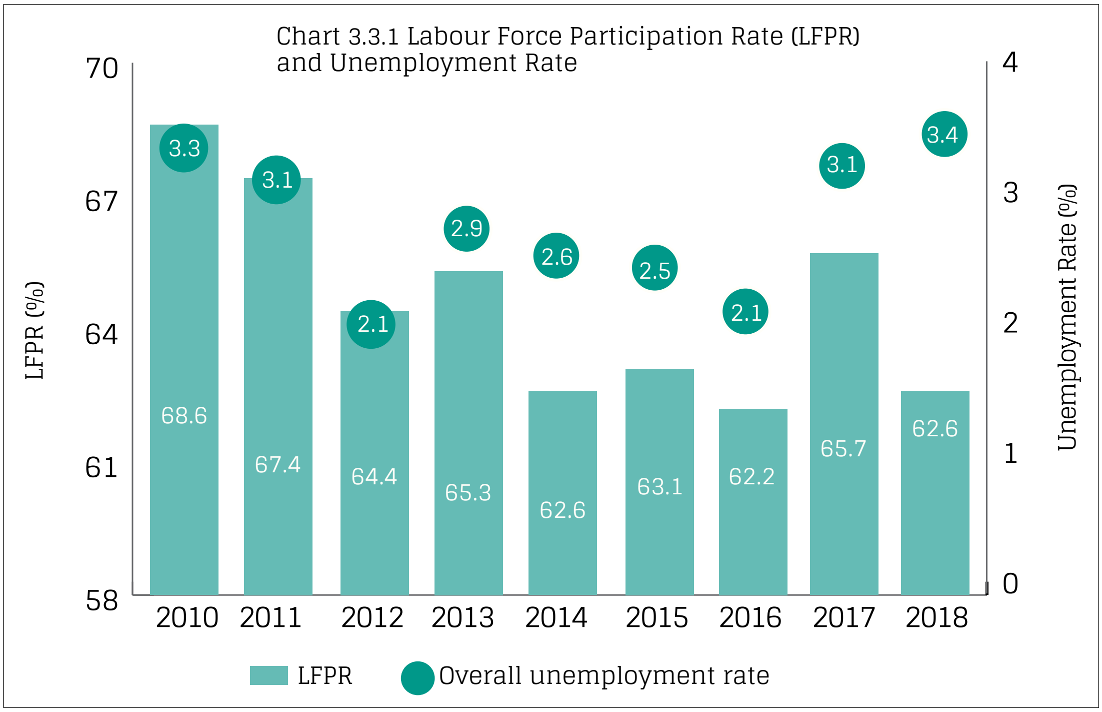
Although inflation threshold and inflation target are correlated, the latter is more towards policy applications to steer monetary policy tools to achieve it, while inflation threshold is a level where growth-inflation trade-off starts. Nonetheless, threshold inflation will be valuable inputs for setting inflation target for monetary policy operations. Considering the time lag of monetary policy transmission assessment and to have adequate buffer to accommodate exogenous shocks, inflation target must be set lower than the inflation threshold. At the same time, it is imperative to remain cautious in deducing policy implications on this basis as there are supply side factors that affect growth through different channels. For instance, in recent years, the monetary policy programme has limited impact on both inflation and growth, since inflationary pressure was largely influenced by domestic demand and supply and exogenous factors.

3.3. Employment and Labour Market

Based on Population and Housing Census of Bhutan 2017, the estimated population for 2018 is 734,374, about 1 percent growth from 2017. The male population constitutes about 52.2 percent, equivalent to sex ratio of 110. The working-age population, 15 years and above, is 496,550, which constitutes about 68 percent of total population[1] . On an average, for every ten persons, there are seven potential workers, reflecting higher level of economic support ratio.

Despite increasing working-age population, labour force participation rate remains more or less constant

In 2018, a total of 185,694 potential workers remained out of the labour force, largely students (43%), attending family duties (28%) and old age (15%)[2]. In terms of age, youth population in the age group 15-24 years comprises 48 percent of total inactive population followed by old age population above 65 years (18%).



During the period, labour force participation rate (LFPR)- labour force to working-age population decreased to 62.6 percent compared to 65.7 percent in 2017, with increase in number of potential workers attending family duties[3]. Compared to female LFPR (55.5%), male LFPR is higher at 70.1 percent whereby 18 percent of potential female workers are engaged in household works compared to 2 percent of male. Although LFPR in urban areas is higher than rural areas, there is higher gender disparity; only 45.1 percent of potential female workers are in labour force compared to 60.1 percent in rural areas. Unlike in urban areas, rural female labour force is easily absorbed in the agriculture sector.

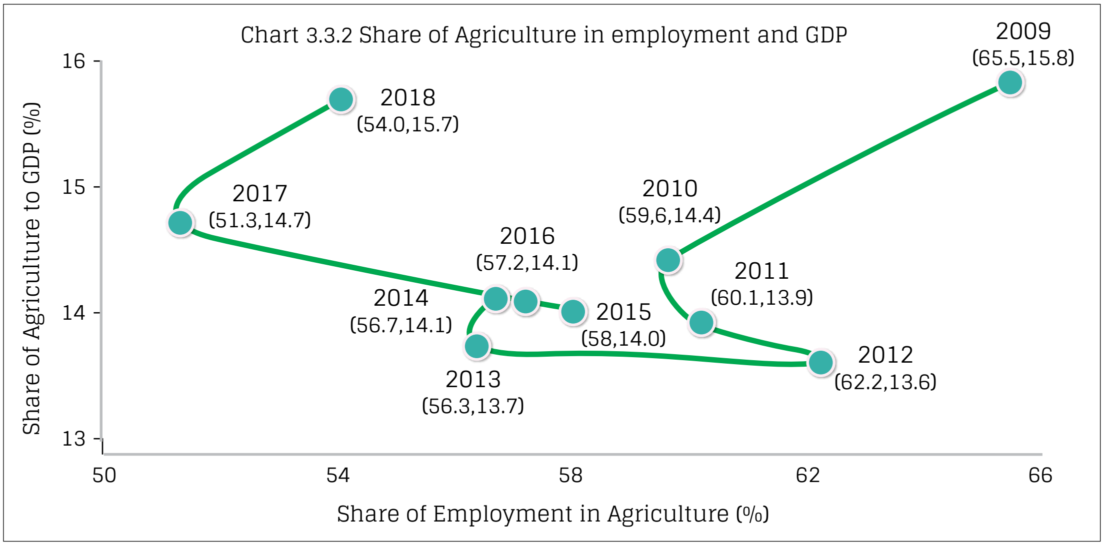
[1] According to Population Projections Bhutan 2017-2047, ratio of working-age population to total population is 74.5% in 2018. In absence of total population figure in LFS 2018, overall population data is sourced from Population Projections of Bhutan 2017-2047.

[2] Working age population attending household or family duty is defined as inactive persons who are not seeking and available for work.

[3] Depending on situation and other economic reasons of the given potential workers, all are not available or no willingness to perform economic activities or portion of working age population (WAP) either employed or looking for work is known as labor force

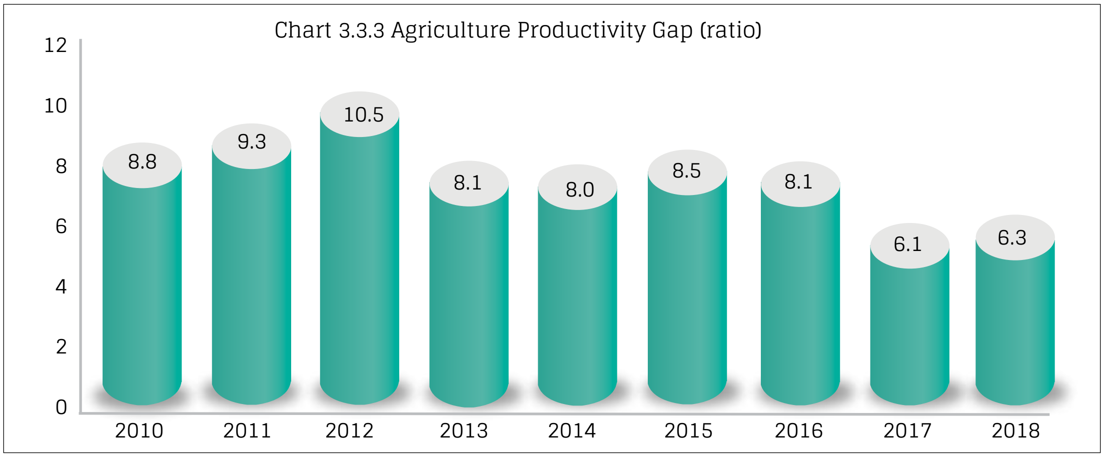
Higher productivity gap in agriculture sector led to lower GVA despite higher level of employment

Agriculture is still a principal economic activity in rural areas generating more than half the total workforce. However, with gradual economic transformation from agriculture to industry to service sector, employment in agriculture has been steadily declining from 59.6 percent in 2010 to 54 percent in 2018. About 75 percent of rural employment is in the agriculture sector, largely composed of female workers. More than 80 percent of female employment in rural areas are in the agriculture sector compared to 6.6 percent in urban areas. The labour productivity in agriculture sector is also comparatively lower



than industry and service sectors. Driven by the electricity sector, which is capital intensive in nature, labour productivity in the industry sector is higher than the agriculture sector. Overall, employees work 53 hours per week at national level whereas workers in agriculture, industry and services sector work 54 hours, 51 hours and 53 hours respectively.

This, in general is higher than the international standard of maximum of 40 hours per week. As measured by the sectoral output to hours worked, labour productivity in industry and service sectors are 17 and 9 times higher than the agriculture sector. Average income earned by a worker in agriculture sector amounts to Nu 63 per hour compared to Nu 1,060 per hour in industry sector and Nu 560 per hour in service sector. This shows high income disparity amongst the workers across sectors. In fact, majority of poverty-stricken population are also found in the rural areas who are largely dependent on the agriculture sector. The agriculture productivity gap indicates misallocation of labour in the

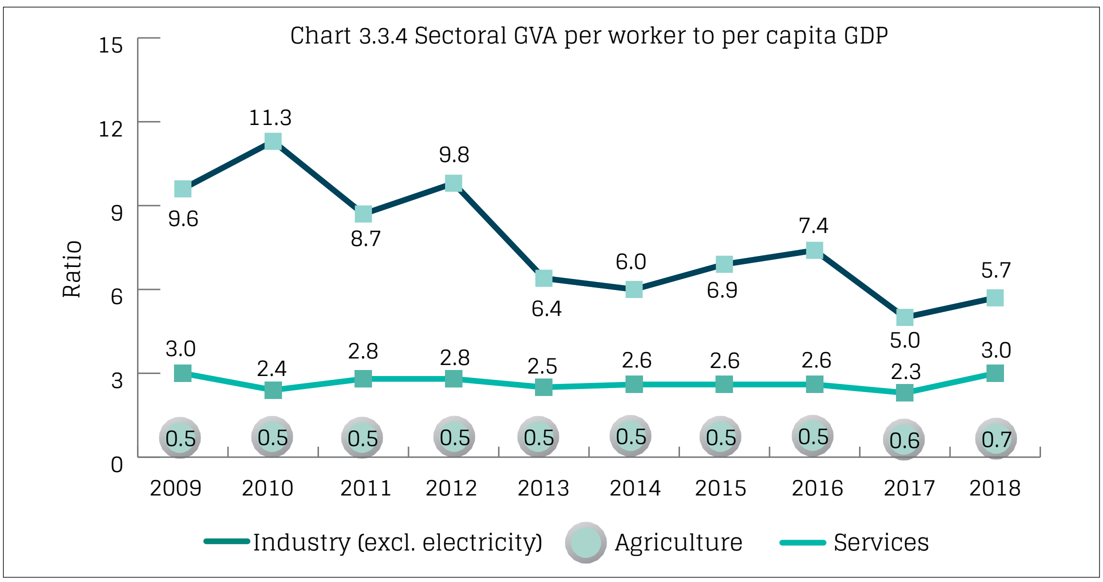


[4] The gap value close to one indicates workers are paid equivalent to their marginal product and higher values shows lower productivity in relative to other sectors

economy[4]. The gap in the agricultural sector has been an improving trend with the gradual economic transformation from agriculture to industry and service sectors. However, it is still high at 6.3 in 2018, indicating high degree of labour misallocation in the market. In such a situation, reallocating labour from the agriculture sector to more productive sectors will enhance economic output without requiring additional production inputs.

In addition, the relative income of employees by sector (measured in terms of sectoral GVA per employee vis-à-vis per capita GDP) shows GVA per capita in agriculture sector is less than per capita GDP. On the other hand, GVA per capita for industry and service sectors are much higher than per capita GDP. Although, the ratio of agriculture GVA per worker to per capita GDP has been narrowing, it is still half of the per capita GDP while GVA per worker in service sector is about 3 times higher than the per capita GDP and 8 times higher for industry sector workers (excluding electricity).

Further, estimated underemployment rate has increased from 2.8 percent in 2010 to 6.1 percent in 2018[5]. It is highly prevalent in rural sector, comprising 87.8 percent of total underemployment in 2018 (18,200). The main reason for increase in underemployment over the years is financial needs, as earning from the given employment is inadequate to meet economic needs. During the period, GVA per capita of agriculture worker increased by 230 percent (Nu 4,400 per month in 2010 to Nu 13,450 per month in 2018) whereas general price level increased by 237 percent. Therefore, enhancing productivity in the agriculture sector is of paramount importance to improve income levels in rural areas for poverty reduction and narrowing income inequality.



The employment in service sector is recorded at 32.9 percent, largely driven by employment opportunities in public administration (10%). The concentration of services employment is comparatively higher at 72.9 percent in urban areas and 16.9 percent in the rural areas. Likewise, employment in the industry sector is also higher in urban areas.

The employment scenario is still dominant in the informal sector. Of the total employment, 73.6 percent are working in the informal sector and only 26.4 percent are in the formal sector. The informal sector employment is largely distributed in the rural areas in agriculture. For instance, in 2018, of 162,239 employees in the agriculture sector, almost all were in the informal category with 54 percent in family workers and 45 percent in own account workers. Formal sector employment is largely concentrated

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

in the public administration and manufacturing sectors. Employability in formal sector increases with education level and about two thirds of informal employment are those with either no formal education or with minimal education level. This clearly reflects how disparity in education affect the quality of employment in the labour market.

Economic deceleration adversely affected employment prospects: Youth unemployment rate touched historic high at 15.7 percent in 2018

The persistent slowdown in economic growth for the past two years has limited job creation, resulting in overall unemployment rate of 3.4 percent (or 10,414 persons), highest since 2010. The key factor for growing unemployment in the market is mainly due to demand side constraints and skill mismatches as indicated by sharp decline in output and explained by fall in investment and employment level. One third of the unemployed population in the labour market feel there is limited job offers despite growing labour supply. At the same time, there is a supply side constraint with more than half of the unemployed labour force either lacking appropriate experience or required qualification and skills for available jobs. Therefore, the combined effect of labour market mismatches and lacklustre economic growth caused higher unemployment level in 2018.

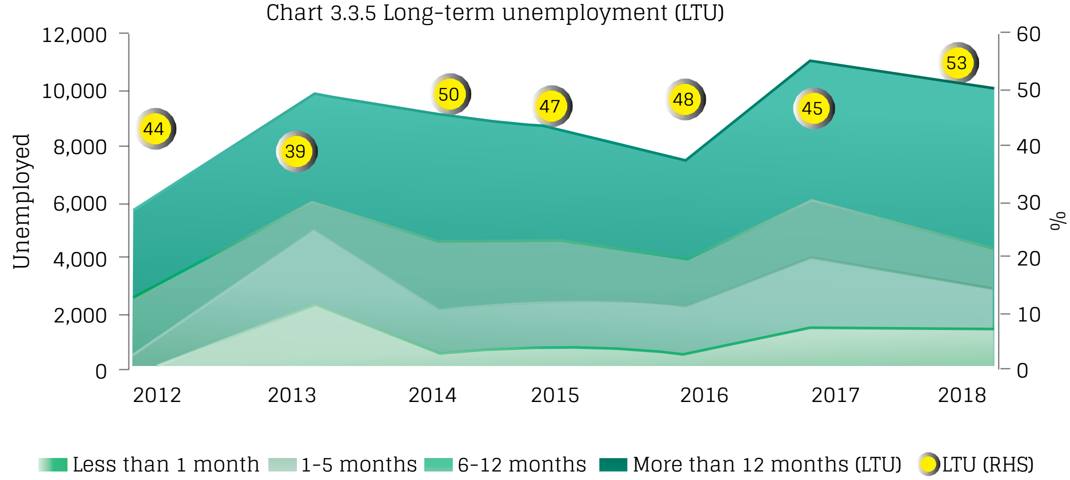
Private sector employment still remains less attractive for job seekers

In 2018, more than a third of the unemployed labour force (or 7,253 persons) preferred jobs either in civil service (55%) or public corporations (15%) compared to total labour demand of 2,166 (civil service:1,444 and corporations: 722). Despite constant efforts made for private sector development, labour market in the private sector still remain less attractive due to job security and non-competitive employment benefits compared to the civil and corporate job market. The labour demand in the private sector was 2,452 (52%), therefore, enhancing employability in the private sector is a key determinant for minimizing unemployment rate.

Unemployment level is chronic in nature

Due to slower and lack of broad-based economic growth and skill mismatch in the labour market, more than half of the unemployed remained without job for more than 12 months - long-term unemployment. In the recent past, long-term unemployment rate has been rising from 1.4 percent in 2017 to 1.8 percent in 2018. During the last five years, of every 10 unemployed persons, 5 persons were in search of work for more than 12 months. Youth are more exposed to long-term unemployment with high mismatch of skills and lack of experiences despite meeting required level of qualification. In 2018, 47 percent of youth were in chronic unemployment group, which further contributed to structural unemployment as they are more likely to remain out of work even at adult working age cohort. In such cases, potential workers may get discouraged and become economically inactive, leading to fall in overall labour productivity. Therefore, appropriate policy interventions are necessary both at macro level to boost labour demand and at micro level to supply skilled labour to reap the potential demographic dividend.

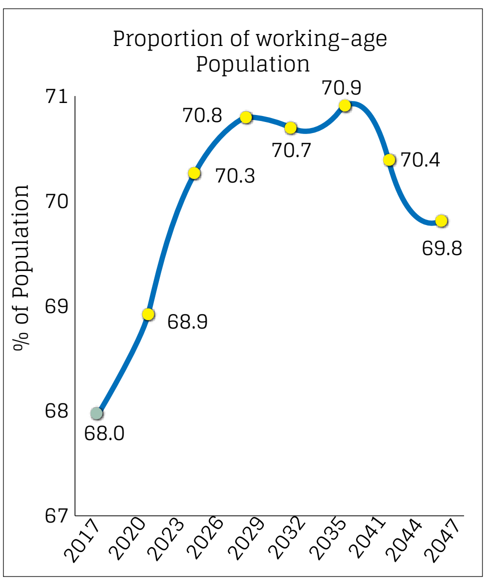
Chart 3.3.5 Long-term unemployment (LTU)



BOX 3.3.1 Youth Unemployment and Demographic Dividend

The demographic dividend is the economic growth potential that can result from shifts in population age structure, mainly when the share of the working-age population (WAP) is larger than the non-working-age share of the population (14 and younger, and 65 and older)[6]. Most of the advanced economies are facing demographic challenges with rapid ageing population constraining economic growth. On the other hand, in developing economies in South Asia, particularly Bhutan, demographic conditions are right for achieving a demographic dividend. However, demographic dividend is not an automatic phenomenon but requires the right institutional interventions and policy coordination, in the absence of which, the result would disrupt the economy and social cohesion driven by higher unemployment, and in particular, youth unemployment. Maximizing returns from the increasing young and adult working-age population through education, health and employment policies is referred to as "demographic dividend".

As represented by the high economic support ratio, every non-working age population (below 15 and above 64 years) is supported by 2 working-age population in 2018 (PHCB, 2017). There have been rapid demographic changes within the last ten years: Total Fertility Rate (TFR) dropped from 2.5 children per woman in 2005 to 1.9 children in 2017; infant mortality rate declined from 40.1 to 15.1 per 1,000 live births in a year; and life expectancy at birth increased to 70.2 years from 66.3[7] years. Due to demographic dynamics, the country will have large share of working-age population, estimated at an average of 70 percent within the next two decades. As TFR begins to drop by 2032 to 1.7, the working-age population ratio is estimated to reach 70.9, the highest level in 2040 and will start to decrease thereafter. This shows there is still high potential for demographic dividend despite missing the dividend opportunity in the past.

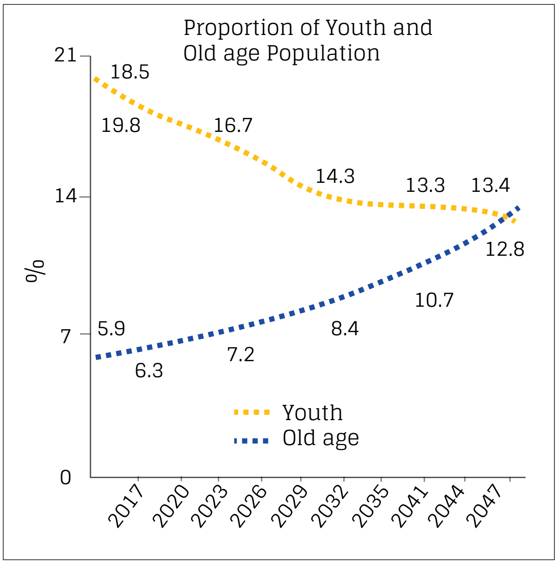


As reflected in the labour market, youth unemployment rate is almost 5 times the overall unemployment rate, half of the unemployed are youth, and more than three fourths are below 30 years. With limited formal employment, more than 75 percent of employment is in the informal sector while private sector remains less attractive for job seekers. In addition, vulnerable employment constitutes more than two thirds of employment, characterized by inadequate earnings, low productivity and poor working environments[8] . At the same time, the level of underemployment has been on the rise, mainly looking for additional jobs to earn more income where prevailing monthly income is inadequate to meet economic needs. The structural issue in the labour

[6] Economic and Social Survey of Asia and the Pacific
[7] As per the baseline estimate, Total Fertility Rate (TFR) in 2017 was 1.9
[8] Vulnerable employment is defined as the sum of the employment status groups of own account workers and contributing family workers.

market is further mirrored by the high level of long-term unemployment, given that more than 50 percent remained unemployed for more than 12 months.

There are several factors for growing youth unemployment, long-term unemployment and lack of decent employment (high informal sector employment, underemployment & vulnerable employment). Firstly, slow and less diversified economic growth is not able to keep pace with rapidly growing numbers of young people entering the labour force. Secondly, as depicted in the labour statistics there is mismatch between the qualifications and skills gained through education system and qualifications and skills demanded in the market. The education system focuses and prepares youth only for formal sector employment dominated by the public sector, despite limited opportunities. This indicates missing links between education system and job market in the economy. Thirdly, one of the main reasons for unemployment amongst youth is lack of experience. There is no adequate targeted scheme or programme like training, internship/on-job training, and self-employment/entrepreneurship to prepare youths ahead of entering into labour market. Currently, young people immediately join the labour market from school/colleges without any preparations.



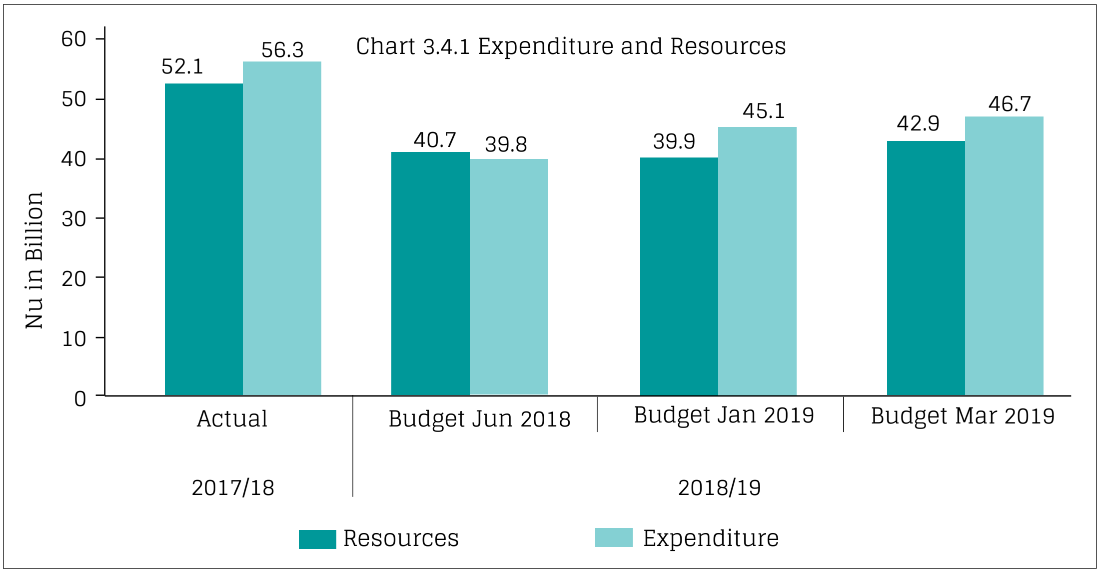
Therefore, appropriate policy reforms are required, explicitly targeting youth employment to capitalize on the potential demographic dividend. The employment policy must ensure transfer of growing youth population into productive employment. To provide successful transition from education to decent work and to minimize mismatch between skills acquired from education and required in the labour market, the education system needs to align and prepare students with appropriate qualification and skills, increasing employability. As transition to the labour market remains a great concern, adequate labour market programmes are required to prepare young people such as trainings and labour market information services. This will help in reducing number of youth not in education, employment or training (NEET) while ensuring smooth transition from school to work and being a member of a household to being a head of household. The largest employment is in the informal sector, and therefore, fostering private sector development and commercializing economic activities in agriculture sector is necessary to enhance formal sector jobs. It will also help in reducing underemployment and vulnerable employment. Very importantly, broad based economic growth is absolutely necessary to create decent employment opportunities where only an expanding economy can offer jobs for the growing labour force.

Accelerating simultaneous investment in job creation and human capital, especially appropriate skill development in the education system, and enhancing labour market efficiencies are necessary to reduce youth unemployment and to reap demographic dividend. Ensuring decent jobs for the young population will enhance labour productivity, income earning, and social protection for inclusive and sustainable development.

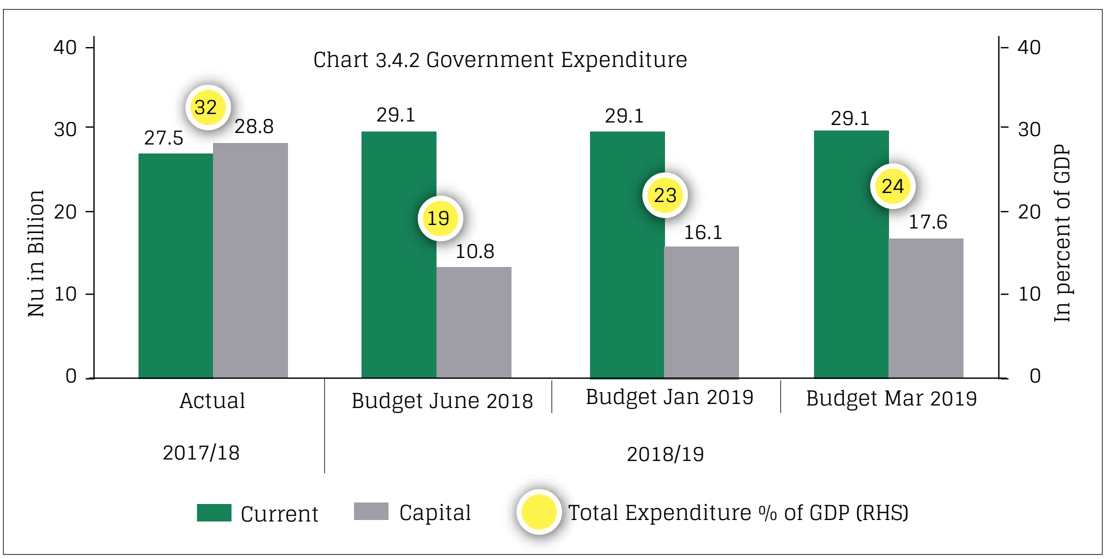
3.4 Government Finance

Sharp fiscal withdrawal in interim budget FY 2018/19 impacted domestic demand and growth path

The FY 2018/19 was a unique fiscal period for the Royal Government of Bhutan. Within 9 months three budget appropriations were made. Unlike in the past, the Interim Budget was approved for the first six months during the 11th Session of the 2nd Parliament in June 2018 and two subsequent budget appropriations were made in January and May 2019. Although budget for recurrent expenditure was approved for the entire financial year, capital expenditure was allocated only for spillover investment activities for the first six months.



The sharp decline in the interim budget, particularly capital expenditure, for the first six months of FY 2018/19 had detrimental impact on overall investment demand and economic growth. Initially, capital expenditure fell from 16.5 percent of GDP to 5.2 percent of GDP in FY 2018/19, which was a reduction from Nu 28.84 billion in FY 2017/18 to Nu 10.77 billion. The share of government expenditure to total GDP fell to less than one fifth compared to sizeable share of one third in the FY 2017/18. The reduction in capital expenditure was one of the factors for slower growth in 2018.



In the beginning of 2019, the capital budget was revised upward to Nu 16.05 billion (8.3% of GDP) and further revised to Nu 17.62 billion (9.1% of GDP) along with budget approval for FY 2019/20 in May 2019. Later, with inflow of external grants, capital budget increased by 9.7 percent. However, the level of capital budget relative to GDP has plunged throughout the revisions while recurrent expenditure remained at around 15 percent of GDP. Subsequently, public investment was not strong enough to reinvigorate economic growth, which indeed was one of the principal drivers for negative investment growth in 2018.

Government expenditure configuration mattered for domestic demand and securing long-term growth path

Over the years, the share of capital expenditure has been steadily declining. In FY 2018/19, share of capital expenditure to total expenditure was 27.0 percent compared to 51.2 percent in the previous year, whereas recurrent expenditure has been increasing. Given the quality and progress in infrastructure and social service sectors, sustaining the level of capital budget and containing growth of recurrent budget is essential for enhancing quality in government expenditure. Such fiscal discipline will help cover recurrent expenditure by domestic revenue and maintain fiscal deficit within the threshold of 3

Chart 3.4.3 Capital Expenditure and Real GDP Growth (%)

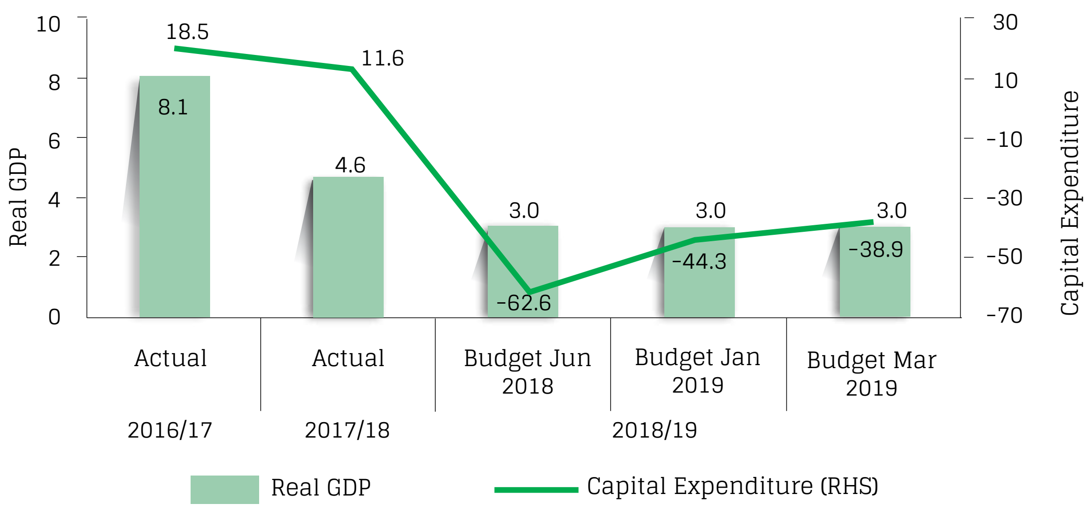
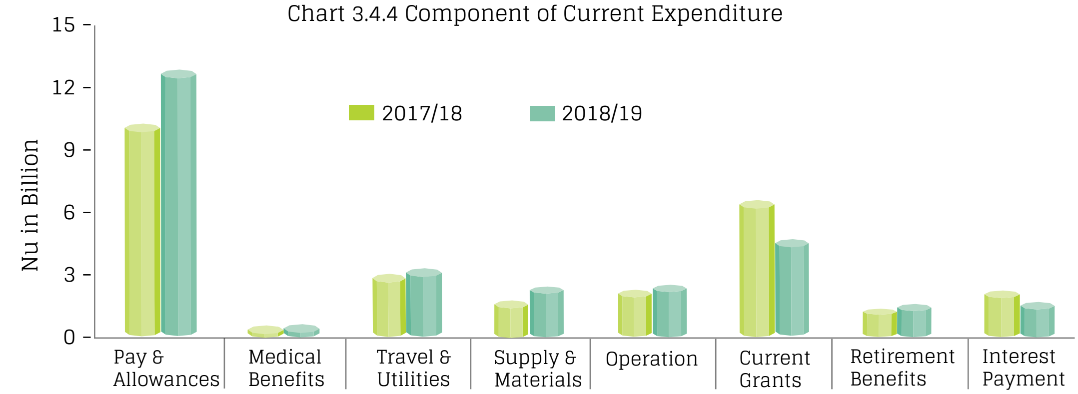
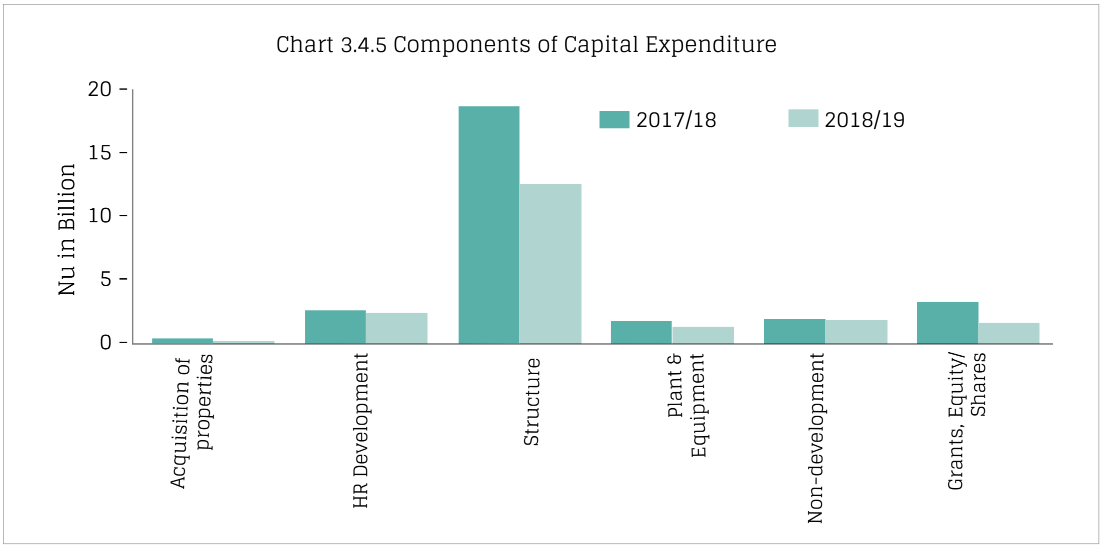


Chart 3.4.4 Component of Current Expenditure

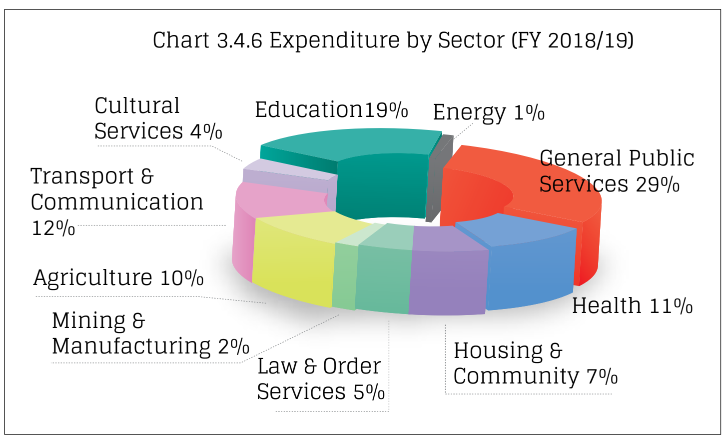


[13] In absence of the object classification (line-item) of expenditure data for the revised budget FY 2018/19 approved in May 2019, the latest data by economic/object classification is used as of June 2019.
[14] In addition to civil servants, public servants include other public workers whose pay and allowances directly drawn from Government consolidated fund.



percent of GDP in the medium term. The shift in government expenditure allocation from investment to consumption, along with the slowdown of public investment in hydropower and weak growth in private investment, will have a long term impact on productivity growth in the economy.

In terms of expenditure by economic classification, more than 40 percent of the estimated recurrent expenditure in FY 2018/19 is incurred for pay and allowances, which is about 25 percent increase from the FY 2017/18[13] . This is due to increase in size of public servants and their remunerations over the years[14]. Excluding other public servants, as of December 2018, every 26 Bhutanese individual is served by 1 civil servant and the per capita ratio has been increasing. Consequently, the expenditure for travel and utilities have also increased by about 9 percent (11% of total). Travel expenses alone constitute about 8.1 percent of the recurrent expenditure. With increasing numbers of autonomous budgetary bodies, mainly establishment of central schools, the estimated grants in FY 2018/19 was Nu 4.68 billion (or 16% of total), of which more than 90 percent was allocated for other than public enterprises. The supply of materials and operation and maintenance, which comprises 8.1 percent and 8.2 percent of the estimated recurrent expenditure, has increased by 40.1 percent and 11.2 percent respectively. With liquidation of the hydropower loan for Tala project, overall interest payment dropped by 25.1 percent and its share narrowed at 5 percent compared to 8 percent in FY 2017/18.



In general, expenditure on infrastructure development constitutes more than 60 percent of capital

[13]In absence of the object classification (line-item) of expenditure data for the revised budget FY 2018/19 approved in May 2019, the latest data by economic/object classification is used as of June 2019.
[14] In addition to civil servants, public servants include other public workers whose pay and allowances directly drawn from Government consolidated fund.

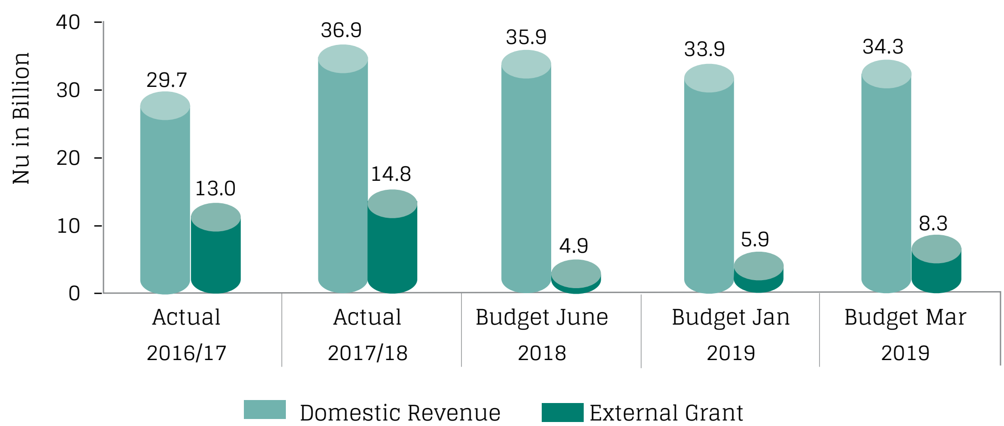
expenditure. However, in terms of absolute value, infrastructure financing in FY 2018/19 decreased by 33 percent from Nu 18.95 billion in FY 2017/18 to Nu 12.77 billion in FY 2018/19 as no new investment activities were initiated during the first six months. Few activities were initiated later depending on availability of external grants. Due to lower capital budget for infrastructure, there has been corresponding decline in financing in plant and equipment by 28.8 percent, from Nu 1.83 billion to Nu 1.30 billion. Capital expenditure for human resource development (trainings) and non-developmental capital works like purchases of vehicles, office equipment and professional services (consultancy) has been increasing over the period.

In terms of expenditure by functional classification or economic sector other than general public services, social sector comprising health and education received highest share of government expenditure followed by transport and communication sector. Of total expenditure during the FY 2018/19, social sector constituted 30.2 percent, which is 5 percent lower than the previous year, on account of reduction in capital expenditure for education by 52.4 percent. The expenditure related to economic sectors such as mining and manufacturing (2%), energy (1%), transport and communication (11.7%) and RNR service (10.4%) together constitutes one-fifth of total expenditure. However, in comparison to the previous year, mainly with declining investment (32.8 %), economic sector expenditure in FY 2018/19 has decreased by 23.8 percent.

Sharp decline in external grants was a key factor for plummeting capital expenditure in FY 2018/19.

The interim budget period saw huge shortfall in resources, largely on account of lower external grants. Except for the on-going construction activities, external donors committed only Nu 4.89 billion, two-thirds less of the realized FY 2017/18 external grants. Therefore, budget for capital activities declined as a large portion of government investment is met through external grants. According to the latest revised budget, more than 90 percent of external grants were in the form of project-tied assistance, which is about 45 percent less from FY 2017/18 and 64 percent less in the interim budget.

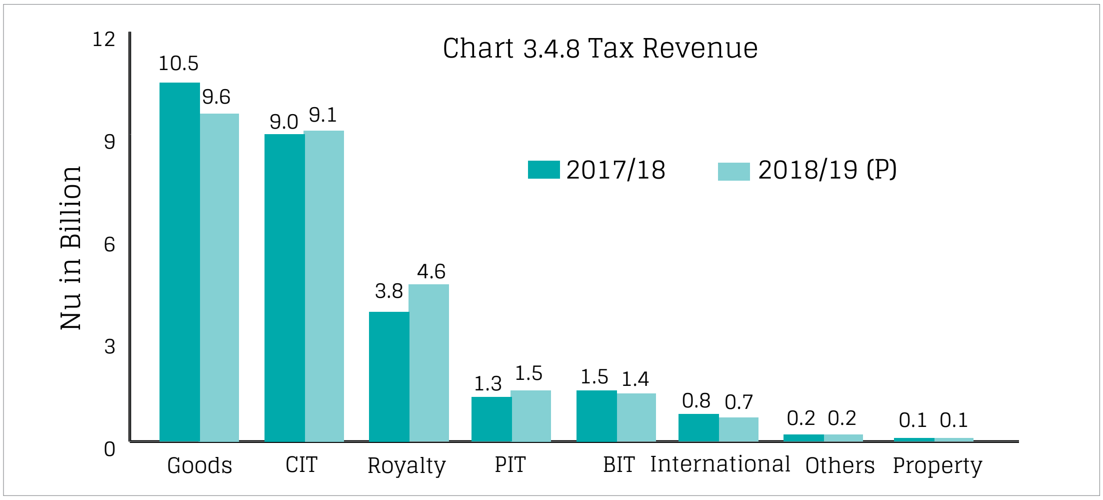
Chart 3.4.7 Budgetary Resources



GST implementation in India has adversely impacted domestic revenue collection

Although domestic revenue was estimated to decline marginally, it was able to cover the recurrent expenditure. Fall in domestic revenue from Nu 36.87 billion in FY 2017/18 to estimated amount of Nu 34.32 billion in FY 2018/19 factored-in the discontinuation of traditional system of excise duty refund from the GoI. In addition, on account of fall in price of imported goods from India due to GST, there has been a drop in tax revenue on the international trade, green tax and custom duty collection.

The contribution of tax revenue to domestic revenue increased by more than three-fourths of the domestic revenue compared to 60 percent in FY 2017/18. In FY 2018/19, revenue collection from direct

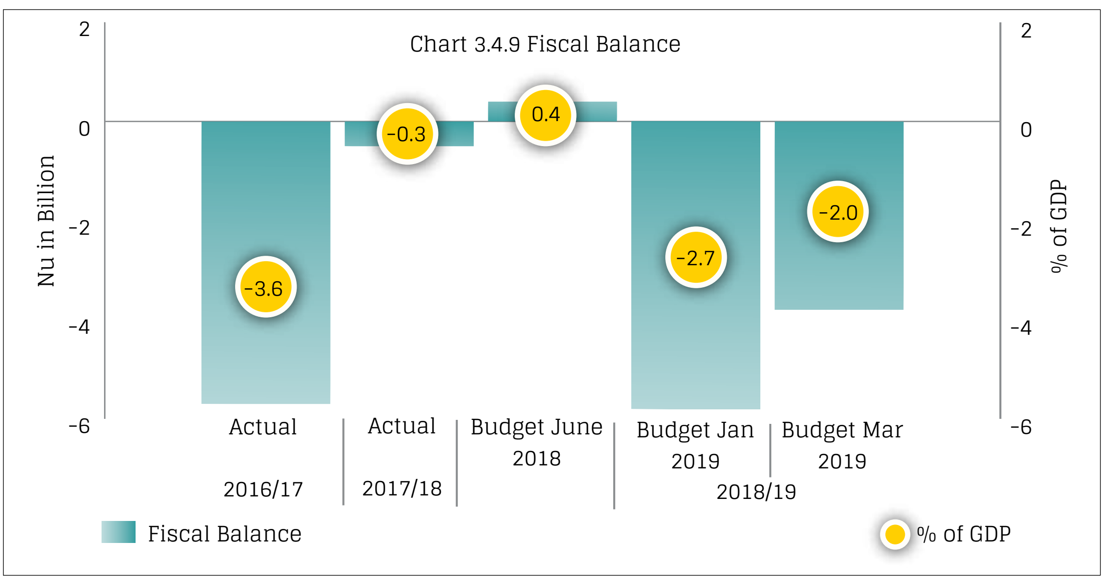


tax increased by 9.4 percent from the previous period with the increase in income tax from corporate, business and individuals. Despite persistent economic slowdown in 2017 and 2018, direct tax revenue remained more buoyant compared to indirect tax. Direct tax revenue collection is estimated to increase by 9.4 percent as per the revised Budget Report for FY 2018/19 with expected growth in corporate and business activities followed by increase in personal income.

The non-tax revenue is largely composed of dividend and profit transfer from the hydropower projects. During the period, due to lower hydrological flows, hydroelectricity generation dropped almost by 15 percent. As a result, the dividend from hydro-sector also dropped by 17.5 percent in FY 2018/19. The delay in commissioning of Mangdechhu hydropower project also contributed to the fall in non-tax revenue.

Fiscal position weakened due to sharp decline in external grants

In view of the high dependency on external grants and its un-predictibility in nature, the drop in external grants lowered capital investment and resulted in higher deficit financing. Although capital expenditure reduced by more than 40 percent, the deficit level remained elevated at Nu 3.78 billion at the end of March 2019 (2.0 % of GDP). The fiscal position continuously deteriorated from the surplus of Nu 0.90 billion in June 2019 (interim budget) to deficit of Nu 5.23 billion (2.7 % of GDP) during mid-year review. However, the overall fiscal deficit remained within the threshold.

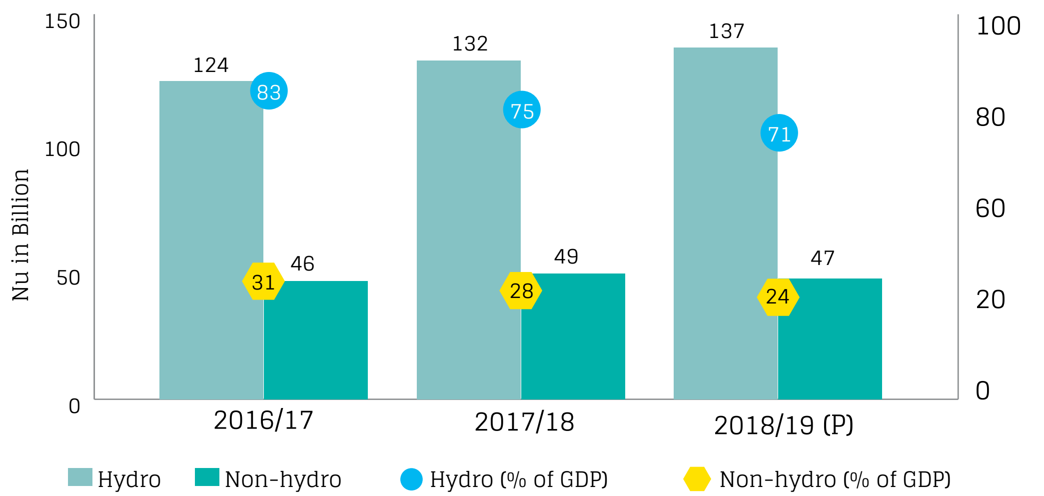


Public debt remains at 95.5% of GDP, dominated by hydro debt

A large portion of the deficit was financed through external borrowings, mainly in the form of programme borrowing from multilateral development partners. About 30 percent of deficit financing was sourced from domestic market through issuance of T-bills. The estimated public debt at the end of FY 2018/19 stood at Nu 184.18 billion, equivalent to 95.5 percent of GDP. It is largely dominated by external debt with domestic debt constituting less than 3 percent.

In terms of sectoral composition, about three-fourth is hydro-related and remaining non-hydro including 4 percent on account of balance of payment (BoP) deficit financing with India. The hydro debt to GDP ratio was 71.1 percent while non-hydro debt to GDP was 24.5 percent which is within the threshold. Of the total non-hydro debt, excluding State Owned Enterprise (SOE) and Balance of Payments related debt, the government budgetary debt was Nu 34.03 billion (17.6% of GDP) in FY 2018/19.

Chart 3.4.10 Public Debt



3.5 External Sector

The external imbalance continues to reflect weak underlying economic fundamentals of high dependency on imports (including a large expatriate labour force), grant-aid driven investment and persistent high stock of external debt.

The current account deficit expanded in FY 2018/19 to 23.7 percent of GDP from 19.5 percent in FY 2017/18. The widening deficit was contributed by increase in trade imbalance ,net service payments, followed by decline in net primary and secondary income receipts.

Current account deficit deteriorated to

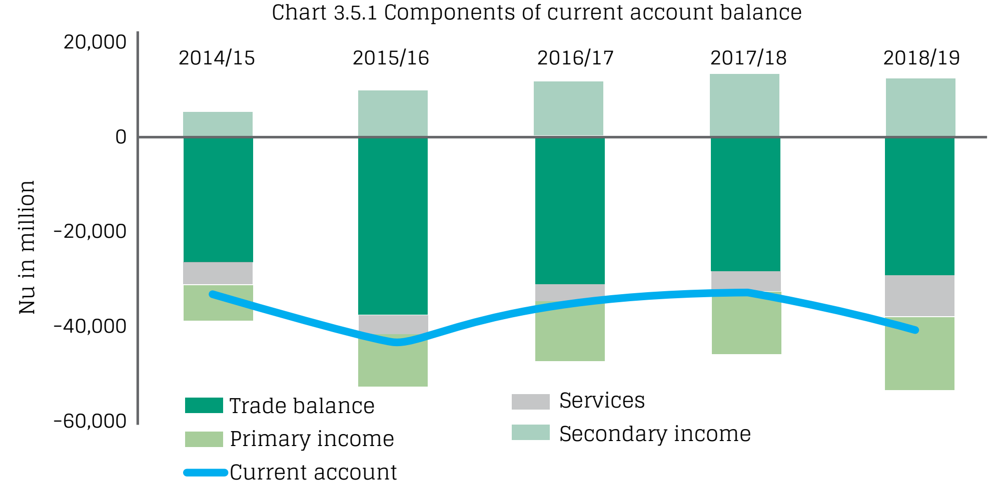
23.7%

of GDP in FY 2018/19 from the previous year

On the trade account, trade deficit increased by 6.9% mainly due to decline in merchandise exports by 2.7 percent and increase in imports by 1.3 percent in FY 2018/19. The primary income account declined with an increase in interest payments on foreign loans vis-a-vis a slight increase in interest receipts. Similarly, the secondary income account declined with an increase in other current transfers outflow and a slight fall in inflow.

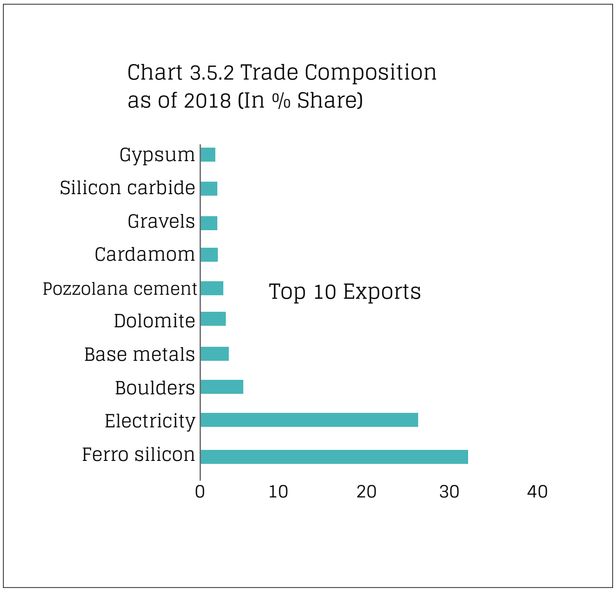
Overall, the trade balance recorded a deficit of Nu 29.88 billion in FY 2018/19 as compared to deficit of Nu 27.96 billion in FY 2017/18. This was attributed to higher import, recording at Nu 68.05 billion against merchandise exports of Nu 38.17 billion. On a bilateral basis, notable record is an increase in trade deficit with India, even Bhutan's trade deficit with Countries Other Than India (COTI) improved significantly during the review period.

Chart 3.5.1 Components of current account balance

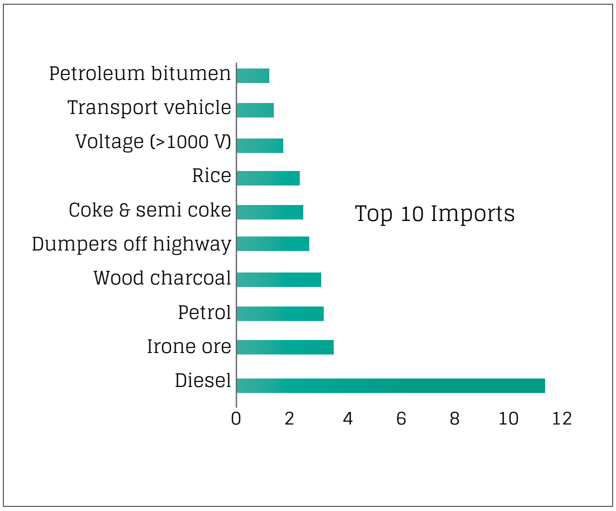


Services Account

In the services account, the net payments increased from Nu 2.59 billion to Nu 6.05 billion. Thus, the services account deficit surged significantly due to substantial fall in export of services by 27.5 percent, though 0.3 percent rise in imports is recorded during the review period. The expansion was mainly from an increase in net payment of transport and fall in receipts from net travel services.



On the receipts side, total services receipt was recorded at Nu 8.90 billion during 2018/19 as against Nu 12.26 billion in the previous year. Travel receipts which accounted for 62.9 percent of total services receipts declined by 22.3 percent, due to lower business and personal travel receipts during the review period. Receipts from transport services also decreased to 42.0 percent, largely attributed to fall in airport services to foreign travellers.



On the other hand, total payments on services was recorded at Nu 14.90 billion during the review period. The total payment was higher by 0.3 percent from the previous year, which was triggered by an increase in payments for financial, telecommunication, computer and information, other technical and trade related, and diplomatic bodies spending on goods and services abroad. The acceleration in this expenditure was also because of increase in reinsurance related services, from Nu 135.84 million in FY 2017/18 to Nu 252.63 million in FY 2018/19.

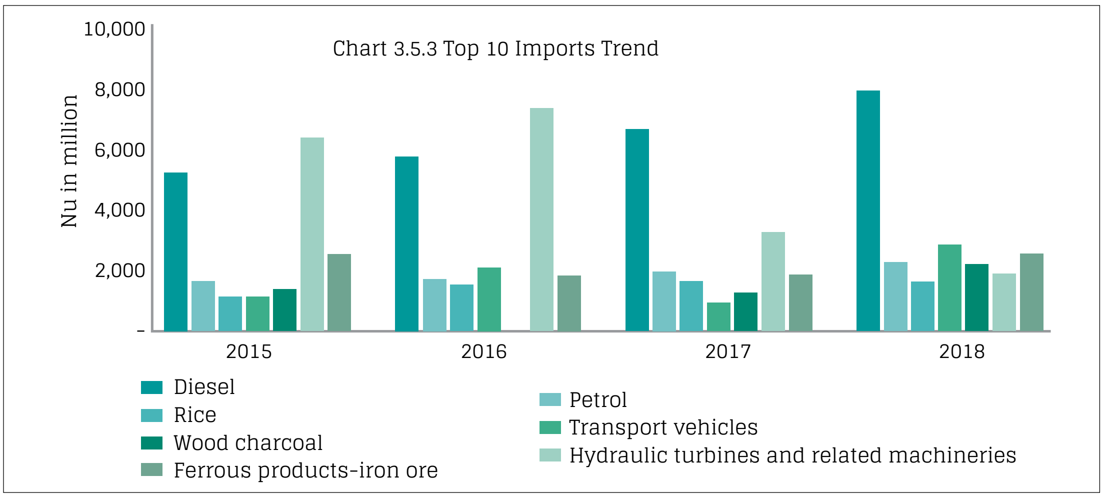
Primary Income Account

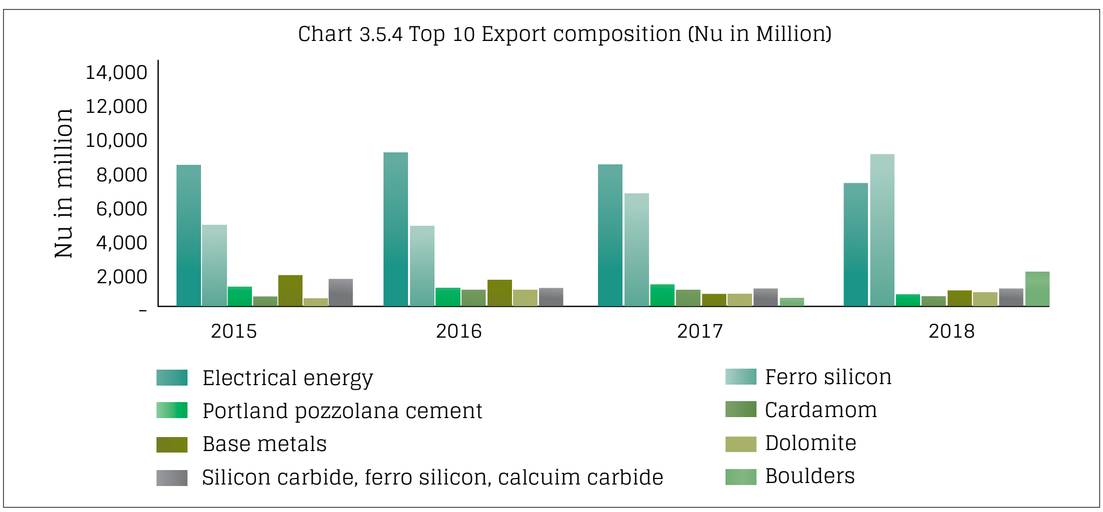
The primary income account was dominated by outflows related to interest payments (79.1 % of all outflows), particularly on hydro related debt, which increased by 6.6 percent during FY 2018/19. Hence, primary income deficit widened by 12.9 percent to Nu 15.58 billion from the previous year. The increase was also attributed to increase in net compensation outflows by 34.3 percent, amounting to Nu 922.94 million. Another driver was increase in net payments of investment income arising from direct investment outflows relating to repatriation of dividend and reinvested earnings from the FDI companies.

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

Nu in Million	2016/17		2017/18		2018/19	
	Exports	Imports	Exports	Imports	Exports	Imports
Merchandise trade statistics as provided by DRC[1]	23,915.5	68,979.7	28,113.1	66,694.0	27,315.9	66,988.7
Adjustments						
+ Hydropower exports 2	12,956.5		11,118.7		10,849.4	
+ Goods procured in ports by carriers 3		10,90.4		1,824.3		2,158.0
+ Informal Trade at the Border		1,089.5		1,144.0		1,201.2
+ Net exports of goods under merchanting						
- CIF/FOB adjustment for COTI		2,937.7		2,472.4		2,302.3
Total goods on a Balance of Payments basis	36,872.0	74,097.3	39,231.7	72,134.7	38,165.3	72,650.1

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





Secondary Income Account

Net receipts in the secondary income account decreased by 10.3 percent in FY 2018/19, due to increase in net other current transfer outflows amounting to Nu 170.3 million, while inward budgetary and worker remittances recorded a marginal increase.

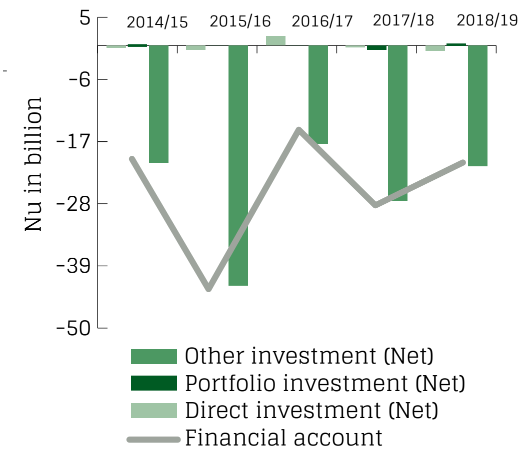
Capital Account

Similarly, the capital account also contracted by 26.2 percent, amounting to Nu 8,769.14 million in FY 2018/19 as against Nu 11,884.03 million in FY 2017/18, particularly on account of reduction in budgetary grants inflow for investments.

Financial Account

The financial account continued to register net inflows of Nu 21.88 billion, which is a decline of 23.2 percent from FY 2017/18. However, on the foreign equity front, the inflows increased by 79.8 percent from the previous year.

Chart 3.5.5 Financial Account

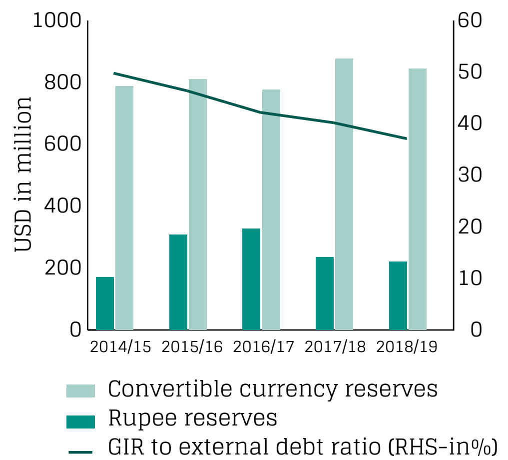


Direct Investment Account

Net inflows[15] related to direct investment during FY 2018/19 increased to Nu 920.65 million from Nu 274.03 million in the previous year. This was mainly due to foreign equity inflows amounting to Nu 754.35 million from Nu 419.66 million in FY 2017/18. Of the total equity inflows, Nu 38.99 million was from India, and Nu 715.38 million was from COTI. The capital infusion during the year was channeled to hospitality, financial, manufacturing and agriculture sectors.

These were sourced mostly from Thailand, British Virgin Island, India, Canada, France and Hongkong. Net inter-company debt totaled Nu 29.19 million, entirely availed from COTI. It is anticipated that the revised FDI policy 2019 will encourage more inward investment including investment in the Cottage & Small Industries. The revision of FDI policy was initiated to further promote FDI with the aim of building a resilient, more diversified and sustainable economy.

Chart 3.5.6 Gross International Reserves (GIR)



Other Investment Account

The other investment account recorded a net outflow of Nu 21.33 billion in FY 2018/19 as compared to Nu 27.45 billion in the previous year. This development was on account of increase in net acquisition of financial assets, amounting to Nu 1.72 billion and decrease in net incurrence of liabilities by Nu 5.48 billion.

Portfolio Investment Account

Net portfolio investment revived to Nu 366.27 million in FY 2018/19, mainly on account of increase in net acquisition of financial assets.

[15] FDI inflows position of 43 companies. Survey is ongoing to cover rest of the companies

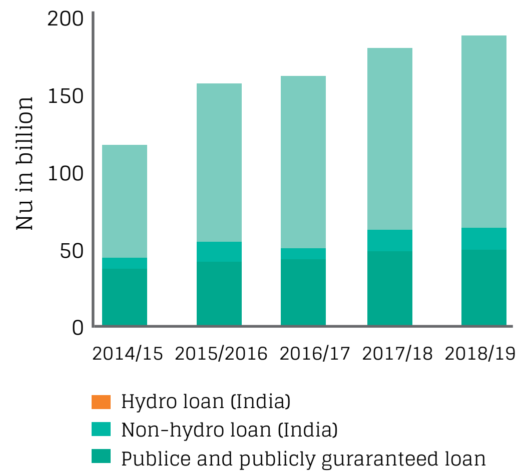
As the current account deficit was larger than the inflows in the capital and financial account, the gross international reserves depleted to Nu 73.38 billion (USD 1,064.77 million) in June 2019 from Nu 76.21 billion (USD 1.11 billion) in the same month of the previous year.

Nonetheless, the reserves continued to remain adequate to cover 12.9 months of merchandise imports and 22 months of essential imports, thereby meeting the constitutional requirement of mimimum 12 months of essential import coverage. The ratio of international reserves to external debt stood at 38.3 percent. After accounting for other financial flows and net errors and omission, Bhutan's overall balance (change in reserve assets) stood at Nu 621.94 million.

External Debt

Total outstanding external debt was recorded at USD 2.73 billion in FY 2018/19, higher by 3.3 percent from USD 2.64 billion in FY 2017/18, mainly contributed by increase in hydropower loan and convertible currency loans from multilateral institutions. Of the total outstanding external debt, rupee debt constituted 73.6 percent (INR 138, 409.37 million) and the remaining 26.4 percent (USD 720.12 million) in the convertible currencies. Within the rupee debt, about 89.9 percent comprises self-liquidating hydropower debt and the remaining 10.1 percent were incurred to meet balance of payments deficit with India. From the total convertible currency debt, the concessional public debt constitutes 95.1 percent.

Chart 3.5.7 External debt stock



As of June 2019, the volume of total external financial assets amounted to USD 1.23 billion, an increase by 6.8 percent from the previous year. Majority of assets (USD 1.08 billion) represents the reserve assets followed by trade credit, and currency and deposits amounting to USD 84.10 million and USD 66.61 million respectively. Total external financial liabilities increased by 13.4 percent to USD 4,082.09 million as of June 2019. The increase in financial liabilities is mainly driven by loans, comprising 86.9 percent of total financial liabilities. The external loan increased to USD 3,545.29 million from USD 3,321.85 million of the previous year.

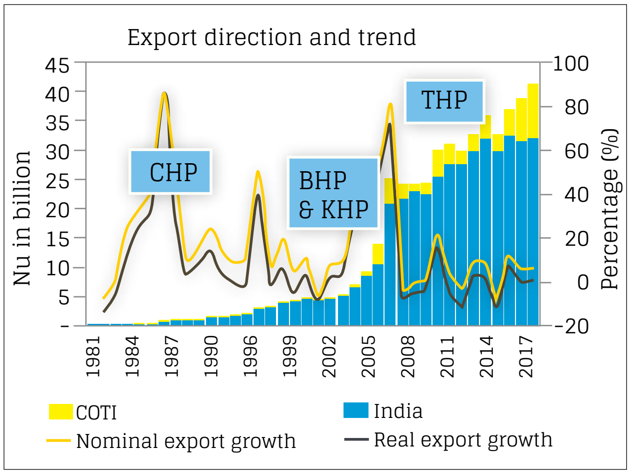
Table 3.5.2: International Investment Position (USD in million)

Item	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19 Provision
Net IIP	-1,356.7	-1,712.1	-2,210.2	-2,451.0	-2,601.8
Assets	1,053.0	1,255.1	1,104.9	1,150.2	1,228.5
Currency and deposits	64.3	66.4	64.9	65.2	66.6
Trade credits	30.0	48.7	59.8	49.5	84.1
Reserve assets[1]	958.6	1,139.9	980.1	1,035.5	1,077.8
Liabilities	2,409.6	2,967.2	3,315.0	3,601.2	3,830.3
Direct investment in Bhutan	181.7	165.8	125.8	131.9	146.8
o.w. Equity	140.0	124.8	99.3	106.3	121.8
o.w. Intercompany debt	41.8	41.1	26.4	25.6	25.0
Currency and deposits	85.7	86.7	95.1	97.5	81.0
Loans	2,106.9	2,683.4	3,055.4	3,321.9	3,545.3
Trade credits	26.9	22.8	30.4	41.5	48.9
SDR allocations	8.4	8.4	8.3	8.4	8.3
Exchange rate to USD (end of period)	63.8	67.6	64.5	68.6	68.9

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

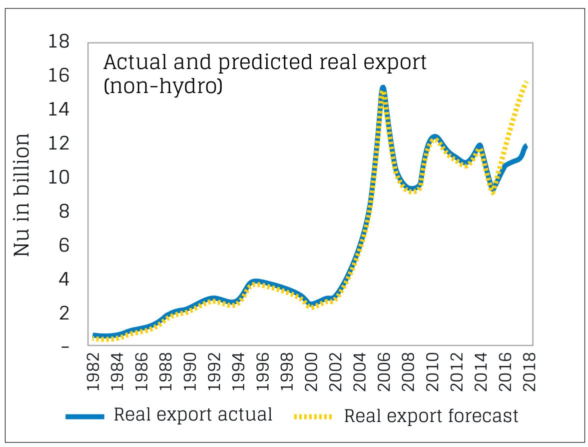
BOX 3.5.1 Export Growth Trend and Demand Side Effect

Export forms an important component of the external sector, in particular export of merchandise goods, for Bhutan. Considering its impact on the current account balance and international reserve position, this section presents a brief analysis on export dynamics at aggregate level. Export of hydroelectricity to India being the single dominant item, merchandize export has been decomposed into hydro and non-hydro exports to get a clearer picture of export performance.



There has been a significant growth of exports over the last four decades. For instance, Bhutan exported Nu 41,413 million value of goods (in nominal terms) in 2018 compared to Nu 172 million in 1981. However, the export basket still remains highly concentrated with top ten items constituting 81.3 percent of the total exports in 2018. For the first-time export of electricity was overtaken by ferro silicon at Nu 13,050 million last year.

Growth of export has been erratic, but recurrence of growth spikes following every commissioning of hydropower plants clearly indicates the dominance of hydroelectricity export and its sheer size of the pie. The real export growth, although relatively lower, illustrates similar growth pattern[16]. India as the key market, constituting almost 80 percent of the total export, a modest attempt was made to empirically measure the long run association of Bhutan's export to India and India's income. For this, a simple empirical framework was employed using Vector Error Correction Model (VECM). The estimation was conducted based on the general form of equation specified below using annual data from 1981~2018.



[16] Real export was computed using GDP deflator in absence of annual export price index for period under study

$$\Delta X_t = \alpha + \sum_{i=1}^{k-1} \beta \Delta rGDP\_IN_{t-i} + \lambda EC_{Tt-1} + u_t$$

Where X is the real export, rGDP_IN is the real income of India, ECT is an error correction term and u is an error term. After conducting the Augmented Dickey-Fuller (ADF) and the Phillips Perron tests, the series were found to be stationary in first difference (ie.I(1)).

This prompted checking for cointegration using Johansen test, which indicated a long run relationship between the endogenous variables. Subsequently, restricted vector auto regression was performed using three lags and the estimation result was obtained as presented in the table below. The result provides evidence of long run positive relationship between non-hydro export to India and India's income with significant ECT coefficent at 5 percent. In other words, India's GDP granger causes Bhutan's non hydro export to India. The negative ECT coefficient (-0.65) shows speed of adjustment to long run equiibrium of the two variables.

On the other hand, short run relationship was examined from the VECM estimation result. It may be observed from the table on the right that India's GDP of one lag is significant at 5 percent and it has correct positive sign with reasonable value of coefficent. However, while conducting formal Wald test to examine whether India's GDP of three lags jointly granger cause non-hydro export to India in the short run, the result shows no significant relationship with p-value of the Chi-square more than 5 percent.

As a standard practice, residual diagnoistic tests were conducted, which showed that there is no seriel correlation and the model is not heteroskedastic or has no ARCH effect. Overall, the model is found to be fairly efficient with acceptable specification.

In conclusion, the model found that there is a long run relationship between non-hydro export to India and India's income while no statistical evidence was found supporting their short run causality. From forecasting perspective, the model predicts reasonably well as shown in the graph although there still exist substantial margin of error. This may be because the model is not capturing other explainatory variables such as relative prices between two countries, lack of high frequency data points, and other factors influencing non hydro exports. Since the analysis is carried out at an aggregate level, further modeling of export determinants using disaggregated data (preferably at product level) may be more meaningful for policy decisions. Investigating into supply side effects may also be warranted.

Residual Diagnoistic:

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.121222	Prob. F(3,19)	0.9465
Obs*R-squared	0.563425	Prob. Chi-Square(3)	0.9048

Heteroskedasticity Test: ARCH

F-statistic	1.015692	Prob. F(3,23)	0.4038
Obs*R-squared	3.158553	Prob. Chi-Square(3)	0.3678

Estimation output: Long run				
	Coefficient	**Std. Error**	**t-Statistic**	**Prob**
ECT_{t-1}	-0.658661	0.312058	-2.110702	0.0405
ΔX_{t-1}	0.180032	0.264431	0.680828	0.4995
ΔX_{t-2}	-0.288589	0.219590	-1.314219	0.1956
ΔX_{t-3}	0.025140	0.270117	0.093071	0.9263
ΔY_{t-1}	0.001426	0.000700	2.035193	0.0479
ΔY_{t-2}	0.000379	0.000591	0.640422	0.5252
ΔY_{t-3}	0.001012	0.000556	1.818112	0.0759
Cons	-7570.050	3940.894	-1.920896	0.0612
R-squared	0.260865	Mean dependent var		281.0036
Adjusted R-squared	0.025686	S.D. dependent var		1901.472
S.E. of regression	1876.892	Sum squared resid		77499912
Durbin-Watson stat	1.919548			
Note: X denotes non hydro export to India and Y is income of trading partner (i.e. India)				

Wald Test:

Test Statistic	Value	df	Probability
Chi-square	5.031429	3	0.1695

Null Hypothesis: c(5)=c(6)=c(7)=0

BOX 3.5.2 Facilitating Remittance Services

The South Asian region has been the biggest beneficiary of remittance. However, Bhutan has lagged in capitalizing its benefits although it is considered as a stable and reliable source of non-debt financing source for a country. Additionally, remittance inflows also help in building foreign exchange reserves. In order to encourage remittances in Bhutan, the RemitBhutan platform was officially launched on 21st September 2016 by the Prime Minister as a landmark policy initiative to provide a platform for Non-Resident Bhutanese(NRB) to remit their savings and earnings to Bhutan through the formal banking channel. As more Bhutanese are residing abroad for studies and employment, this scheme is being provided as an extended financial service to include NRB residing abroad in the Bhutanese financial inclusion policy and strategy to foster inclusive growth. NRB essentially include armed forces serving in UN Peace Keeping Missions, Bhutanese Diplomats working in Bhutanese Embassies and Missions abroad, students and other Bhutanese working and living abroad.

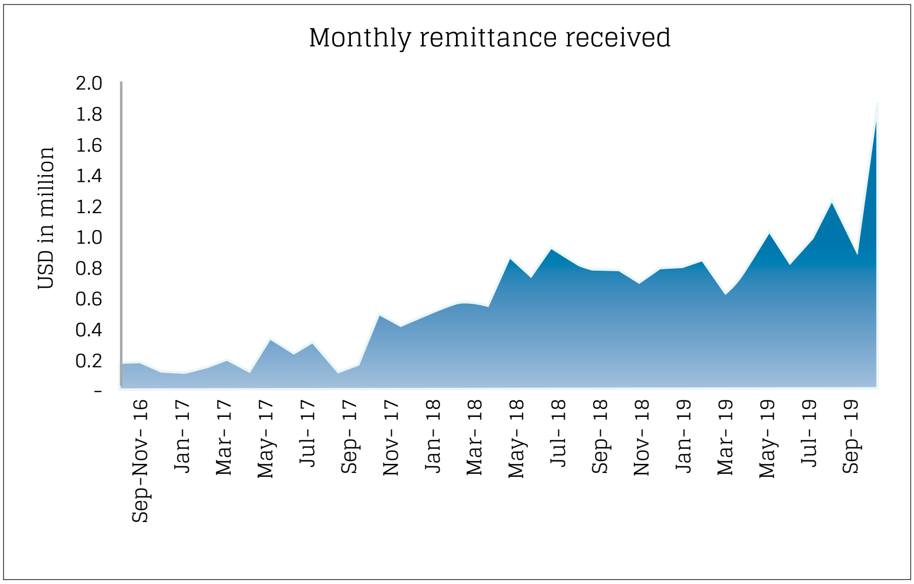
As an important initiative, the RMA has collaborated with the Armed Forces and the Ministry of Labour and Human Resources to make available opening of Foreign Currency Accounts (FCA) to departing Bhutanese as a pre-departure facility. Furthermore, as a step to reach the facility to the doorsteps of NRB, RemitBhutan was launched in New York (October 2016), Perth and Canberra (February 2017) by the Finance Minister, where an overwhelming number of NRB attended the event and appreciated the initiative of the government.

In order to encourage savings in Bhutan and also to sensitize on the advantages of savings offered in Bhutan to larger NRB, waiver of tax on fixed deposits in Bhutan was approved by the government from 1 January 2017.

On 7th April 2017 the RMA, in collaboration with the Ministry of Finance and Ministry of Labour and Human Resources, officially launched "Overseas Education and Skill Development Scheme", with the objective of providing Bhutanese youth access to higher education and/or to gain meaningful employment skills which can be deployed upon returning home. Under this scheme, one of the conditions require repayment of loan be made through RemitBhutan accounts. As such, the RMA conducted pre-departure briefing session to 80 Bhutanese students leaving for Japan under this scheme to open FCA and to educate them on how to remit their savings/loan repayment through the FCA

As per the FCA statistics maintained, 1,673 accounts were opened via RemitBhutan and USD 21.93 million inward remittances were received at the end of october 2019. Of the total, about 75 percent were routed through Prabhu Money Transfer facility initiated by TBank, followed by normal banking channels of the Bank of Bhutan and Bhutan National Bank.

Although the Bhutan Post's Western Union Money transfer still remains the dominant mode of inward remittances, the Prabhu Money Transfer service of TBank is increasingly becoming popular and USD 15.24 million has been received within a span of three years. The growth of remittances has been picking up since its inception and it recorded a growth of 203.4 percent in 2018. The highest inward remittance of USD 1.89 million was received in the month of October 2019.



Given the benefits of inward remittances on the country's economic growth, the RMA plans to increase awareness and collaborate with commercial banks to identify additional incentives and products to entice more remittances from NRB. Further, there are also plans to negotiate with Authorized Money Transfer Agents such as Western Union and Money Gram to channelize remittances through the banking channel under RemitBhutan.

Currency Wise (USD in million)	2016	2017	2018	Jan-Oct 2019	Total
USD	0.1	1.3	0.9	0.8	3.0
AUD	0.3	0.9	0.6	0.6	2.4
EUR	-	0.2	-	-	0.2
USD (Prabhu Remittance)	-	0.5	7.2	7.6	15.2
T Bank-T Pay Remit				1.1	1.1
Total Remittances	**0.4**	**2.9**	**8.7**	**10.0**	**21.9**

3.6 Money and Credit

Volatility of liquidity in the banking system influences the growth path of credit and money supply

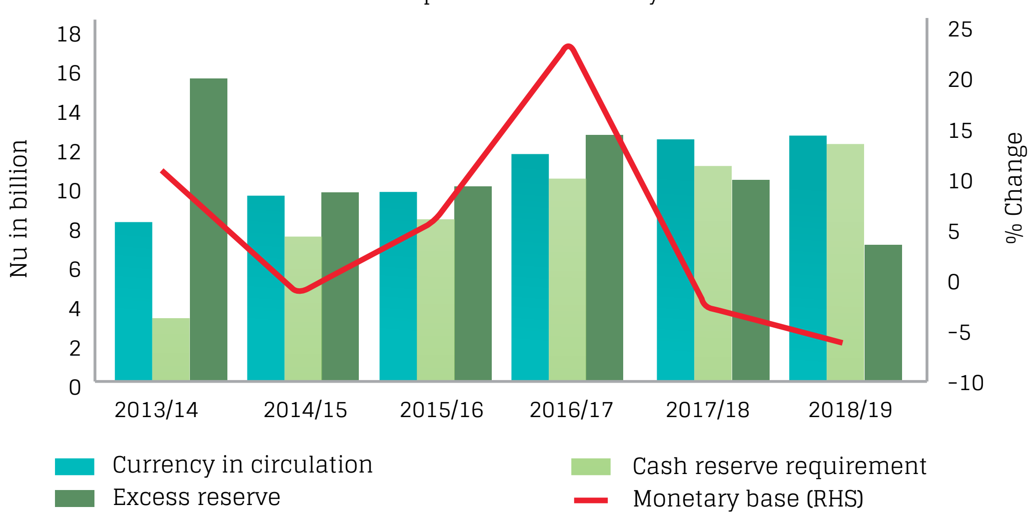
The monetary and liquidity conditions during FY 2018/19 slowed down in tandem with lower economic growth and policy initiatives introduced to ease volatility of liquidity in the market. In absence of effective monetary policy operations, the persistent build-up of liquidity in the banking system often causes high volatility in the level and path of reserve money and money supply (M2).

Monetary base (M0) declined by **4.5%** in FY 2018/19.

Despite slowdown in economic growth, domestic credit improved in FY 2018/19 on account of continued higher demand for construction and services sector and mobilization of deposits. Other combined macroeconomic factors such as moderate level of inflation, softening of interest rate and depreciation of exchange rate also affected the demand for credit. Similarly, total deposits grew moderately in FY 2018/19 with increase in usage of digital payment and policy initiatives to promote saving habits.

Monetary base (M0) comprises the central bank liabilities that directly influence expansion and contraction of money supply in the economy. Currently, Cash Reserve Requirement (CRR) is the only monetary instrument used by the RMA to manage liquidity in the banking system. The growth in monetary base was largely influenced by currency in circulation, Cashi Reserve Requirement at the Central bank and excess reserves.

Chart 3.6.1 Components of monetary base



During FY 2018/19, monetary base continued to record negative growth of 4.5 percent, due to sharp decline in excess reserves maintained with the RMA. The significant decline was mainly due to RMA's effort to sterilize bank's excess reserves through sweeping of the current accounts that are mostly volatile inflow of foreign currencies, particularly hydropower proceeds and official grants. The Currency in Circulation (CiC), which accounted for 39.2 percent of total monetary reserve, grew by 2.3 percent as of June 2019, compared to 6.4 percent during the previous period.

Similarly, the currency to GDP ratio also decreased to 6.7 percent from 7.1 percent in FY 2017/18, reflecting decline in cash transactions in the economy. The increase in digital payments and higher opportunity costs of holding cash might also have attributed to low currency demand. Banks' deposit (CRR and excess reserves) with the RMA continued to experience negative growth (10.7%) during FY 2018/19. The moderate deposit growth in commercial banks and active sterilization of excess liquidly through sweeping measures by the RMA have resulted in decline in banks' reserves.

Net Foreign Assets (NFA), which is a key source of reserve money, also recorded a negative growth of 3.8 percent as of June 2019. The decline in NFA was attributed to uncertain flows of hydropower receipts, official grants and scheduled re-payment of short-term borrowings. The growth in money supply is influenced by the magnitude of money multiplier. During FY 2018/19, the money multiplier stood at 3.8 higher.

Money Supply (M2)

The money supply, measured by the broad money (M2), grew by 5.6 percent as compared to 10.4 percent in the FY 2017/18.

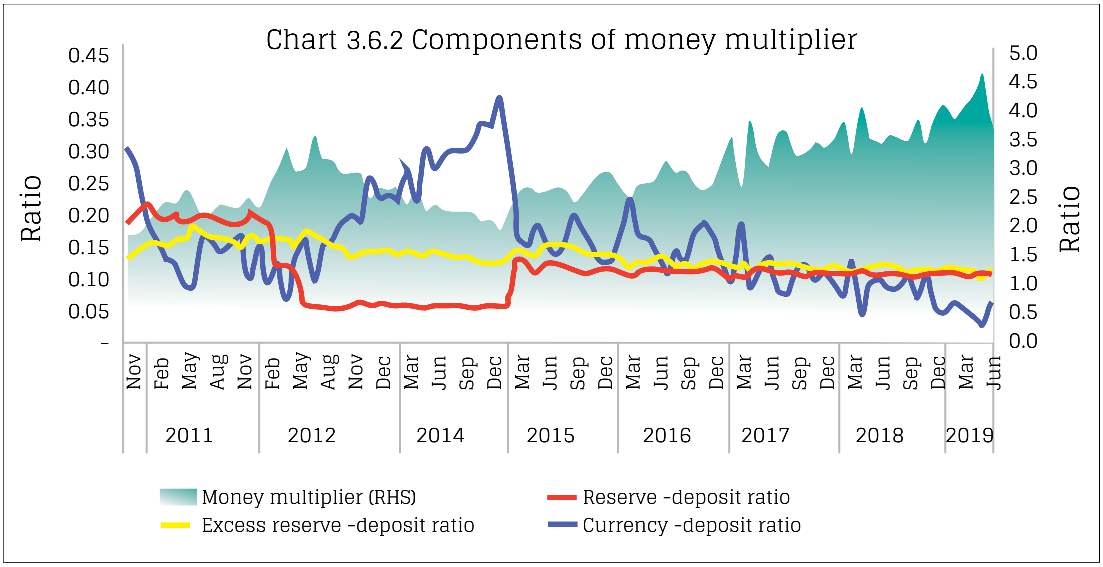
The total deposits, which forms 92 percent of component of money supply, grew by 5.6 percent in FY 2018/19 as compared to 10.9 percent in the previous year. The demand deposits grew at 4.2 precent in FY 2018/19 lower than 9.9 percent in FY 2017/18. The both savings (16.9%) and current deposits (-11.5%) growth fell in FY 2018/19, contributing to the slowdown of aggregate deposits. Similarly, the time deposits, which constitutes 47 percent of aggregate deposits, remained stable at an average growth of 13.7 percent in FY 2018/19, although there has been up-ward revision in interest rate.

Table: 3.6.1 Monetary Aggregate

	Nu in million			Growth in percent (y-o-y)		
Item	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
I. Reserve Money	34,327.9	33,469.8	31,973.9	23.5	-2.5	-4.5
II. Broad Money (M2)	104,113.6	114,973.7	121,416.7	31.5	10.4	5.6
III. Narrow Money (M1)	60,723.3	66,295.1	69,203.4	35.1	9.2	4.4
IV. Components of M2						
1. Currency Outside Banks	8,787.7	9,234.0	9,744.1	44.0	5.1	5.5
2.Transferable Deposits	51,935.6	57,061.0	59,459.3	33.7	9.9	4.2
3.Time Deposits	41,285.5	46,163.9	51,011.3	26.5	11.8	10.5
4. Foreign Currency Deposits	2,104.9	2,514.8	1,202.0	32.5	19.5	-52.2
V. Sources of M2						
1. Foreign Assets (Net)	68,186.7	66,006.3	63,920.6	0.6	-3.2	-3.2
2. Claims on Government	2,852.9	5,029.4	2,406.9	151.2	-15.6	-52.1
3. Claims on Other Public Sector	7,046.8	8,306.0	6,230.8	15.4	17.9	-25.0
4. Claims on Private Sector 3	75,185.1	86,985.1	104,850.5	15.4	15.7	20.5
VI. Money Multiplier	3.0	3.4	3.9			

Note: The monetary aggregate includes data from RMA and Commercial Banks, which is comparable between June end.

In terms of sources of money supply, NFA continued to show declining trend over the period. The flow of Indian Rupees (INR), particularly hydropower receipts and foreign grants, which are volatile in nature, contributed to the decline. The credit to private sectors, which constitutes around 86 percent of total domestic credit, expanded by 20.5 percent in June 2019 from 15.7 percent in the previous year. The higher growth was due to increase in demand for construction and housing sector and higher mobilization of deposits.



The money multiplier, as a key monetary parameter, increased slightly to 3.8 in FY 2018/19 from 3.4 in FY 2017/18. The decrease in excess reserve-deposit ratio, which is inversely related to money multiplier, contributed to higher money multiplier. Similarly, the currency-deposit ratio, which captures the public's preference for cash and deposit habits, decreased marginally. The velocity of money continued to remain at 1.5, reflecting stability in the financial system.

Credit Market

With narrow capital market, continious reliance on credit from Banking Sector led to higher credit growth

Given the nascent stage of capital market and continued reliance of credit from the banking sector, domestic credit has been on an expansionary mode. The RMA's initiatives to boost supply side has also provided a congenial environment for credit growth in the economy. As of June 2019, the total credit outstanding of the financial institutions recorded a growth of 20.3 percent (Nu 129.59 billion) compared to 13.3 percent in FY 2017/18. The growth was largely driven by construction (28.3%), services (26.9 %) and trade (17.8%) sectors.

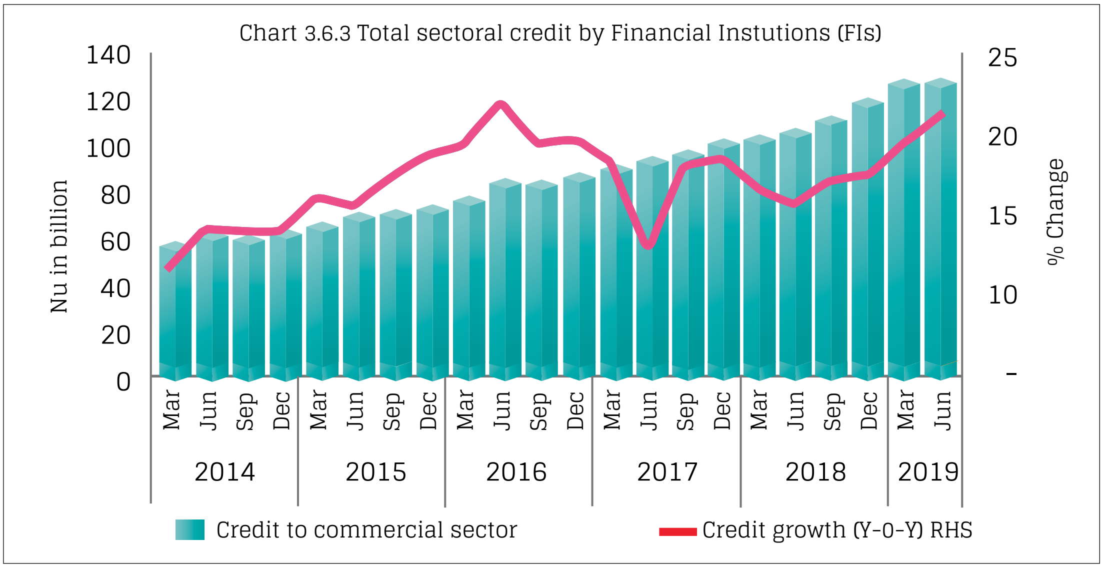
Total Domestic Credit by Financial Insititutions stood at **Nu. 129.59** billion as of June 2019

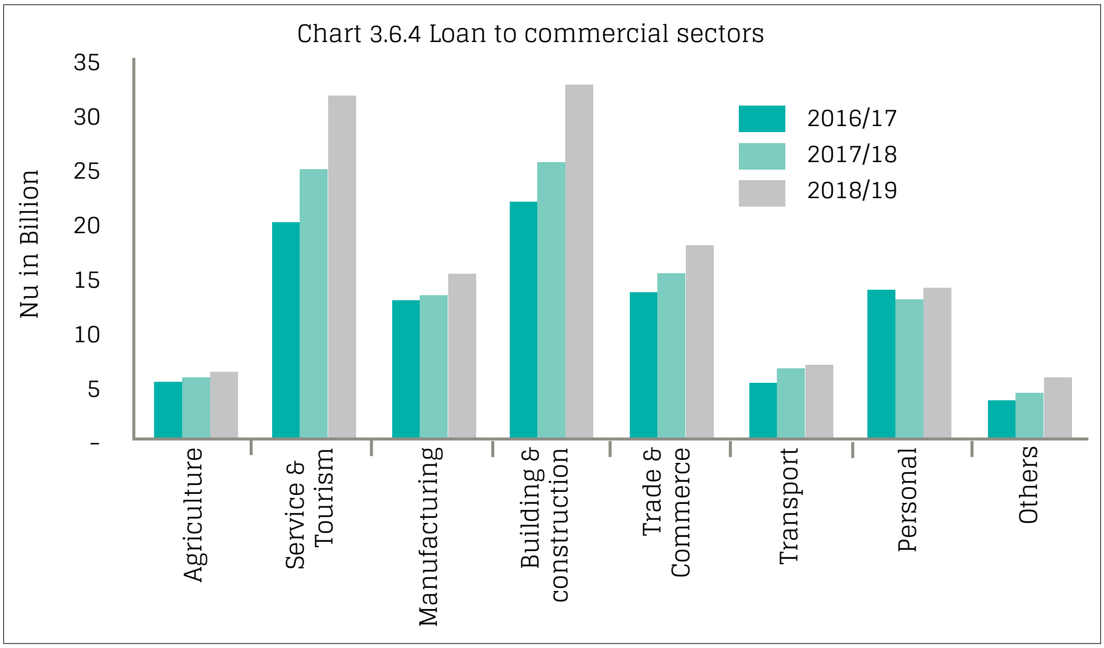
Of the total credit, banks financed 83.2 percent amounting to Nu 107,829.24 million and remaining 16.8 percent (Nu 21,766.13 million) was financed by non-banks as of June 2019.

During FY 2018/19, the credit to housing, which accounted for 30.3 percent of total credit, increased significantly to 28.3 percent from 17.1 percent in FY 2017/18, on account of continued higher demand for hotel and residential. Similarly, credit to services (26.9%), manufacturing (13.5 %) and trade (17.8 %) sector continued to pick up during the period.

On the other hand, flow of credit to transport grew only by 7.2 percent as compared to 25.2 percent in FY 2017/18. The lower growth in transport credit was due to policy revision related to higher requirement of equity and other prudential measures.

Despite several policy initiatives to improve supply side front the credit to agriculture, which accounted for only 5.8 percent of total credit, grew at 10.9 percent (Nu 6,247.26 million) at the end of June 2019 compared to 11.1 percent in the previous year. The concentration of credit to primary production such as agro-processing and livestock and low level innovations and technology were main underlying factors that contribute to slower growth in agriculture sector. Recent Priority Sector Lending (PSL) policy initiative is expected to provide opportunities to address current challenges in the agriculture sector. In terms of share to GDP, it stood at 3.5 percent, reflecting low investment in agriculture as compare to other sector.





Meanwhile, personal loans, generally considered as a high-quality asset by banks, improved significantly from negative 6.1 percent to 7.9 percent in FY 2018/19.

Non-Performing Loan in June 2019 increased at Nu 21.4 billion compared to Nu 12.5 billion in June 2018, with a NPL ratio at 16.5 (June 2019) from 11.5 (June 2018). The higher NPL is mainly driven by Non-banks of 49.5 percent.

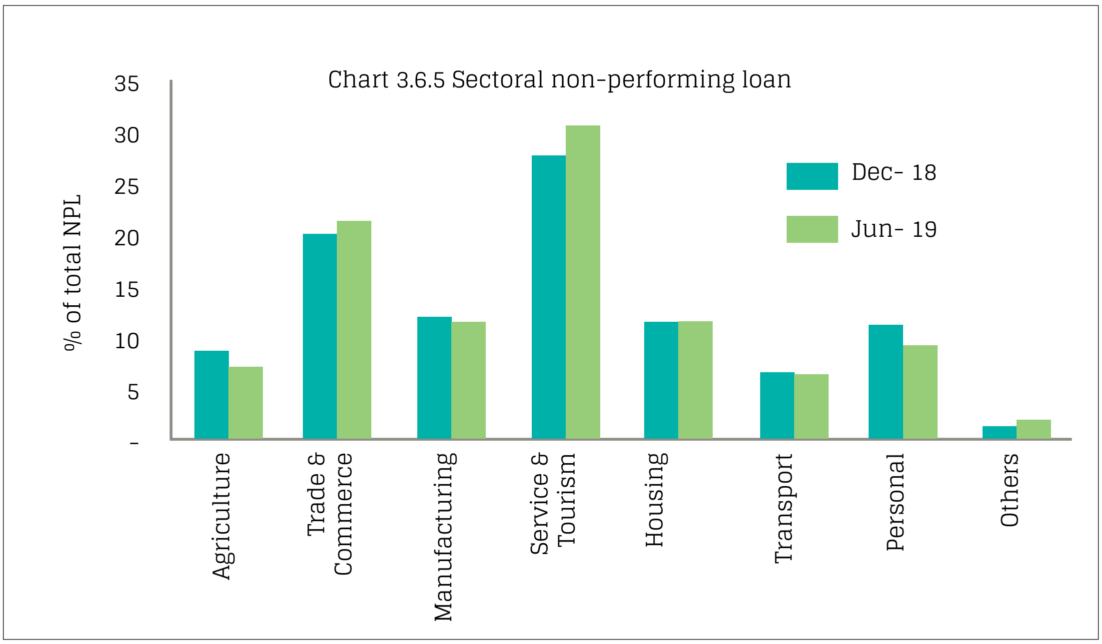
Looking at the sector wise NPL as of June 2019, the Services and Tourism recorded highest NPL at Nu 6.67 billion (31.1%) followed by Trade and Commerce at Nu. 4.61billion (22%), Production and Manufacturing at Nu. 2.47 billion (11.5%) and Housing at Nu. 2.44billion (11.5%).

Within components of Services and Tourism, the construction recorded highest NPL of Nu. 6.67 billion (61%), followed by Hotel and Restaurant at Nu 836.2 million (13%) and Tourism at Nu 51.6 million (1%) and remaining ICT, consultancy, Entertainment, Education and Health (26%).

In terms of NPL by banks and Non-banks, banks NPL constitutes 9.9 percent, mainly driven by BDBL (27.7%) followed by BNBL (9.3%), T Bank (5%), BOBL (4.3 %) and DPNBL (3.1%) as of June 2019. While Non-Banks recorded at 49.5 percent largely attributed to RICBL (50.9%)

While on rising concern on NPL, RMA in collaboration with Government and FIs is making concerted effort to enhance loan transparency through devising different strategies.

The financial sector review shows that asset quality remained within acceptable ceiling of financial soundness framework, as recovery of sectoral loan begins from the third quarter of the year. The NPL for all sectors usually stabilizes towards end of the year.



BOX 3.6.2 Medium-term Macroeconomic Outlook

With growing global trade tension and slowing down of economic growth in the emerging economies, particularly India and China, the macroeconomic outlook in Bhutan remains less favourable in the medium-term, warranting structural policy interventions to support economic growth.

According to the MFCTC updates of September 2019, the economy is projected to grow at 6.4 percent in FY 2019/20. The projection was revised downward by 0.4 percentage points for FY 2019/20 due to decline in hydropower investment and private consumption. The investment in Sunkosh hydropower that was considered in the projection was not initiated during the period. Going forward, the economic growth is likely to slow down to 4.5 percent in FY 2020/21.

Headline inflation has been projected at 4.1 percent in FY 2019/20 and 5 percent in FY 2020/21. The model shows higher output gap is likely to result into upward revision of inflation in medium-term. In addition, inflation is likely to effect largely by revision of civil servant's salary accompanied by rising domestic food inflation. The inflation forecast is expected to influence by Indian inflation , given the fixed exchange rate arrangement and trade integration. Further, the inflation pressures are also likely from developments in global oil prices.

Overall fiscal deficit is projected to remain around 3.3 percent of GDP in FY 2019/20, before it increases to 4.7 percent of GDP in FY 2020/21. Upward revision of the deficit is due to increase in capital investment (14.2 % of GDP) as capital budget picked up with the incorporation of new projects combined with revision in civil service pay and other allowances.

Similarly, the total revenue is projected to increase by 28.9 percent in FY 2019/20, which is anticipated to be contributed by Mangdechhu hydropower and indirect tax. The increase in property income tax is also expected to contribute to the indirect tax.

On the external front, the current account deficit is projected to remain at 19.8 percent of GDP in FY 2019/20 and expected to slightly improve to 18.1 percent of GDP in FY 2020/21 with narrowing of the trade deficit (16.9% in FY 2019/20 and 14.8% of GDP in FY 2020/21) over the medium-term. The higher hydropower exports and tapering of major import-led hydropower project constructions are expected to improve the trade balances.

In the medium term, the capital and financial flows are likely to decrease because of lower inflow of official grants and loans. However, positive financial and capital net flows are sufficient to finance current account deficit. As a result, international reserves are expected to adequately cover more than 22.1 months of essential imports. The public debt to GDP ratio is anticipated to improve from 105.1 percent to 100.5 in FY 2019/20 and FY 2020/21 respectively.

Developments in the monetary and credit condition is expected to closely align with the economic outlook over the medium term. The growth in money supply is projected at 12.3 percent in FY 2019/20 contributed by growth in domestic credit. The net foreign assets, which was the major driver of money supply in the past, is expected to decrease due to lower inflow of official grants from external donors.

The credit to the private sector is expected to grow moderately at 13.8 percent in FY 2019/20 and 14.5 percent in FY 2020/21 with implementation of prudential measures on high exposure of loans to sector. The liquidity in the banking system is likely to remain volatile due to uncertainty of foreign exchange flows.

The strategy to broaden government revenue and channelling credit to a productive sector would further help to reverse current growth trajectory and employment generation . At the same time, it is important to continue vigilance on external risks, stemming mainly from Indian growth outlooks, inflation and global oil prices in order to prevent risk of potential spillover on the Bhutanese economy.

Medium-term Macroeconomic Outlook Indicators

	Estimates	Projections		Difference from Sept. 2018 projections
	2018/19	2019/20	2020/21	2019/20
Real Sector	*(% change)*			
Real GDP at market prices(*)	5.3	6.4	4.5	-0.4
Inflation	2.7	4.1	5.0	-0.9
General Government	*(in % of GDP)*			
Total revenue and grants	22.3	28.9	26.9	1.3
o/w Tax revenue	13.8	14.5	14.4	2.5
Total expenditure	24.2	32.5	30.8	1.7
o/w Capital	9.7	14.2	12.8	2.0
Fiscal balance	-2.0	-3.3	-4.7	-0.7
External Sector	*(in % of GDP)*			
Current account balance	-24.7	-19.8	-18.1	-5.3
Trade balance	-17.4	-16.9	-14.8	-9.5
External debt	100.9	105.1	100.4	5.1
Months of essential imports	22.1	20.1	15.8	-6.9
Monetary Sector	*(% change)*			
Money Supply	5.6	12.4	10.9	-1.4
Credit to private sector	20.5	13.8	14.5	-1.7

Data as of the FY ending June, including GDP which is also on FY basis. Source: MFCT, Ministry of Finance (projections as of September 2019) and IMF. 1) Fiscal projection source: Ministry of Finance. 2) BOP and Monetary data source: RMA and GDP data source: National Statistics Bureau (NSB). * GDP figure for FY is converted by taking average of two periods. Source: National Statistical Bureau

4

MONETARY POLICY OPERATIONS

4.1 Monetary Policy Operations

The RMA Act of Bhutan 2010 mandates to formulate and implement monetary policy to achieve and maintain price stability. The RMA operates monetary policy with one-to-one fixed exchange rate with the Indian Rupee (INR), which has been pegged at par with the Indian Rupee, since its introduction in 1974. The fixed exchange rate has been beneficial for Bhutan in reducing the bilateral exchange rate variability with India, Bhutan's biggest trading partner. Moreover, with low exposure to international capital movements combined with flexible inflation target of the Reserve Bank of India, the RMA has enhanced its policy credibility in achieving lower inflation. In the past, the RMA has experimented several market-based instruments and monetary policy is now undergoing an evolutionary process.

Currently, the RMA conducts its monetary policy through Cash Reserve Ratio (CRR) and interest rate policy to influence credit and monetary aggregates. In the absence of proper cash management by the government, the RMA also relies on sweeping arrangement to sterilize government cash balances from the banking sectors that creates volatility in the money market and commercial banks' balance sheet (refer Box 4.1 Government Cash Management and Sweeping of Accounts).

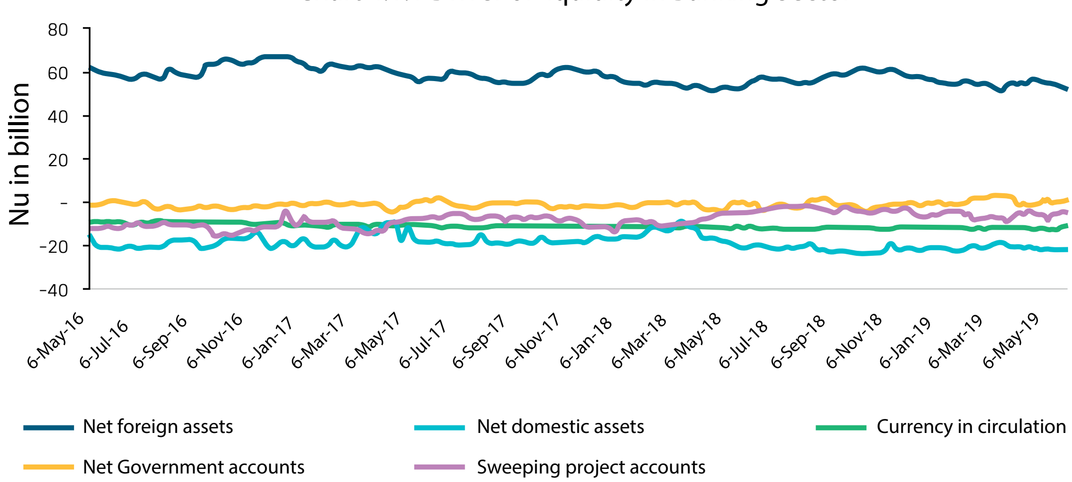
Liquidity in the Banking System

Short-term liquidity management is the cornerstone of monetary policy operation and transmission irrespective of central bank's operating targets (i.e. interest rate, exchange rate and reserve money). By liquidity management, the central bank either injects or absorbs liquidity in the banking sector, in order to move the money market rate closer to the central bank's policy rate.

Liquidity in the banking system is primarily derived from the autonomous factors in the central bank's balance sheet that is beyond the control of central bank. Thus, the main role of the central bank is to offset the liquidity shocks induced by the fluctuation in the autonomous factors.

Typically, the autonomous factors in the central bank balance sheet includes (i) Net Foreign Assets/liabilities (ii) Net Domestic Assets/Liabilities (iii) Currency in Circulation and (iv) Net Government Account. Apart from the above four autonomous factors, sweeping accounts are considered as an additional autonomous factor in Bhutan. Sweeping accounts are the accounts of the government and hydropower projects maintained with the commercial banks that are swept by the RMA at the end of the day to minimize volatility of liquidity in the banking sector.

Chart 4.1.1 Driver of liquidity in Banking Sector

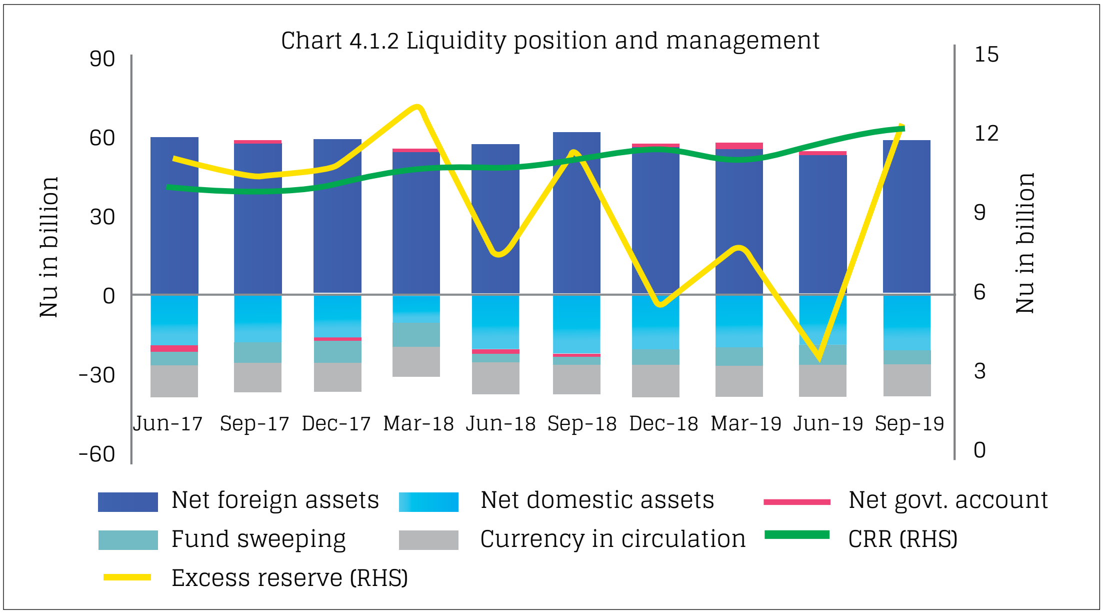


The NFA is the only autonomous factor that provides liquidity in the banking sector, while rest of the autonomous factors absorb liquidity (chart 4.1.1). The Net Government Accounts has been very volatile without a clear trend.

As of June 2019, autonomous factors led to a liquidity surplus of Nu 19,428.92 million, of which CRR absorbed Nu 11,995.34 million. The residual amount of Nu 7,432.58 million corresponds to excess reserves maintained by banks at the RMA. The Precautionary Liquidity Buffer (PLB) is calculated at Nu 3,000 million based on empirical study and survey of banks' treasurers, which depends on factors such as banks' characteristics, macroeconomic fundamentals, and regulatory policies. After accounting for PLB, the pure excess reserve is estimated at Nu 4,432.58 million (Table 4.1.1), which the RMA's monetary policy should aim to absorb at a predetermined interest rate.

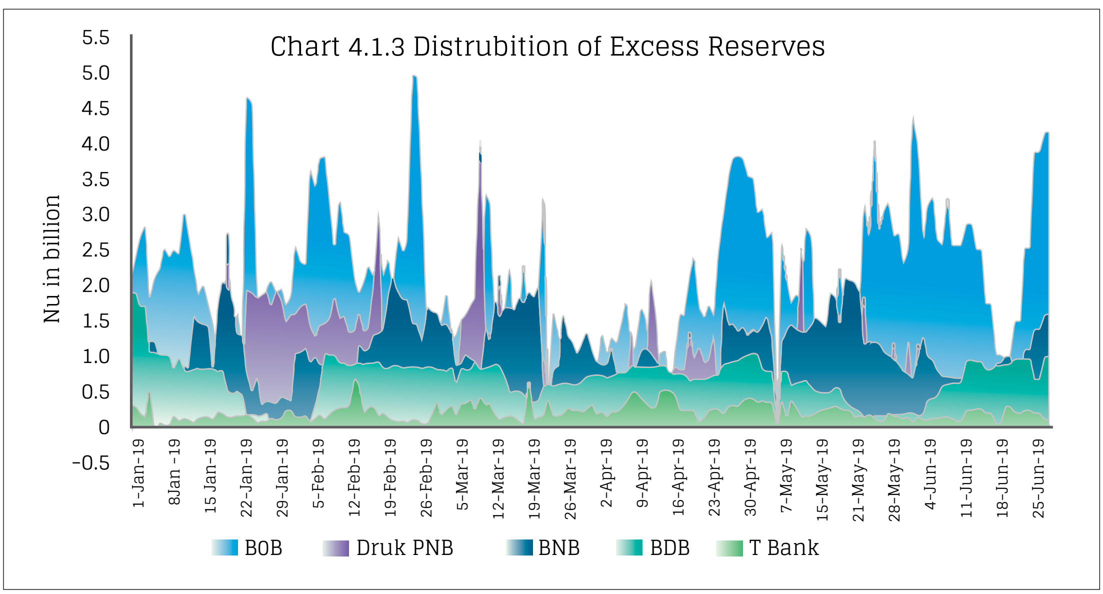
Table 4.1.1 Autonomous Factors, Liquidity Surplus and Liquidity Management (Nu in Million)

Liquidity driver (Autonomous Factors)	30-Jun-17	30-Jun-18	30-Jun-19
Net Foreign Assets	59,564	56,408	53,803
Net Domestic Assets	-18,569	-20,376	-20,195
Currency in Circulation	-11,529	-12,088	-12,546
Net Government Accounts	-2,718	-2,080	2,403
Sweeping Accounts	-5,215	-3,370	-4,037
Total Autonomous Factors	21,533	18,494	19,428
Monetary Policy Operation/ Liquidity Management			
Cash Reserve Ratio (CRR)	10,284	11,036	11,995
Liquidity Providing Operations	0	0	0
Liquidity Absorbing Operations	0	0	0
Liquidity Position after Monetary Policy Operation	11,249	7,458	7,433
Excess Reserve	11,285	7,458	7,433
Estimated Precautionary Liquidity Buffer	3,000	3,000	3,000
Pure Excess Reserve	**8,285**	**4,458**	**4,433**



In absence of active liquidity management system, the banking sector exhibits structural liquidity surplus (figure 4.1.2). The surplus liquidity occurs when cashflow of the banking system persistently exceeds withdrawal of liquidity from the market by monetary policy operations. This reflects holdings of reserve in excess of the central bank's required reserves. The presence of structural liquidity surplus would weaken the monetary policy transmission and have adverse effect on central bank's balance sheet, as sterilizing the surplus liquidity by monetary policy operation will impact the central bank's profit.

The distribution of liquidity in the banking system is not uniform with few banks having a dominant position in the distribution of excess reserve. High concentration of excess reserve is not conducive for smooth functioning of the interbank market and will weaken monetary policy transmission.

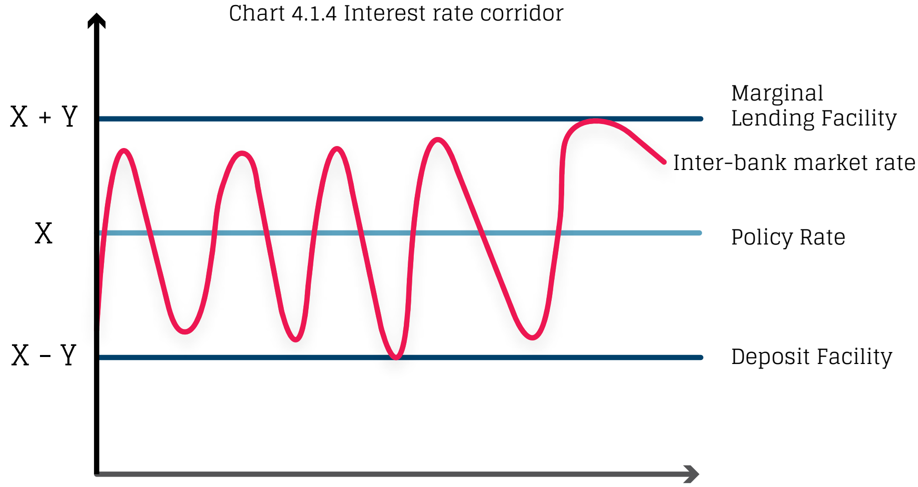


Monetary Policy Operation and Inflation

In order to ensure economic and financial stability, the central bank conducts monetary policy by adjusting supply of money generally through reserve requirement and open market operations. Central bank may increase money supply in the economy by purchasing debt securities from commercial banks (accommodative monetary policy). Alternatively, the central bank may sell securities to reduce liquidity in the banking sector (tightening monetary policy). Either ways, the central bank's monetary policy operation is aimed to adjust short-term interest rates, which will in turn influence long term rates and overall economic activities.

In order to manage liquidity at a desired level in the banking sector, the central bank needs to conduct short-term liquidity forecast. In fact, liquidity forecasting is a cornerstone of monetary policy operation process. Liquidity forecasting depends on wide range of factors including expert judgement and coordination with other important stakeholders.

Chart 4.1.4 Interest rate corridor



More importantly, the central bank needs to determine the Key Policy Rate (KPR), the rate that is used by central banks to signal its monetary policy stance based on inflation and other macroeconomic considerations. In addition, the central bank also sets an interest rate corridor in the form of Marginal Lending Facility (MLF) and Deposit Facility (DF) to guide the interbank lending rates (Chart 4.1.4).

The MLF (upper bound) and DF (lower bound) are overnight facilities provided by the central bank to manage banking sector liquidity and the range within which the interbank rate operates.

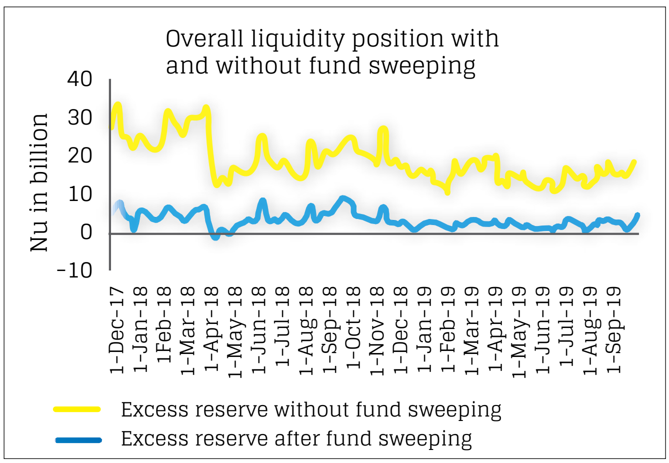
During liquidity shortage/surplus in the economy, the banks may resort to interbank borrowing/lending as long as the interest rates are below the MLF or above the DF. Otherwise, it may prefer to borrow from or lend to the central bank using the MLF/DF. Under the MLF, the banks have to pledge eligible securities to borrow from the central bank.

BOX 4.1 Government Cash Management and Sweeping of Accounts

Well-designed and effective public cash management system is an important factor for prudent use and control of government's financial resources. In some countries (often emerging and low-income countries) handling government receipts and payments are fragmented; thus, the Ministry of Finance/Treasury may not have full control over the government financial resources.

Weak Government operations on handling government receipts and payments can result in institutional deficiencies in several ways: firstly, the government incurs unnecessary cost on raising funds to cover a perceived cash shortage, since idle cash balances typically are not remunerated; secondly, mopping up excess liquidity through monetary policy operation is a costly affair for the central bank as excess liquidity needs to be mobbed by issuing its own securities and has a negative implication on central bank's profitability. In some countries, as is currently the case in Bhutan, government balances are held outside the central bank. Such a framework can potentially weaken Government's efficient management of cash flows unless there is a clear framework in place which allows the Government to maintain rigorous control over its cash balances.

In the absence of an efficient cash management system, government cash flows are a major cause of short-term volatility in money market and banks liquidity in Bhutan. Idle balance in the banking sector are costly to the government and profitable for the banking sector and acts as an implicit subsidy from the government. Moreover, the lack of market-related interest rate also gives both government and banks a wrong incentive. Few banks enjoy comparative advantage with regard to the number of government-related accounts, which affects smooth functioning of the interbank market and monetary policy transmission. As part of the effective management of liquidity in the banking sector, the RMA undertakes sweeping of volatile accounts.



The volatility originates mainly in absence of well-developed Treasury Single Account (TSA). There are multiple bank accounts in commercial banks belonging to different ministries/agencies with idle cash parked in the current accounts. In addition, the flow of hydropower investments through grants and loans create temporary incentives (liquidity surplus) in the banking system. The sweeping arrangement and the CRR have aided the RMA to sterilize volatile liquidity in the banking sector. With the increased deposits of commercial banks created through such flows, the amount sterilized by the CRR is not adequate, thus complemented by sweeping arrangement.

BOX 4.2 Forecasting Currency in Circulation

Monetary authorities use liquidity management policies to maintain price stability in the economy and therefore projecting market liquidity becomes an important task of the central bank. Broadly, market liquidity refers to the balances held by banks on settlement accounts with the central bank. Market liquidity is, however, influenced by several autonomous factors that are beyond the control of the central bank. A considerable change of these autonomous factors increases or decreases liquidity position over a short period of time, thereby leading to fluctuations in the money supply. Most importantly, these fluctuations in money supply lead to volatility in interest rates.

The amount of currency issued by the central bank is typically one of the main drivers of the liquidity in the banking system. Although, the central bank has the monopoly for distributing the currency, it may not predict the demand for the currency, since the amount of currency circulated in the economy is influenced by exogenous factors. The determinants of Currency in Circulation (CiC) are distinct and varies between short-run and long-run. In the short-run, the CiC is mostly affected by seasonal factors such as festivals, payroll timing and holidays. While, in the long-run, it is affected by economic activities such as economic growth and prospects, inflation, interest rates and payment system. Forecasting CiC in Bhutan is even more challenging because of the free circulation of Indian Rupee and unpredictable external inflow that feed into the banking sector.

A number of central banks forecast daily changes in their CiC, either based on expert judgement or econometric model or combination of both. Autoregressive Integrated Moving Average (ARIMA) time series models with dummy variables to account for the different seasonal patterns and calendar effects is widely used by central banks to model and forecast the CiC. The non-seasonal general model ARIMA model can be represented by ARIMA (ρ,d,q) where,

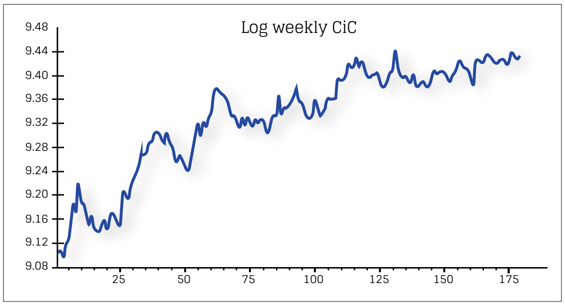
AR(p) is the order of the autoregression of the model
d is the degree of integration and MA(q) is the order of the moving average of the model

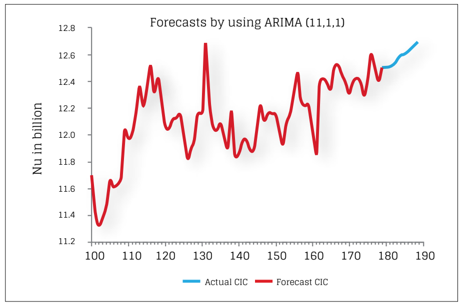
The linear expression to define the above notation can be represented in the following equation:

$$y_t = C + \sum_{i=1}^{p} \phi_i X_{t-1} + \sum_{j=1}^{q} \alpha_j \theta_{t-1} + \varepsilon_t$$

Where, c is the constant, ϕ_i for the purpose of stabilizing the variance, i is the i^{th} autoregressive parameter, α_j is the j^{th} moving average parameter and ε_t is the error term that is generally assumed to be independently and identically distributed random variables with zero mean and infinite variance.

The CiC accounts for about 45-50 percent of total autonomous factors thus making CiC an important factor in liquidity forecasting process. This study used weekly data from May 9, 2016 to September 30, 2019. A total of 179 weekly observations were used for analyzing CiC. The data was obtained from the daily balance sheet of the RMA. The study used univariate time series model to reproduce the pattern of the prior movements of CiC over time and later used this information to predict future movements in the CiC.





The CiC issued by the RMA expressed in logarithmic terms between May 3, 2016 to September 30, 2019 has seen an increasing trend, which can be attributed to growing demand of liquidity in the economy.

The CiC at its level is not stationary, however, taking the first differences the Augmented Dickey-Fuller (1976) suggest that the variable is stationary with order of integration one. In developing ARIMA model, Autocorrelation Function (ACF) and Partial Autocorrelation Function (PACF) were used to determine the best model. Based on the ACF and PACF, ARIMA (11,1,1) was chosen for forecasting CiC in Bhutan. This model has been selected based on the adjusted R square, Akaike Information Criteria and Sigma-Square.

Differenced CiC	ARIMA (1,1,1)	ARIMA (1,1,6)	ARIMA (6,1,1)	ARIMA (1,1,11)	ARIMA (11,1,1)
Significant Coef.	0	1	2	1	2
$Sigma^2$	37652	36861	36936	36459	36255
Adj. R^2	0.1	0.1	0.1	0.1	0.0
AIC	13.4	13.4	13.5	13.4	13.4
BIC	13.5	13.5	13.4	13.5	13.5

Diagnostic check was performed to examine the suitability of the selected model by looking at its residuals. The time plot of the residual also depicts a series with constant variance and without trend. Further, the ACF of the residuals shows that the error terms are uncorrelated and follow white noise process.

The figure represents the ex-post forecasting for currency in circulation using the ARIMA model. The forecast graph shows that the univariate ARIMA model fits quite well to forecast future value of CiC in Bhutan. ARIMA model can therefore be applied for monetary policy purposes to support tools for banking sector liquidity management and forecasting. In future, the RMA needs to forecast CiC using dummy variables to account for the different seasonal patterns.

BOX 4.3 Interest Rates

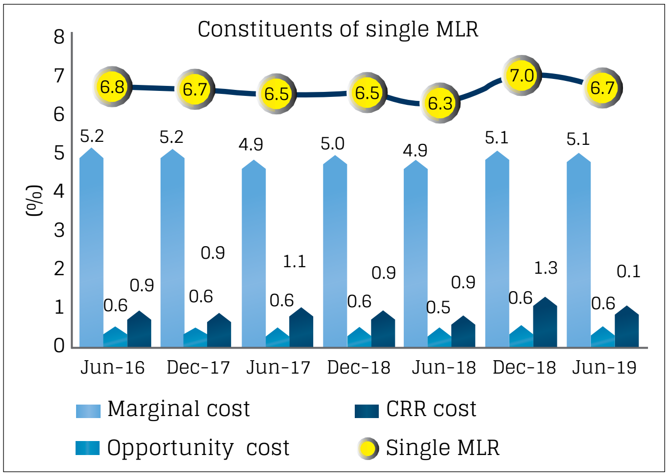
The financial sector plays an intermediation role in the functioning of the economy and this intermediation role mandates financial institutions to have an efficient mechanism to encourage savings and allocate savings to productive investments. The interest rate plays a catalytic role in the financial intermediation mechanism and influencing interest rate is one of the most imperative tools of central bank. Interest rate in Bhutan has evolved with major policy reforms to promote competition and flexibility. Originally, interest rates in Bhutan were administered by the Royal Monetary Authority. However, with deregulation and liberalization in the 1990s, in both advanced and emerging market economies, the RMA also liberalized interest rates to be determined by market forces of demand for and supply of funds.

With the rigidity and high spreads of interest between deposits and lending, the RMA started issuing policy guidelines, however, leaving the actual interest rate to be determined by market forces of demand for and supply of funds. Thus, the Base Rate System was introduced in 2012, specifically to promote transparency in pricing of loans. However, the application of the base rate system revealed structural problems and poor transparency during the review study. To address the shortcomings and also to have a more forward-looking interest rate policy mechanism entailing greater competition, transparency and professionalism amongst the lending institutions, the Minimum Lending Rate (MLR) was introduced in 2016.

Taking into account the marginal cost of funds, the negative carry charges on the cash reserve ratio (CRR) and the operating costs, the RMA computes a single common MLR by averaging the MLR of individual banks. On the common MLR, the financial institutions derive their product-specific final lending rates by adding components such as credit risk, tenor premium and the bank's business strategy cost to the MLR. The RMA reviews the MLR on a semi-annual basis and monitors its implementation based on the financial institution's financial accounts. Financial institutions cannot lend below the MLR except for selected sectors such as priority sector loans identified by RMA from time-to-time, advances to depositors against their own deposits, loans for liquidity management of less than 90 days maturity and strategic consortium loans approved by the Royal Government of Bhutan.

While Bhutan's financial sector is not immune to global developments it is mostly driven by domestic factors. Saving rates for banks ranged from 5.0-5.8 percent as of June 2019, while the interest rate on term deposit varied depending on the maturity and amount of the deposits. Overall interest rate deposits remained unchanged from that of 2018.

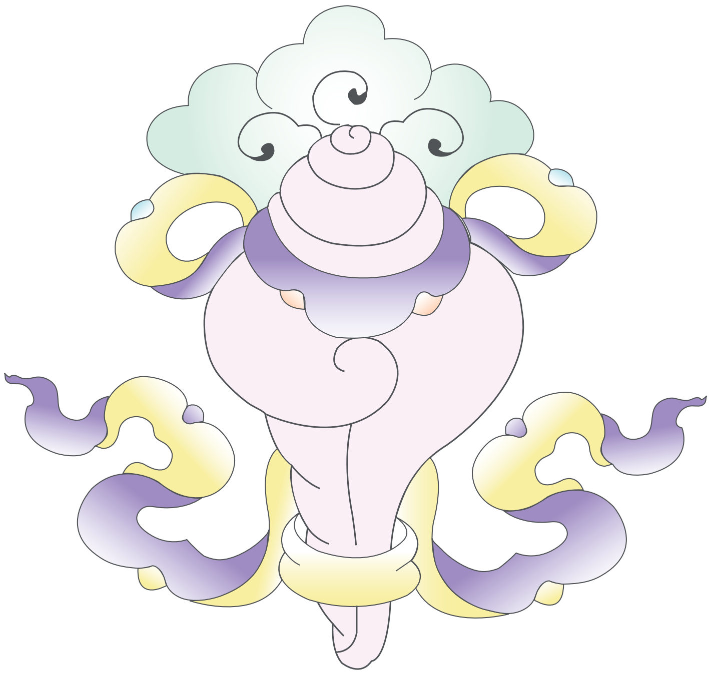
On the lending front, lending rates across sectors have declined in the range of 15-250 bps, with the largest decline in the manufacturing industry sector from 10 percent in 2018 to 8.0 percent in 2019. The decline in lending rates was also attributed to the fall in the minimum lending rate by 0.3 percentage points in June 2019 from 7.0 percent in December 2018.



Deposit and lending rates of selected sectors (%)

Year	Deposit Rates				Lending Rates					
	Saving	Term Deposit			General Trade	Manufact. Industry	Service Industries	Transport	Agri & Livestock	Housing
		3 Months <1yr	1 yr to < 2yr	> 3 yr						
2015	5.0-6.0	4.0-7.0	6.8-7.5	8.0-10.0	13.8-16.0	13.0-16.0	13.0-15.2	12.2-16.0	12.0-13.0	13.0-15.3
2016	5.0-6.0	4.0-6.0	6.0-7.0	8.0-9.3	13.0-14.0	11.7-13.0	11.7-14.0	11.7-14.0	11.7-13.0	12.5-14.0
2017	5.0-6.0	3.0-7.0	6.5-7.5	7.8-10.0	10.5-13.0	9.9-12.5	8.0-12.0	8.9-12.5	7.9-11.0	8.2-13.0
2018	5.0-5.8	2.0-6.0	6.5-7.0	7.0-8.0	9.9-13.0	10.0-13.0	8.5-12.5	9.1-12.5	8.5-11.0	8.5-13.3
2019	5.0-5.8	5.0-6.0	6.0-7.0	7.3-9.5	9.2-12.5	8.0-12.5	8.5-12.5	9.2-12.0	8.2-12.0	7.9-13.0

Figure of deposit and lending rates are rounded to one decimal point and may slightly differ from the commercial bank's rate



5

FINANCIAL SECTOR DEVELOPMENT

5.1 Financial Sector Development

Milestone

Barter system

1968
First commercial bank established

1900 - 1968
Evolution of Coinage

1975
Insurance Company established

1974
National currency Ngultrum was introduced

1982
RMA was setup as the Central Bank

1983
Securities Exchange established

Institutional Reforms and Monetization

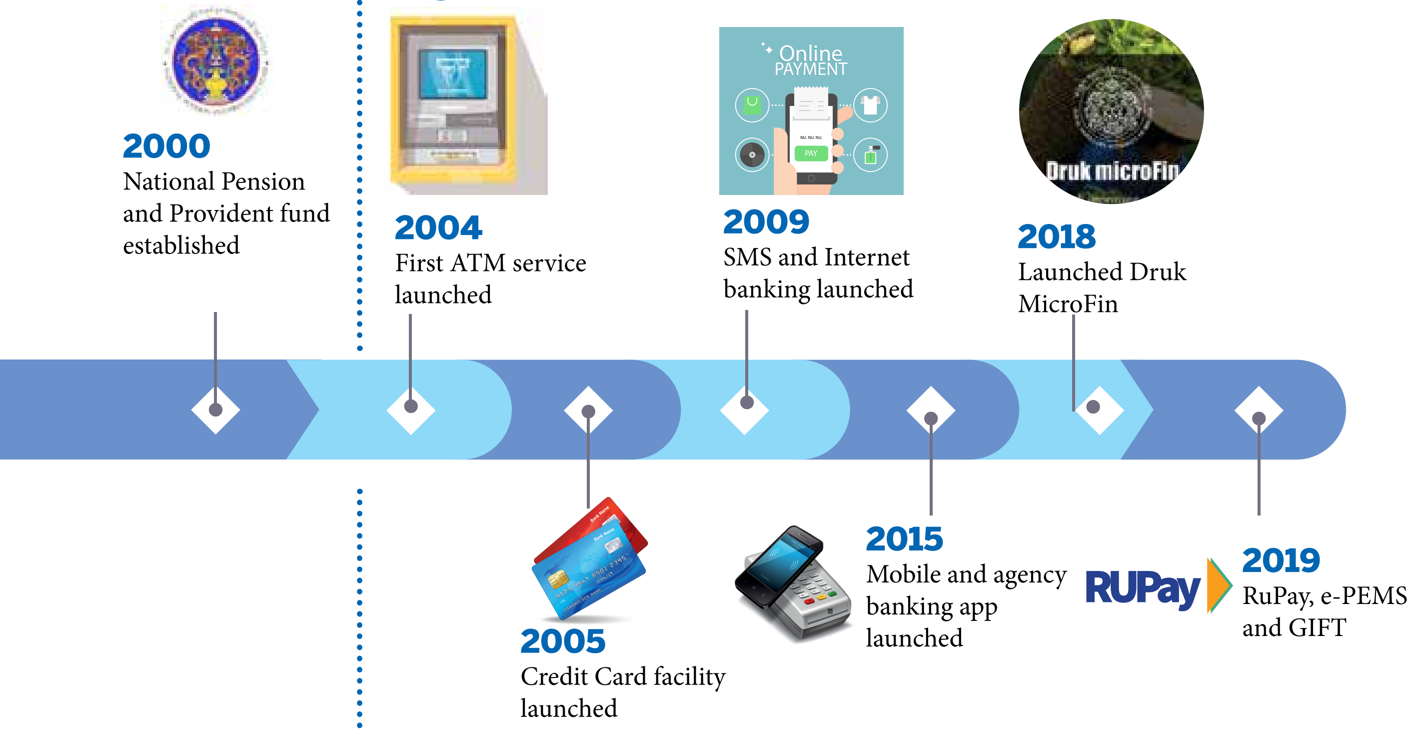
The financial system plays an important role in the development of an economy as the process of economic growth over a period of time represents the accrued growth in incomes channeled through a sound financial system. Allocation of resources, encouraging savings, promoting investments and ensuring financial stability in an economy are integral part of a sound financial system. Many literatures and development models have recognized the significance of a financial system for economic growth because of which many developing countries have opted for structural and financial sector reforms to promote economic growth and its resilience.

Until the mid of the second five-year plan, Bhutan did not have any financial institution facilitating lending towards economic activities. The Bank of Bhutan Ltd., was established in May 1968 as the first bank and also acted as the central bank until the RMA was set-up in 1982. The RMA, as the central bank, is mandated to formulate financial regulations, promote efficient financial system and good governance in the financial industry to achieve and maintain price stability.

Over time, the RMA has made sustained efforts to broaden and deepen the financial sector by enhancing the penetration of formal financial services in unbanked areas while continuing its focus on strengthening the credit quality with adequate and timely flow of credit to productive sectors. In particular, promoting and enabling financial access to the CSI sectors has been the RMA's overarching principle in recent years.

Through FY 2018/19, the RMA actively managed the financial sector with a variety of prudential supervision of the financial institutions and continued its drive to embrace digitalization in the banking sector. Some of the notable achievements in recent years were formulation and implementation of the National Financial Inclusion and Financial Literacy Strategy, promoting easy access to finance through MFIs and PSL, promotion and expansion of Digital Platform for all kinds of payments and settlement system, issuance of Crowdfunding Rules and Regulations, Risk Management Guidelines and adoption of AML/CFT Act 2018. The Abandoned Property, Penalty and Fund Management Rules and Regulations were also rationalized during the review period.

Digital Transformation Process



Financial Sector Review

Currently, the financial sector consists of five commercial banks, four non-banks (three insurance companies and one pension fund) and six microfinance institutions. A recent positive development in the financial sector was the growth in business volume of loans & advances, and deposit liabilities as summarized in the Tables below.

During the FY 2018/19, the total asset of the financial sector (excluding GIC-Bhutan Re Limited, MFIs and NPPF) grew by 5.1 percent (Nu 8,194.59 million), from Nu 161,151.22 million in FY 2017/18 to Nu 169,345.81 million in FY 2018/19. The growth in asset was largely attributed to growth in loans and advances by 14.6 percent. Of the total assets, 89 percent are held by banks and remaining 11 percent by non-banks.

On the liability side, substantial growth in deposits by Nu 9,946.63 million was the major contribution to the increase in liabilities of the financial sector (table 5.1.2). Deposit liabilities constituted a major portion of the banking sector liabilities, accounting for almost 82 percent, whereas the major component of liabilities of the non-banking sector was insurance fund with 66 percent. The non-banking sector had an Insurance Fund of Nu 12,786.04 million comprising Life Insurance, General Insurance and Group Insurance Funds.

Table 5.1.1 Total Assets

(Nu in million)

Assets	Jun-18	Jun-19
Cash & Bank Balances	41,717.8	40,447.7
Marketable Securities	13,618.9	7,149.1
Loans & Advances	100,635.0	115,297.5
Equity Investment	648.7	911.6
Fixed Assets	1,967.1	2,526.8
Other Assets	2,563.8	3,013.2
Total	**161,151.2**	**169,345.8**

Table 5.1.2 Total Liabilities

(Nu in million)

Liabilities	Jun-18	Jun-19
Paid up capital	9,073.3	10,350.9
Reserves	12,624.2	8,042.9
Deposit Liabilities	113,479.2	123,425.9
Bonds & Borrowing	4,657.9	4,048.1
Interest provision	3,647.5	3,741.9
Insurance Fund	10,957.6	12,786.0
Other liabilities	6,711.5	6,950.9
Total	**161,151.2**	**169,345.8**

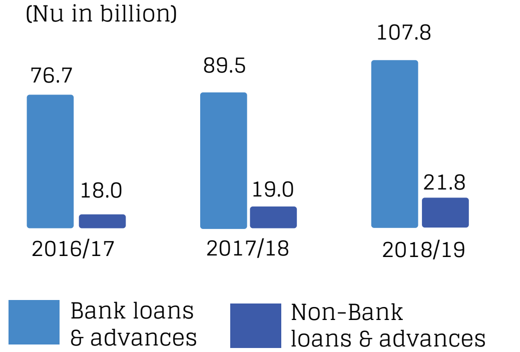
Deposits Composition

The corporate deposits during FY 2018/19 increased by 32.1 percent, while retail deposits declined by 3.1 percent. In the retail deposits, individual deposits and foreign currency deposits declined by Nu 986.75 million and Nu 1,312.76 million respectively.

Total Credit Portfolio

Over the last five FYs, the loans and advances of the financial sector grew at 15.6 percent on average. The total FIs loans and advances to the economy in FY 2018/19 amounted to Nu 129,595.36 million from Nu 108,810.71 million in FY 2017/18.

Chart 5.1.1 Total Loans and Advances (Nu in billion)



Deposit by Customers

40.8%
Corporate Deposit

59.2%
Retail Deposit

Type of Depositors

29.9%
Saving Deposit

1.6%
Recurring Deposit

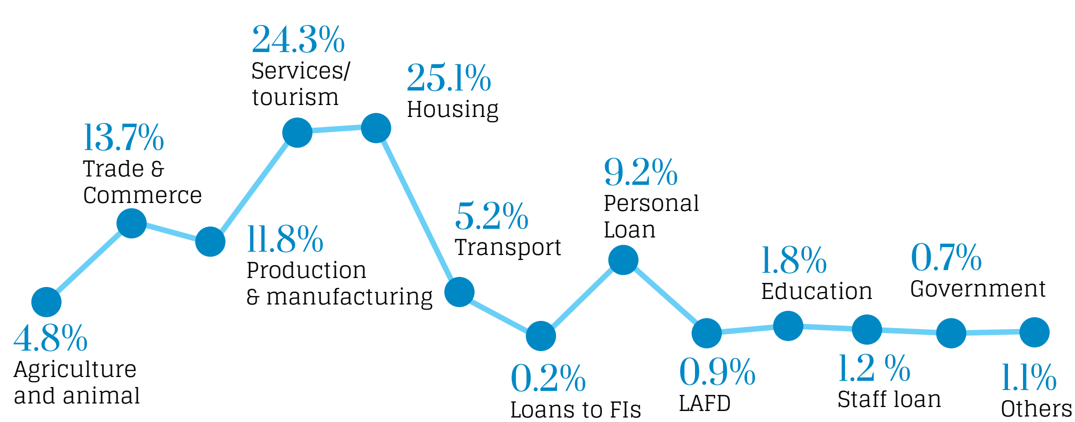
19.8%
Current Deposit

48.7%
Fixed Deposit

The growth in loans and advances was supported by higher mobilization of deposits during the year. However, the banking sector has been beset by a large asset concentration in the sectoral credit deployment.

From the total loans and advances of Nu 129,595.36 million, the housing sector has the highest exposure with Nu 32,581.84 million (25.1%) followed by service and tourism sector with Nu 31,523.66 million (24.3%) and trade and commerce sector with Nu 17,719.01 million (13.7%).

Chart 5.1.2 Sectoral Loans and Advances as of June 2019 (share to total loan)



In absolute term, the loans to the housing sector experienced the most rapid increase by Nu 6,863.65 million in FY 2018/19, followed by loans to service and tourism sector by Nu 6,318.33 million and trade and commerce sector by Nu 2,701.35 million. The loans of the banking sector remained highly exposed to only selected sectors that are of longer tenure, making them vulnerable to liquidity and credit risk.

Micro, Cottage, Small, Medium and Large Enterprises (MCSML)

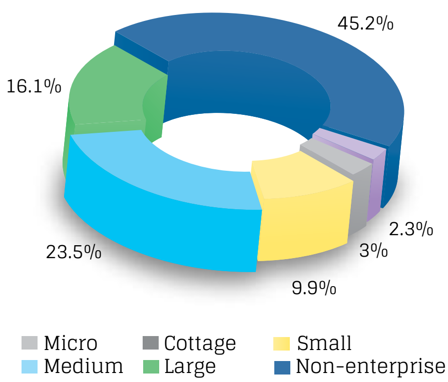
The RMA, in collaboration with the government, has undertaken several steps to strengthen the MCSML sectors, which holds the greatest potential to harness economic diversification and promote youth employment in the country.

Table 5.1.3 Loans to MCSML

(Nu in million)

Sectors	Jun-18	Jun-19
Micro	2,960.4	3,025.7
Cottage	4,284.3	3,890.6
Small	12,067.0	12,784.3
Medium	23,443.3	30,467.9
Large	16,690.5	20,814.9
Non-Enterprise	49,365.2	58,612.0

Chart 5.1.3 Share of MCMSL to total loan



For the economic and financial sustainability of the MCSML sectors, schemes such as Priority Sector Lending (PSL) was launched in 2018 and a new Cottage and Small Industries (CSI) bank was given in-principle approval to cater to the financing needs of these sectors. Furthermore, the RMA has initiated the Jabchor platform for entrepreneurs to pitch their business ideas for investment partnerships.

Additionally, the Ministry of Economic Affairs has initiated several reforms, in particular the revision of new FDI Policy and CSI Policy/Masterplan, to promote economic diversification plan of the government.

Of the total loans provided by the financial sector, Nu 70,983.35 million amounted to MCSML sectors displaying a growth of more than 19 percent from FY 2017/18. The credit growth in MCSML was mainly supported by higher mobilization in loans to medium enterprise to the tune of Nu 7,024.54 million. The exposure to cottage enterprise decreased by Nu 393.67 million, which was largely contributed by fall in loans to CSI under agriculture sector.

Despite several interventions and reforms, share of loans to Micro, Cottage and Small still remains low. As of June 2019, loans to micro enterprise constituted only 2.3 percent from the total loans and advances of the financial sector, while the share of cottage enterprise was only 3 percent. The share of loans in small enterprise is slightly higher than micro and cottage at 9.9 percent. From the MCSML enterprise, medium enterprise has the highest share at 23.5 percent from the total loan portfolio of the financial sector amounting to Nu 30,467.85 million.

Microfinance Institutions (MFIs)

The RMA continued its effort towards promoting access to finance and providing financial support to entrepreneurs, in particular the Cottage and Small Industries. One such initiative taken by RMA to promote access to finance was the establishment of MFIs. As of June 2019, RMA issued registration certificates to six Micro-Finance Institutions to support their business operation in all 20 Dzongkhags. The RMA also developed the Druk MicroFin, an IT- enabled solution, and provided the product to all MFIs free-of-cost for managing their business operation and for book keeping purposes.

Table 5.1.4 Loans to MFIs

Nu in Million

Particulars	Jun-18	Jun-19
Total Loan Sanctioned	465.0	734.6
Total Loan Outstanding	345.7	511.1
Total NPL	37.5	62.5
Total No. of loan Accounts	4,903	6,657
NPL to loan ratio	10.8%	12.2%

There are currently 6,657 MFI loan accounts compared to 4,903 accounts in FY 2017/18. In terms of portfolio, the MFIs have sanctioned a total loan of Nu 734.56 million as of June 2019, a notable growth of 58 percent from the last FY. The total loan outstanding of the MFIs have also increased from Nu 345.65 million in FY 2017/18 to Nu 511.10 million in FY 2018/19.

Chart 5.1.4 Risk Weighted Capital Adequacy Ratio (RWCAR)

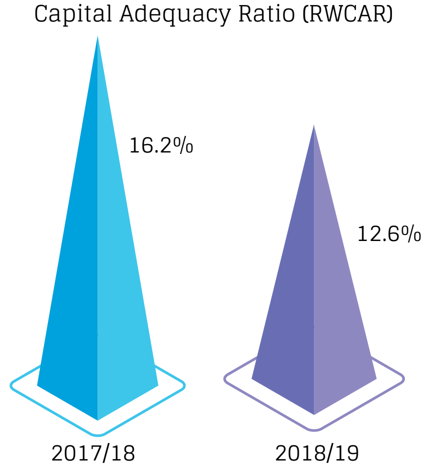
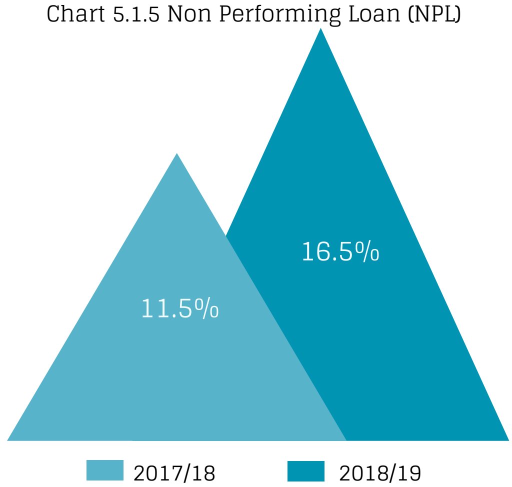


Chart 5.1.5 Non Performing Loan (NPL)



With a significant rise in total loan sanctioned, the NPLs in MFIs have also increased. As of June 2019, the NPL stands at 12.2 percent amounting to Nu 62.47 million.

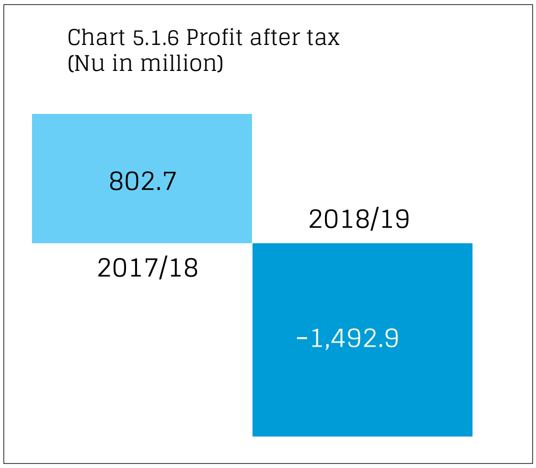
Vulnerability Indicators

Despite accommodative fiscal and monetary policy stance, the financial sector performance indicated volatility in the banking sector during the FY 2018/19.

The Risk Weighted Capital Adequacy Ratio (RWCAR) of the financial sector has weakened to 12.6 percent during FY 2018/19 compared to FY 2017/18 (chart 5.1.4). The current level of RWCAR has marginally met the Prudential Requirement of 12.5 percent . However, the Core CAR during the review period stood at 9.8 percent against the minimum requirement of 7.5 percent. The decrease in RWCAR was mainly caused by the fall in Non-Banks ratio.

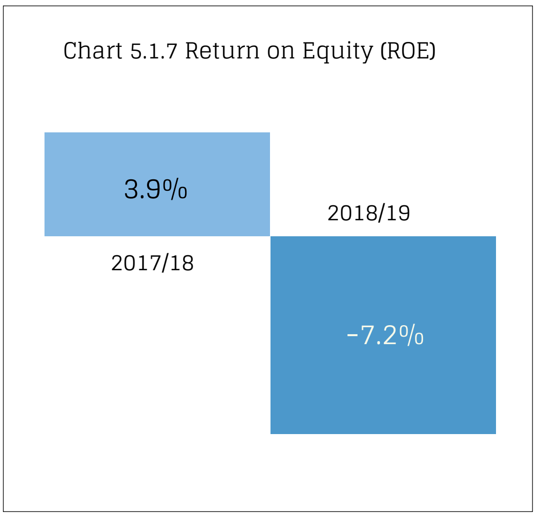
During FY 2018/19, the asset quality in the financial sector deteriorated with increase in NPL to 16.5 percent from 11.5 percent in FY 2017/18. The absolute NPL of FIs increased from Nu 12,535.19 million in June 2018 to Nu 21,428.32 million in June 2019.

The substantial increase in NPLs during the review period was mainly because of increase in Non-banks' NPL from Nu 2,852.53 million in FY 2017/18 to Nu 10,768.49 million in FY 2018/19. The banks' NPL during the same period increased from Nu. 9,682.67 million to Nu 10,659.83 million.



Sectoral classification of the NPL of the financial sector indicates that service and tourism have the highest share with 31.1 percent followed by trade and commerce with 21.5 percent. The production & manufacturing, and housing sector had a total share of 11.5 percent and 11.4 percent respectively. The aggregate Profit After Tax (PAT) of FIs decreased significantly despite considerable increase in the total loans and advances in 2018/19. The FIs incurred a total loss of Nu 1,492.93 million compared to the profit of Nu 802.72 million in the previous FY.

Enormous provision requirement due to growing bad debts is attributed to fall in the PAT. The loan provision for bad debts for both banks and non-banks increased by Nu 624.35 million and Nu 1,566.25 million respectively.



A common indicator to measure the corporate performance is the Return on Equity (RoE), which is used for making investment decision by the investors. In the FY 2018/19, the RoE of FIs plunged to negative 7.2 percent from 3.9 percent in FY 2017/18, on account of substantial decrease in net income.

Looking closely on these vulnerability indicators, it is observed that risk appetite of the financial sector has diminished over the review period. The credit growth was mainly supported by higher mobilization of deposits during the year despite unfavorable financial indicators. Furthermore, the behavioral pattern of the past indicates that the aggregates and indicators gradually converged to their appetite level towards the close of the financial year.

BOX 5.1 Bank-Specific Determinants of NPLs

With close interlinkages across other sectors, the financial sector is one of the most closely supervised industries of the economy. Many economies in the last few decades, have experienced financial distress, of different magnitude and severity, because of which the vulnerability of the banking sector is observed as the prominent warning signs of the financial crises.

One of the critical measures to evaluate financial stability is monitoring Non-Performing loans (NPL). In Bhutan, RMA has initiated various prudential measures to monitor and curb NPLs. However, the recent rise in deteriorating asset quality is not promising despite prudential interventions. During FY 2018/19, the overall NPLs of Bhutan's financial sector increased to 16.5 percent from 11.5 percent in FY 2017/18. In absolute terms, the NPLs increased from Nu 12.54 billion in June 2018 to Nu 21.43 billion in June 2019. Given this significant rise in the NPLs, the Ordinary Least Square (OLS) estimate is attempted to determine the factors influencing the NPLs in Bhutan using the data from second quarter 2012 to second quarter of 2019. In literature, the two fundamental determinants of NPLs are macroeconomic variables and bank specific variables. The current study has taken into consideration the bank specific variables with the empirical model of the form:

$$logNPL_t=c+\beta_1 ROA_t+\beta_2 ROE_t+\beta_3 logGROWTH_t+\mu_t \qquad (1)$$

Where NPL is the Non-Performing Loans, ROA is the Return on Assets, ROE is the Return on Equity, GROWTH is the growth of Total Loans & Advances and μ is the random error term. The *efficiency hypothesis* is tested by ROA & ROE while procyclical credit policy is tested by growth in loans and advances.

An estimation output is as follows:

$$logNPL_t= -0.05 - 3.85ROA_{t-2} - 0.04ROE_t + 2.57GROWTH_{t-1} \qquad (2)$$

$$[-1.85^{***}] \qquad [-14.31^{*}] \qquad [2.21^{**}]$$

Figures in the parentheses are t-statistics and * indicates significance level at 1 %, ** at 5% and *** at 10 % respectively. The Augmented Dickey-Fuller (ADF) test indicated the time series data used in the estimation was non-stationary at levels. As required, the residual diagnostic tests were conducted. The Breusch-Pagan test indicates no-heteroskedasticity and series are normally distributed as per Jarque-Bera test of normality. Furthermore, Breusch-Godfrey Serial Correlation LM Test indicated that there is no autocorrelation in the residuals.

R-square = 0.93
Durbin-Watson Statistics = 2.17
Prob (F-statistic) = 0.0000

It was observed that the above model has a good explanatory power with all the variables statistically significant. The analysis of bank specific variables as suggested by literature provides the validity of proposed hypothesis. As the efficiency of the bank rises, the NPL is expected to decrease. Both the efficiency variables, ROA and ROE indicated correct signs but ROA is found to have a strong effect in determining the NPLs. On the other hand, the extensive growth in the lending by the banking sector is found to be positively correlated with the NPLs.

BOX 5.2 Credit Concentration

Concentration of credit exposures is an integral part of risk for the lending institutions. Historical evidence shows that concentration of credit risk in asset portfolios has been one of the major causes of bank distress (BCBS, 2006). Going by the Basel Framework, the banks have to address their credit concentration risk under the Pillar II, based on the Internal Capital Adequacy & Assessment Process (ICAAP) and on the Supervisory Review & Evaluation Process (SREP). Since it is one of the main Basel II requirements and Pillar II issues, focus on credit concentration risk have received an enormous attention among financial supervisors.

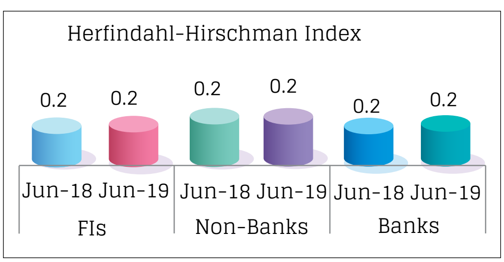
The literature on concentration risk proposes few specific concentration indexes such as Herfindahl-Hirschman Index (HHI) and the Gini Coefficient to measure inequality or ratios to measure concentrations. The HHI is a popularly treated summary measure of concentration in the theoretical literature and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

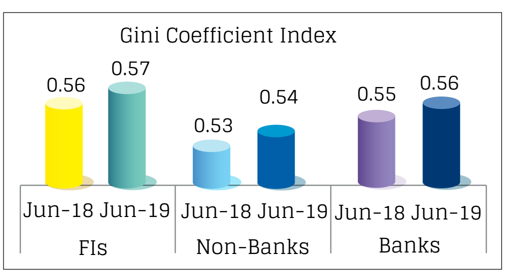
$$HHI=\sum_{n=1}^{N} S_n^2 \qquad (1)$$

Where S is the loan share to total. As a general rule, an HHI below 0.1 signals low concentration, while HHI above 0.18 signals high concentration and any index between 0.1 to 0.18, signals moderately concentrated (Bandyopadhay, 2010). Similarly, the Gini Coefficient for a portfolio of N Loans with exposure shares s_1, s_2.... s_N is estimated as follows:

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

A Gini Coefficient in the range of 0.3 or less indicates substantial equality, and if above 0.4 means the inequality is high, and coefficient between 0.3 to 0.4 indicates an acceptable normality. The problem with Gini Coefficient is that it does not pay attention to the value of loan portfolio. It is independent of portfolio size (Freitakas, 2013).





In this study, we have attempted to provide empirical view of the sectoral credit concentration of financial sector. The computed HHI indicates that credit is moderately concentrated in the financial sector, although the index has increased by 0.01 compared to the FY 2017/18. While the overall index is observed to be moderate, Non-banks HHI reflects higher concentration of credit. During FY 2018/19, more than 33 percent of the non-banks credit was concentrated in Service & Tourism and more than 20 percent in Trade & Commerce. Furthermore, out of 13 sectors classified, it was observed that non-banks sectoral classification constitutes only 10 sectors. Similarly, the Gini Coefficient index of the financial sector has increased by 0.01 during the review period.

Analysis based on the derived coefficient values show that the loan portfolio by sectors have been distributed unevenly. Some banks specializing in certain areas of activities, seeking for higher returns, and small-size market and undiversified credit market are the main reasons for uneven distribution of loans and advances.

6

EXCHANGE RATE ARRANGEMENT AND IMPLICATIONS

6.1 Exchange Rates

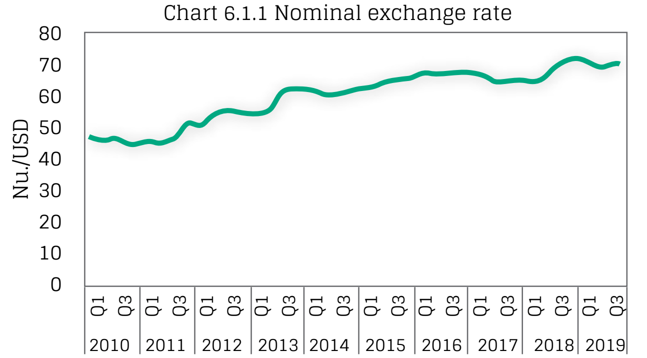
The exchange rate is considered a key financial variable affecting the decision of investors, policy makers and businesses. Exchange rate fluctuations affect the value of international investment portfolios, trade competitiveness, international reserve position, value of debt payments and cost to tourists in terms of value of their currency. It is therefore imperative to closely watch the movement of exchange rates and understand their potential implications on the economy's business cycle, trade and capital flows.

It is almost 50 years since the Ngultrum was pegged at par with Indian Rupee in 1974, around the same period when floating exchange rate became increasingly the preferred regime in most western economies. Given the close economic and financial integration with India, the current conventional peg exchange rate arrangement has served the economic interest of Bhutan, mainly by reducing trade uncertainties, anchoring prices, promoting investments and tourism. Not only does it serve as the nominal anchor of monetary policy and eliminates exchange rate risks, the free convertibility of Indian Rupee to Bhutanese Ngultrum has also helped reduce transaction costs for individuals and businesses.

More importantly, the peg has enabled Bhutan to benefit from the low inflation conditions in India, which has also helped to maintain lower inflationary expectations, making it conducive for overall macroeconomic stability. Studies have shown that Bhutan's economic characteristic support the optimum currency criteria, meaning that the existing pegged regime is optimal for Bhutan under the current economic conditions. However, the key impediment of the existing peg regime is that the RMA, as the Central Bank, has limited monetary autonomy as it needs to closely follow the monetary policy of the Reserve Bank of India to support the peg.

In terms of nominal exchange rate on FY basis, Ngultrum depreciated by 8.4 percent from Nu 65.09 against the US dollar(USD) in FY 2017/18 to Nu 70.58 in FY 2018/19. On month-month comparison, the Ngultrum depreciated by 2.4 percent from Nu 67.79 against the USD in June 2018 to Nu 69.44 in June 2019.

Chart 6.1.1 Nominal exchange rate



Historical trend of nominal exchange rate of Ngultrum (Nu) against USD since 2010 shows that Nu has been depreciating. It has depreciated from Nu 45.93 per USD in the beginning of 2010 to around Nu 70.43 in the third quarter of 2019, replicating movement of INR against USD. India has experienced several currency volatilities, with INR hitting all-time high in 2018, especially in the third quarter at INR 72.07 per USD on average, making it one of the Asia's worst performing currency. Although INR appreciated to 70.48 and 69.55 in first and second quarter of 2019 respectively, it fell back to 70.43 in third quarter. The currency volatility has been largely attributed to rising trade protectionism and slowing global trade and output. Besides direct impact of exchange rate fluctuation on Bhutan's debt outstanding, investment and fiscal flows, there is pass-through effect of inflationary pressure on the domestic economy. According to the RBI, an appreciation of the INR by 5 percent could moderate Indian inflation by around 20 bps and GDP growth by around 15 bps.

Nominal and Real Effective Exchange Rates

While movement of nominal exchange rate is helpful to understand the change in value of domestic currency against the USD, the Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER) are considered as key indicators to measure a country's international competitiveness. The NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies, weighted according to its trade share with each country. An increase in NEER indicates an appreciation of the local currency against the weighted basket of currencies of its trading partners.

On the other hand, REER is the weighted average of NEER adjusted by the ratio of domestic price to foreign prices. It captures inflation differentials between Bhutan and its major trading partners and reflects the degree of external competitiveness of Bhutanese products. Ceteris Paribus, an increase in REER means that a domestic goods are becoming more expensive relative to its trading partners implying loss in trade competitiveness.

Chart 6.1.2 Effective exchange rates; 2010=100,300 currency basket

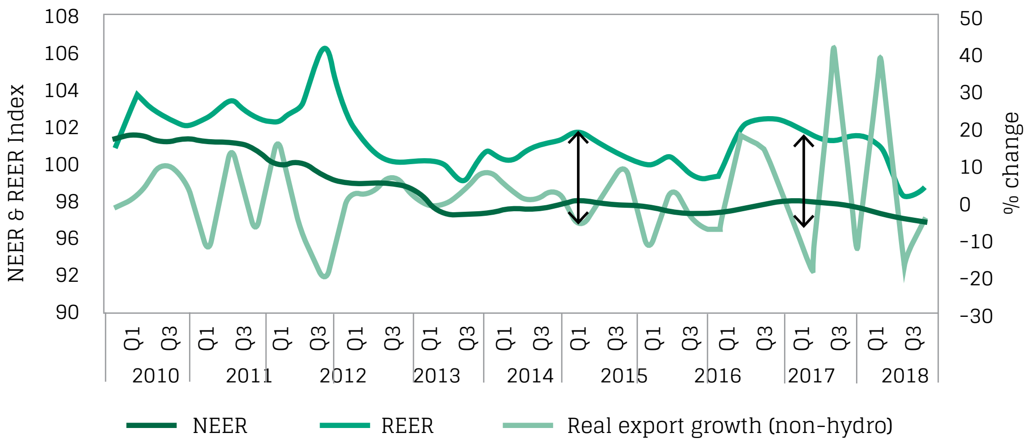
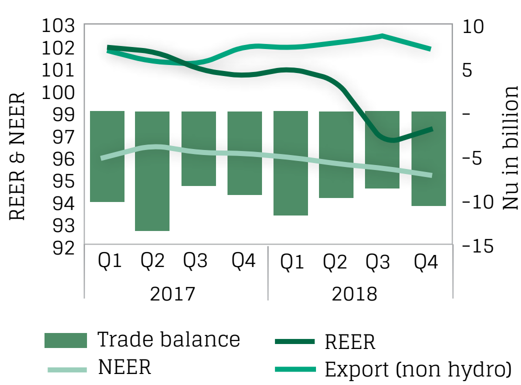


Chart 6.1.3 Trade competitiveness



Quarterly movement of NEER and REER for Bhutan since 2010 is presented in Chart 6.1.2. While both NEER and REER have steadily depreciated over the years, the REER has been more volatile on account of changes in relative prices. The REER has depreciated by 1.9 percent (year-on-year) in the first quarter of 2019, more than NEER which depreciated by 0.71 percent and remained constant in the following quarter. As illustrated in the chart, opposite movement of REER against real export growth shows that export picked up with decrease in REER. Given India's dominant share of trade (above 80%), fluctuation in NEER and REER is heavily influenced by exchange rate movement of INR and price changes in India.

Impacts of Exchange Rate Fluctuations

In terms of impact on export and trade balance, it can be observed from the Chart 6.1.3 that depreciation of REER has supported the export growth, especially the non-hydro exports. Export growth was recorded highest at 60 percent (y-on-y) in third quarter of 2018 when REER depreciated by 3.4 percent (highest during the year) and the overall trade balance shows improvement during the period. In addition, impacts of exchange rate fluctutations on external debt and foreign direct investment is briefly highlighted below.

External Debt and Debt Servicing

External borrowing continues to be a key financing source for developmental activities. The country's external debt has consistently increased over the years. The share of external debt to aggregate output slightly increased to 112.4 percent in the FY 2018/19 from 110 percent in the FY 2017/18. In absolute term, the debt outstanding as on June 2019 stood at USD 2,728.44 million, an increase of 3.3 percent over the previous year. With INR denominated debt, constituting almost 74 percent of the total debt, the existing peg arrangement with India helped to avoid the exchange rate risks. In addition, the INR debt has been incurred mostly on account of hydro power developments, accounting more than 90 percent which is self-liquidating in nature.

On the other hand, the Convertible Currency (CC) debt amounting to USD 720.12 million (26.4%) are concessional loans from multilateral institutions and bilateral partners. These CC debts are subject to exchange rate risk, which are likely to increase debt burden when the domestic currency depreciates. In 2018, because of the depreciation, the cost of total debt service increased by Nu 214.02 million and expanded the debt stock by Nu 4.5 billion in nominal term.

Foreign Direct Investment (FDI)

Besides external borrowing, inward FDIs are increasingly becoming an important financing source to fill up fiscal gap and also bridge saving-investment gap in the economy. For FDIs to flow in, foreign exchange rate risk is considered as one of the critical factors in their investment decision. However, there are conflicting studies with regard to the direction of relationship between FDI and exchange rate. In the case of Bhutan, the relationship follows mainly from exchange rate to FDI as it is more likely to attract foreign investors to invest when Ngultrum depreciates relative to their currency.

Chart 6.1.4 External debt by currency

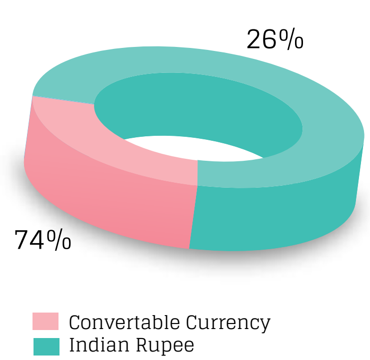
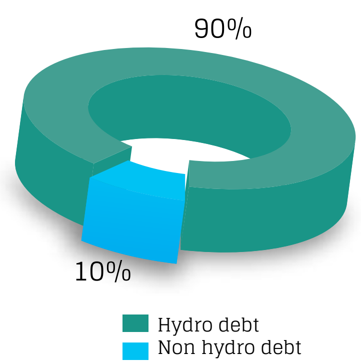


Chart 6.1.5 Indian Rupee debt by Sector



Foreign equity inflow as of June 2019 stood at Nu 9,968 million, an increase of about 8 percent from December 2018. India continues to be the single largest investor, constituting around 29 percent of the equity inflows, followed by Hong Kong. Apart from India, remaining investors are affected by exchange rate fluctuations. Most importantly the hospitality sector, being the largest sector attracting third country investors, is the most vulnerable sector as far as exchange rate fluctuation is concerned.

Chart 6.1.6 Inward FDI position by investors (as of June 2019)

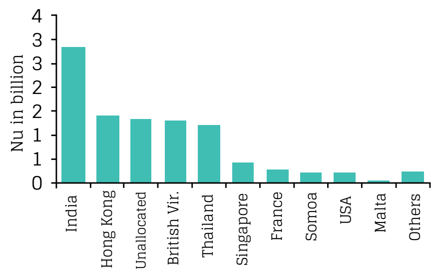
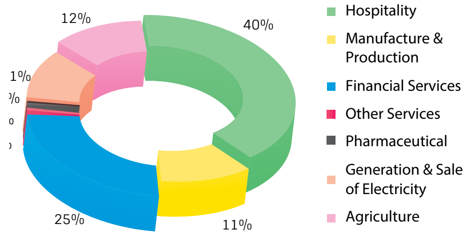
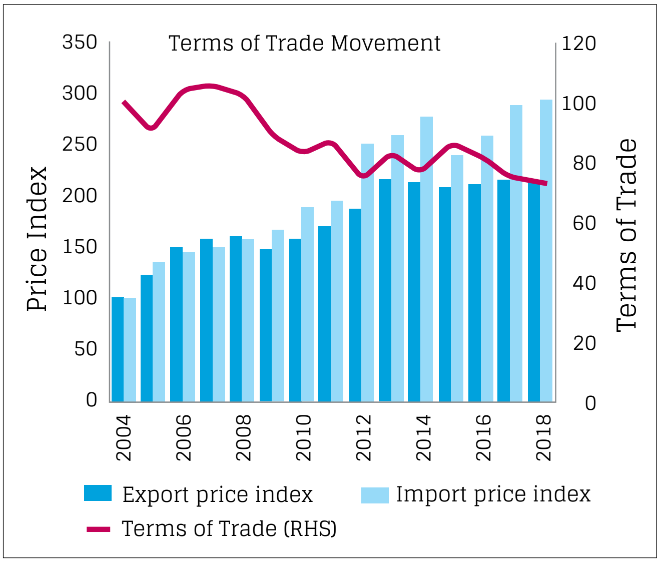


Chart 6.1.7 Inward FDI position by sectors



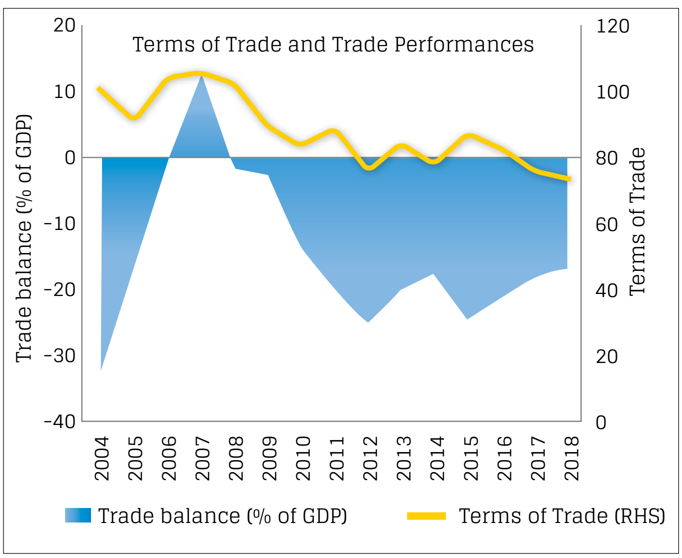
BOX 6.1 Terms of Trade

Terms of Trade (ToT) is one of the important indicators for measuring the external position in the context of foreign trade[22]. It measures relative price of exports to imports and reflects purchasing power of exports. Higher the ToT, more favourable will be the price development of domestic products in the international trade market. If price of the product that a country intends to export develops more favourably than the price of a product that it intends to import, then the country will experience improvement in its ToT.



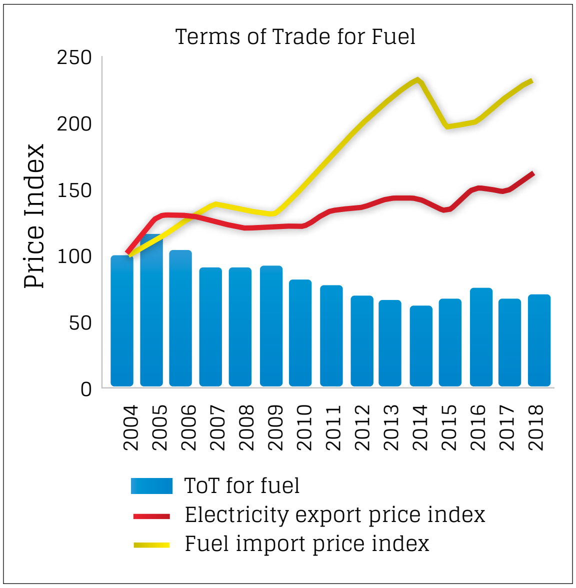
According to the price indices, Bhutan experienced favourable terms of trade from 2006 to 2008 following the commissioning of Tala hydro project. But from 2009, ToT started deteriorating and remained below 100 percent. There has been constant decline in ToT annually, at an average of 2.9 percent with higher increase in import price relative to export price. Import price rose by 7.0 percent, on an average, compared to 3.1 percent increase in export price level during the period.

The lowest level of ToT was recorded at 74.6 percent 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 constant 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 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 in minimal increase in overall export price.



[22] Terms of Trade is computed using custom data compiled by Department of Revenue and Customs, Ministry of Finance, applying a simple method.

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 overall imports in 2018 increased by 13.3 percent despite drop in import price by 9.0 percent. The increase in overall import was largely due to increase in volume of imports by 10.8 percent. Overall value of export grew by 11.1 percent in 2018, mainly on account of increase in volume of export, which grew by 12.1 percent. This was an encouraging development considering the government's effort to promote exports. The export price on the other hand was not favourable during the year.

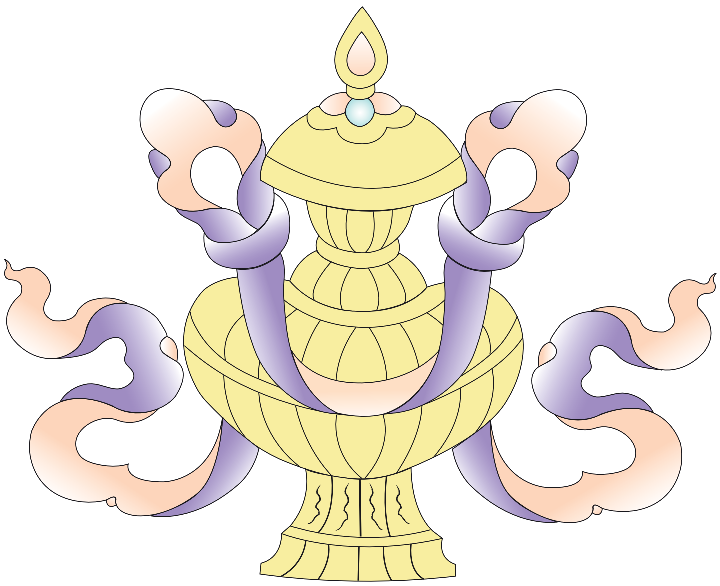


The ToT for fuel in Bhutan is computed as a relative change in export price of electricity and other fuel (bitumen and coal) exports to import price of fossil fuels, largely petrol and diesel. In the last decade, it was observed that the export price of energy rose from Nu 2.6 per unit, on average, in 2009 to Nu 5.1 in 2018. However, average price of electricity per se increased marginally from Nu 1.8 per unit to Nu 2.3 per unit during the same period. The slow movement in export price of electricity is due to the fact that export tariff is determined mutually under the bilateral agreement on hydropower with India on periodical basis.

On the other hand, the price index for fuel imports increased from 131 in 2009 and peaked at 234 in 2014. Although it dropped slightly in the following years, the import price index increased above 200 in the recent past. This trend is reflected in the global price movement of crude oil. The average price of crude oil increased from USD 61.76 per barrel in 2009 to USD 96.24 per barrel in 2014 and subsequently dropped to USD 42.8. Prices rebounded to USD 68.35 per barrel, on average, in 2018.

Owing to steep rise in fuel import prices from 2010 to 2014 and marginal growth in electricity export price, the ToT for fuel worsened to a record low of 61 in 2014 from 93 in 2010. For instance 16 units of electricity exports were more than sufficient to finance a litre of diesel imports in 2009. By 2014, 24 units (additional 9 units) of electricity exports were required for a litre of diesel import, indicating a loss in purchasing power of electricity export relative to fuel imports. Although a sharp drop in global fuel prices in 2015 and 2016 positively impacted ToT position, the recent increase in oil price has affected the ToT despite improvement in fuel ToT by 3.3 percent in 2018. In 2018, both volume and price increase almost equally contributed to the 12.7 percent year-on-year growth in fuel imports. On the contrary, about 28.5 percent of the drop in electricity export in 2018 was due to fall in volume of electricity exports while increase in price by 9.7 percent partly compensated the overall decrease in export of electricity.

The Terms of Trade have huge impact on overall trade. The trade balance closely follows the movements of ToT. As per income ToT, due to declining purchasing power of exports between 2009-2018, average trading loss was estimated at about 10 percent annually.



7

FINANCIAL INCLUSION AND DIGITALIZATION

7.1 Financial Inclusion

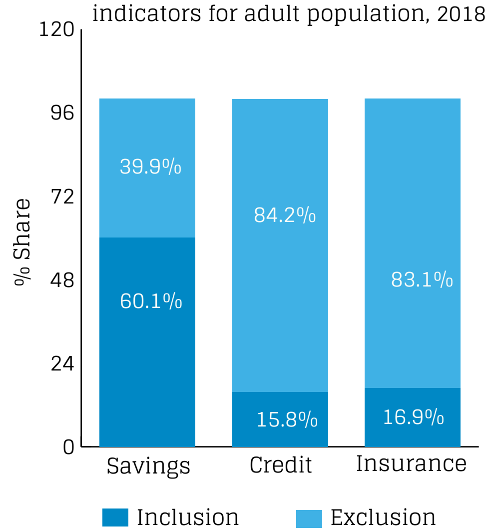
Access to useful and affordable financial products and services are necessary elements to achieve financial inclusive economy. Financial inclusion can be an important enabler of overall economic transformation since access to financial services, digitalization and technological advancement moves hand in hand.

Recognizing the significant role of financial inclusion in spurring economic transformation, the RMA has embarked to achieve greater financial inclusion in the economy with the adoption of three important principles of Collaboration, Cooperation and Consolidation. The National Financial Inclusion Strategy (NFIS) 2018-2023 and the National Financial Literacy Strategy (NFLS) 2018-2023, which were implemented in August 2018, provided an enabling, coordinated and collaborative space for a joint participatory planning in promoting overall financial inclusion in the country by incorporating both demand and 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 reinsurer), six 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 fund, bills and bonds, credit assessment and payments are the main financial products and services available to all under the segment of financial inclusion in Bhutan.

Chart 7.1.1 Core financial inclusion indicators for adult population, 2018



In terms of access to financial products and services, 60.1 percent of adults in Bhutan had saving accounts, while only 15.8 percent had access to credit, followed by 16.9 percent holding life insurance as of December 2018. Access points also remained an important indicator to evaluate the access to finance, which includes number of bank branches, ATM, Agents and Point-of-Sales (PoS) devices that perform cash-in and cash-out transactions.

Some of the key challenges for accelerating financial inclusion include lack of financial literacy, financial inaccessibility, inadequate infrastructure, affordability and complex KYC requirements. Most Bhutanese still lack awareness and readiness to avail formal financial products and services. Further, scattered population and geographical barriers hinder financial access. As a result, the operational cost for financial service providers (FSPs) become expensive.

The financial delivery channel has evolved from traditional branch-based activities to transitional channels of adopting financial transaction infrastructure such as ATMs, PoS and adoption of innovative IT-based solutions like mobile banking and wallet services. Recently, the digital based financial inclusion has taken an accelerating pace using e-Money and other Fintech platforms to reach the last mile of the unbanked population.

The RMA established the Financial Inclusion Secretariat (FIS), under the Governor's Office, to implement an enabling regulatory and policy environment for promoting financial inclusion. Some of the recent initiatives were formulation and implementation of CSI and MFI Rules and Regulations, Agent Banking Regulations, Regulation on Micro-loan institutions, NFIS and NFLS 2018 -2023, Private Money Lending

Regulations, e-Money Regulation, RemitBhutan, Druk MicroFin, Bhutan Immediate Payment Service (BIPS), Priority Sector Lending (PSL) Guidelines, Consumer Protection Regulation and Crowd Funding platform.

The RMA now spearheads collaboration with relevant stakeholders for cross sectoral participation in formulating joint financial inclusion action plans to accommodate both old and new initiatives. Effective interventions to focus on customer centric financial products and services are expected to support the national objective of economic diversification through inclusive finance thereby bettering livelihoods of the Bhutanese population, creating employment opportunities and strengthening financial resilience.

Highlights of Financial Inclusion Initiatives

1. The 'JABCHOR' platform for equity financing

Jabchor is a platform to support youth in nurturing and scaling their business ideas through access to equity financing, which was launched by the RMA to commemorate His Majesty's 12 years of benevolent leadership. The platform was launched in partnership 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.

The first partnership deal under Season 2 Jabchor platform was signed on 30th July 2019 between domestic angel investor, Mr. Kuenzang Dechen, and Mr. Sangay Nedup, the founder of Sadone Design, where Mr. Kuenzang Dechen invested Nu 2 million for 30 percent equity ownership. Mr. Bikash Gurung and Mr. Tshering Dorji, founders of Himalayan Food, also received Nu 2.5 million equity from Mr. Kunzang Dechen for 25 percent equity ownership.

Presenting the five entrepreneurs for Season 2 Jabchor pitching session at BEFIT 2019 platform

Kingdom Essences

Bhutan was known in ancient times as the land of Medicinal Herbs- the knowledge of the healing powers of Himalayan plants are embedded in legends, and underpin the tradition of indigenous medicine of Bhutan.

Kingdom Essences distills the ancient wisdom of Bhutanese indigenous medicine, and bottles the potency of unique Bhutanese ingredients into healing essential oils of the purest quality. Our essentials oils are steam distilled at location in rural Trongsa, with organically grown ingredients sourced from local farmers in the community, or foraged sustainably from community forest.

Himalayan Food

Himalayan Food produces exclusive potato crispy.

The unique Bhutanese style flavor, Himalayan Food also produces premium apple crispy, dry apple and banana crispy which are natural, nutritious and healthy.

The company aims to preserve the best quality snacks which to eaten directly at any time and at any place. Snacks produced by Himalayan Food can also be enjoyed as muesli or mixing with granolas, milk dipping cream and yogurt.

One Click Shop

Express Home Delivery Mart. One Click Shop is an E-commerce site but the new concept is that we have now integrated it with a physical Mart.

That's right. One Click Shop has a physical Mart for you to walk in and see for yourself all the product we have for you.

One click shop was started by the winners of the Business Idea competition 2018 and has been in operation since July 2018.

Sadone Design

We want to blend modern technology with ancient art in producing beautiful souvenirs. The products and souvenirs that Sadone design produces are all derived from the concept of preservation and promotion of culture. Thangka and souvenirs are an invaluable cultural and artistic heritage.

We propose a computer-aided generation approach of thangka and other souvenirs to address this issue. Varieties of minute details or drawing are successfully generated using computer-aided approach based on the hierarchical structures observed from hand drawn thangkas and other souvenirs.

Bhutan Alternatives

Bhutan Alternatives is a small vibrant e-waste management project initiated with a goal for sustainable utilization of toner cartridge in the country and to prevent environment degradation through dumping of such wastes.

Bhutan Alternatives brings our customers the first ever re-manufacture of toner cartridge in Bhutan. We deliver with high performance printing products ensuring cost reduction, time saving and environmental friendly products looking into the very expensive and low quality cartridge products available in the market.

2. Integration of Financial Literacy Curriculum

His Excellency Lyonpo J.B. Rai, the Minister of Education graced the MoU signing between the RMA and the Royal Education Council (REC) for financial literacy curriculum integration on 31st December 2018. Currently, the financial literacy curriculum mapping and integration are under process from grade PP to XII.

3. Youth Ethics (YE) Banking

Youth Ethics (YE) Banking is an incentive-based school banking programme pre-conceived during the Global Money Week (GMW) 2017. Ms. Tshering Yangchen, a grade VI student of Jigme Losel Primary School in Thimphu, came up with an idea for a game design, wherein students are rewarded with Dummy Bank Notes when performing well in school activities. The idea was further conceptualized and formalized by the RMA with formulation of the YE Banking guidelines in collaboration with the Savings Bank Foundation for International Cooperation (SBFIC), Germany.

With YE Banking, children earn Dummy Bank Notes bearing Bank Points through the school programme on academics, co-curricular activities, values and ethics. A partner bank was also introduced by signing MoU for banking services such as opening of accounts, observing banking days and extending other normal banking services. The RMA incentivizes the bank points with real cash, with adaptive pegged value to be deposited into students' bank accounts.

During GMW 2018, YE Banking was piloted in four schools; Arekha Middle Secondary School under Chukha Dzongkhag, Jigme Losel Primary School in Thimphu, Wangsel Institute in Paro and Young Volunteers in Action at Gelephu. To mark the accomplishment of the programme, the Financial Inclusion Secretariat of the RMA further replicated the programme in 12 more schools across the country. Currently, there are 16 schools adopting the YE Banking programme.

4. Little CEO's Programme

The Little CEO's programme, is inspired by 'More than a Lemonade Stand' of e-seedling programs in the US. It is a sub-programme of SBS targeted and customized for children aged 13-15 years and organised during winter vacation. The RMA, in collaboration with the Financial Institutions Training Institute (FITI), organized the first little CEO's programme in January 2019. The 12 children who took part received intensive grooming and simulation of their business ideas. The programme consisted of fun training activities including field trips and real experience of selling products to enhance innovation and creativity.

5. Global Money Week (GMW) Celebration

The Global Money Week 2019 was a part of the global celebration organized by Child & Youth Finance International (CYFI) based in Amsterdam, the Netherlands. More than 130 countries across the globe participated to celebrate the GMW towards enhancing youth's financial inclusion. The international theme adopted for GMW 2019 was 'Learn, Earn and Save.'

To celebrate Global Money Week 2019 the RMA, in collaboration with the Ministry of Education, Financial Service Providers (FSPs), schools and other relevant agencies, organized a series of nation-wide events from 25th– 31st March 2019. The event gathered enormous support from various stakeholders for promoting youth and children's participation in financial inclusion. Some of the GMW nationwide initiatives undertaken are as follows:

i. Formal directives were issued by the Ministry of Education to encourage all schools to observe GMW as a part of school's regular calendar events, which received overwhelmingly creative responses and interest.

ii. The RMA hosted GMW at Sakteng Village, Trashigang Dzongkhag, this year. The team also met with the villagers to sensitize on e-money and Priority Sector Lending.

iii. The Youth Saver 1K Milestone Redeemable Token was also launched as an additional programme of interest for children and youth.

BEFIT

BEFIT was instituted in 2017 to fulfill His Majesty's aspirations that our successful democratic transition is accompanied by successful economic transformation based on the foundations of a just and harmonious society.

BEFIT is a National Platform for Partnerships, Collaboration and Dialogue.

BEFIT is a national platform that seeks to build partnerships with key domestic institutions and reputed international agencies to engage in meaningful dialogues, find innovative solutions, and deliver sustainable results to address contemporary economic challenges with the overarching objective of improving people's lives.

BEFIT 2019 was held from 16-18 July, 2019 and was graced by H.E. Lyonchhen Dr. Lotay Tshering. The event included panel sessions, a CSI Expo and presentations by renown International and Bhutanese Speakers aligning with the theme of "Catalyzing CSIs to Drive Bhutan's Economic Diversification". The event saw more than 600 participants including International and Domestic Speakers and Investors, Parliamentarians, Government Officials, Entrepreneurs, Private Employees and youth, among others.

BEFIT 2019 is a platform for entrepreneurship - 8 short videos of Bhutanese entrepreneurs from different walks of life were featured during BEFIT 2019. These entrepreneurs embody values that define Bhutan's entrepreneurial culture in general – passion and compassion, community engagement and sustainability.

These are all bright ideas, already rolling out wonderfully. With the support of angel investors, I am sure they will become even more successful. The government will also be angel investors -we will help access markets, in the country as well as outside diplomacy, to create more opportunities for Bhutanese products worldwide. Angel investors must support our entrepreneurs to scale up and improve quality. On our part, we are a practical government; we are willing to listen and tweak policies to support you - in creating domestic market by supporting the use of domestic products.

Prime Minister, Lyonchhen Dr. Lotay Tshering

What is Your Karmic Account Balance?

Addressing season 2 Jabchor, Governor reflected on His Majesty's Message to all of us on the importance of preparedness in a world where change is inevitable.

To entrepreneurs, Governor reiterated two values they should embody- Humality and resposibility, and especially in the context of accessong financing, the importance of being responsible borrowers.

To angel investors, Governor reminded them that investment and mentorshop under Jabchor was about partnerships, about sharing and most importantly about accumulating merit in our Karmic Account not just credit in our Bank Accounts.

Jabchor is an equity financing platform to connect entrepreneurs with domestic investors. Jabchor was launched in December 2018 based on the concept of Angel Investors.

Young entrepreneurs today are very lucky that there is so much resources and time invested towards helping them - which was not there when I started. PPP is an exciting area and there are so many areas in which we could cooperate to solve issues and build something – we could have an electric train between Thimphu and Paro, waterway transport on Thimphu Chu, and better maintain the Thimphu Phuntsholing Highway. BCCI is ready to partner with the government in various PPP projects towards the common goal of social good".

Aum Phub Zam, President BCCI.

Bhutan Crowdfunding

Bhutan Crowdfunding is the first digital platform developed by the Royal Securities Exchange of Bhutan licensed under the Crowdfunding regulations issued by the Royal Monetary Authority of Bhutan. Bhutan Crowdfunding aims to provide an alternate financing model for start-ups, New Business Ventures and Cottage & Small Industries in Bhutan to access funds from the general public. The platform offers entrepreneurs the opportunity to raise funds for their new businesses and at the same time provides new investment avenues for the public.

Digitalization of Payment Systems

To facilitate the smooth flow of payment and foster an enabling environment for innovation and digital based payment platform, the RMA in collaboration with the banks and private business entities, initiated a several payment system infrastructure. In continuation to efforts made in previous years, a significant progress has also been made in terms of payment and settlement systems through necessary reforms in the legal frameworks and automation of systems. Some of the notable initiatives in FY 2018/19 are highlighted below:

i. Launch of RuPay Card Scheme

His Excellency Shri Narendra Modi, the Prime Minister of India and His Excellency Dr. Lotay Tshering, the Prime Minister of Bhutan, jointly launched the RuPay Card scheme in Thimphu on 17th August 2019.

The RuPay is a landmark initiative of His Excellency Shri Narendra Modi to promote India's own domestic card network to advance financial inclusion through digital technology and domestic solutions. The launch of the RuPay card scheme in Bhutan is made possible through the connection of the Bhutan Financial Switch (BFS), owned and operated by the RMA, with India's National Financial Switch (NFS). The connection of the two switches is a historic project that will facilitate seamless cross-border digital payments and further boost trade and economic cooperation. The connection will allow travelers in both countries to seamlessly use their domestic RuPay branded cards at ATMs and PoS terminals, thereby reducing cost of transaction and avoiding risk of carrying cash.

ii. Launch of the e-PEMS and GIFT Payment System

The e-PEMS and GIFT payment systems were launched by the Hon'ble Finance Minister, Lyonpo Namgay Tshering, on 22nd July, 2019 in Thimphu.

- The e-PEMS is an online accounting and payment system of the RGOB implemented from FY 2019/20. It is an important milestone towards enhancing the Public Expenditure Management system and to promote cashless and digital payments in the country. The system was developed by the Department of Public Accounts, MoF, in collaboration with BoBL, RMA, Department of Revenue and Customs and Department of Information Technology, MoIC.
- The GIFT payment system is a payment platform developed to complement and support the settlement of interbank transactions for e-PEMS and the general public. It was also developed to replace the existing NECS and NEFT Systems with the technical assistance from the RBI and IFTAS. The GIFT payment system supports 3 types of payment services, namely the BITS (or batched) settlement service, Real-Time Gross Settlement Service (RTGS) and Bulk Payment Service(for transfer on fund from one account to multiple beneficiaries).

  The BITS enable high value interbank fund transfer in a batched settlement cycle. The payments made through the RTGS allows the transfer of money from one bank to any other bank on a real time and on a gross settlement basis. The Bulk Payment service can handle cases where multiple beneficiaries are to be credited from a single account. These transactions are mainly targeted for institutional payments such as salaries, pension payments and loan repayments.

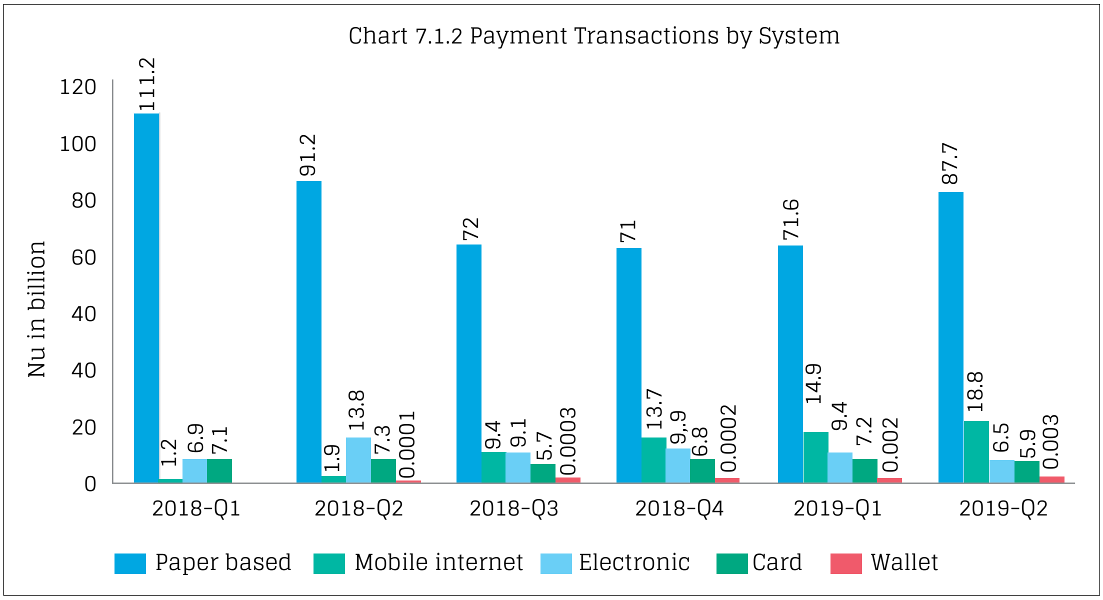
iii. SWIFT Operational Manual

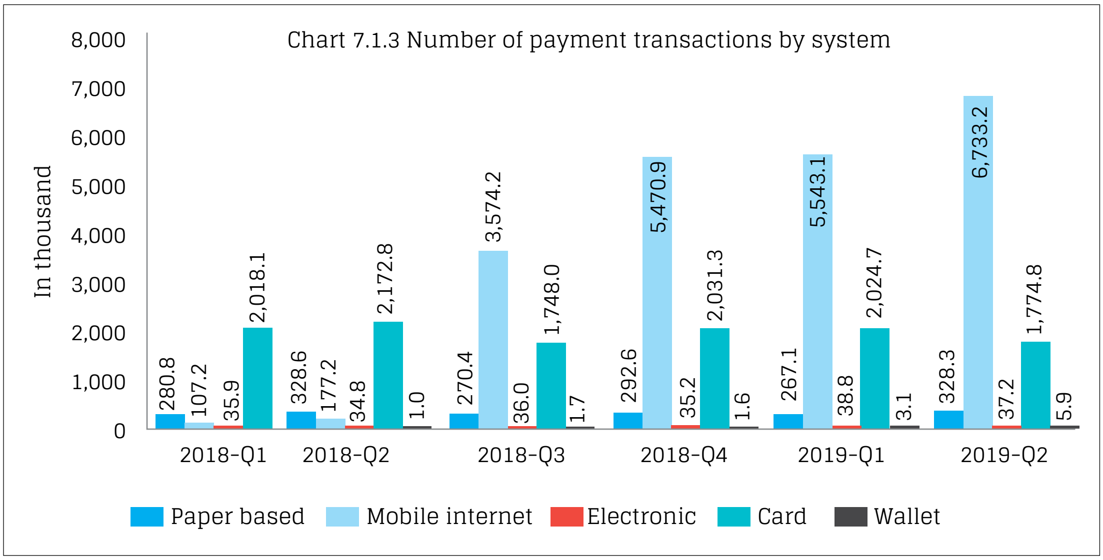
The SWIFT is a global communication network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment. The RMA became a member of SWIFT in 2005. The RMA has formulated a SWIFT

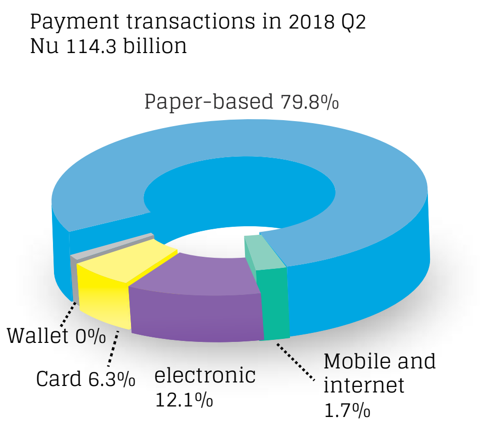
Operational Manual in a structured and standard document as part of compliance to SWIFT Customer Security Program to ensure the safety, efficiency and mitigating systemic risk associated with SWIFT held in December 2018. The roles and responsibility of each department involved in the overall operation and the security of SWIFT infrastructure is clearly defined and outlined as part of the internal measures.

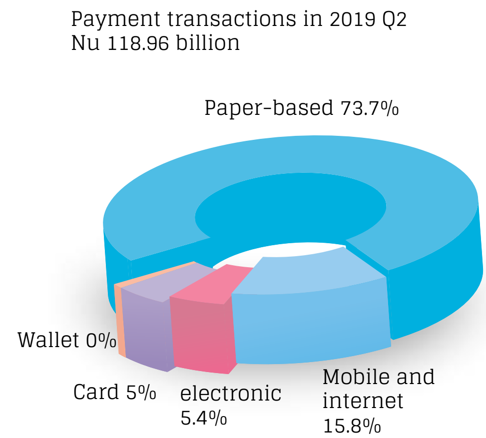
iv. Revision of e-Money Issuers Rules and Regulations 2017

The RMA Board approved the e-Money issuers Rules and Regulation 2017 during 130th Board Meeting held on September 29, 2017.The Regulation empowers the RMA to authorize the licensed banks,DMFIs and Mobile Network operators to issue e-Money. In order to enable the e-Money issuers to carry out merchant payments and ease daily transaction limit requirments, this Rules and Regulation 2017 was revised to provide an enabling environment to enhance services and promote financial inclusion.





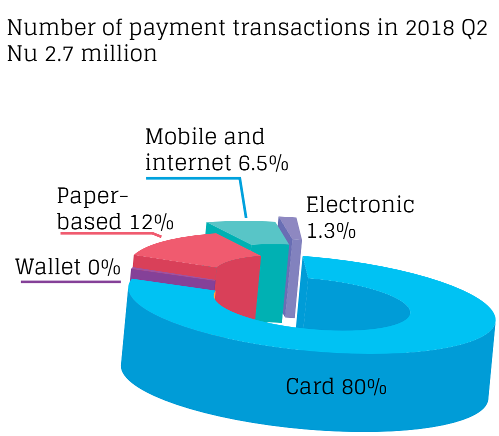


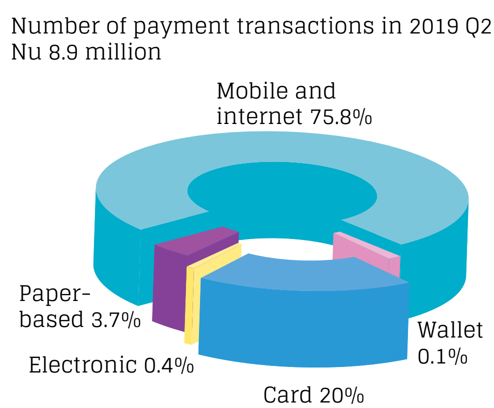


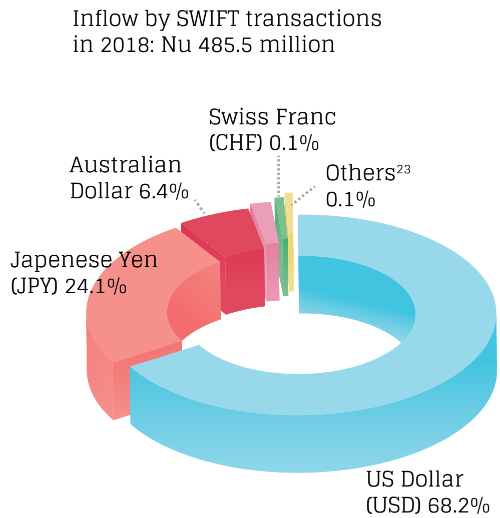
Payment transactions have been categorized into five methods, namely, i) Paper-Based transactions comprising Cheques (On-Us) and Cheques (Interbank) ii) Mobile & Internet comprising Mobile (On-Us), Internet (On-Us) and Mobile and Internet (Interbank) iii) Electronic comprising NECS, NEFT, GIFT-RTGS, GIFT-BITS and GIFT-BULK iv) Card comprising ATM (On-Us), ATM (Interbank), Rupay, PoS-On Us and POS acquiring and v) Wallet.

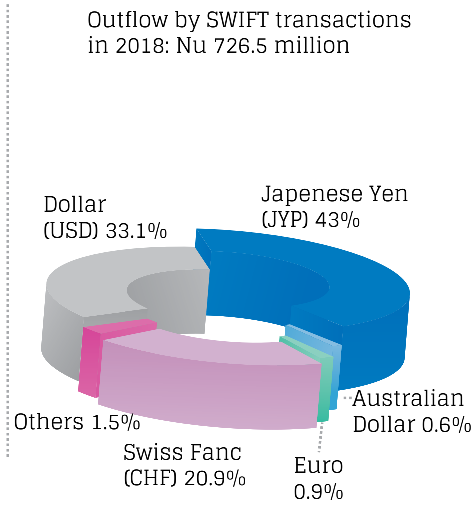
In terms of Value of Payment Transactions by System, Paper-based transactions have consistently recorded the highest with Nu 87,728.62 million as of June 2019, followed by mobile and internet, electronic, card and wallet. However, as a percentage share of total payment transactions, paper-based transactions have reduced from 79.8 percent from June 2018 to 73.7 percent in June 2019. This decrease in paper-based transactions was accompanied by an increase in mobile & internet payments from 1.7 percent amounting to Nu 1,989.80 million to 15.8 percent amounting to Nu 18,848.99 million.

In terms of number of payment transactions, Mobile & Internet recorded the highest with 6.73 million as of June 2019 followed by card at 1.77 million and paper-based transactions at 0.33 million. It can be observed that cheques have been mostly used for making large value fund transfers, with a share of 73.7 percent in total value of transactions, as opposed to only 3.7 percent of transactions as of June 2019.

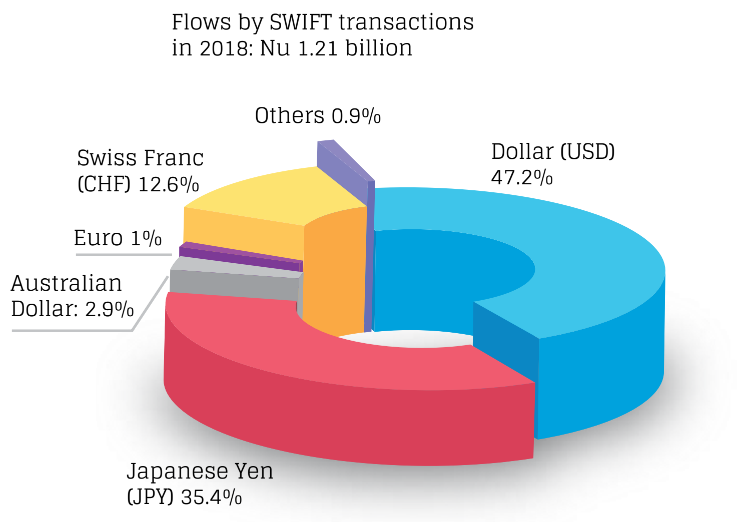




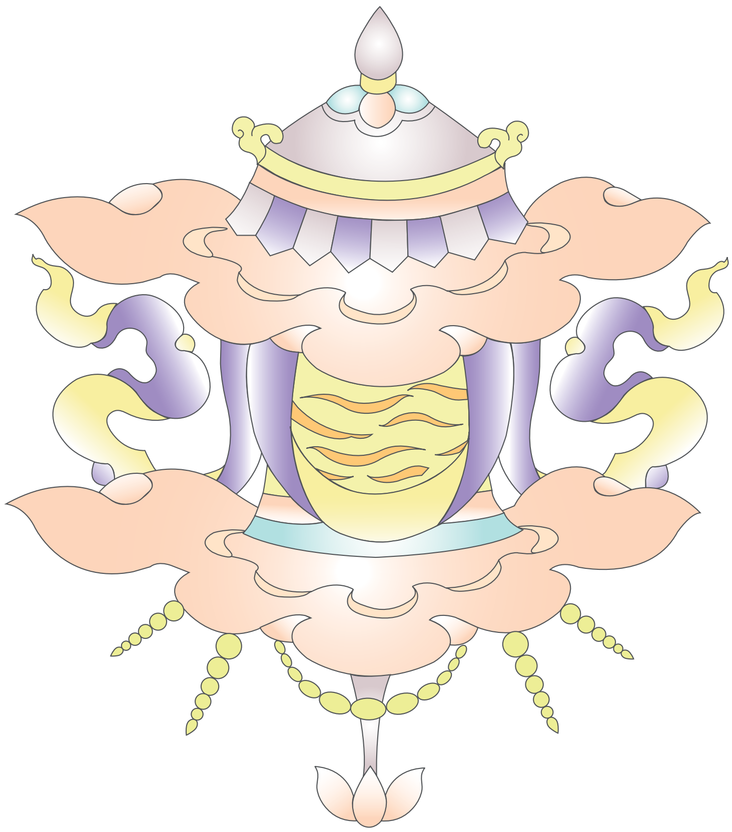




In 2018, there was a total of Nu 1,212 million flows by Swift transactions, of which Nu 485.5 million were inflows and Nu 726.5 million were outflows. In terms of inflows, the highest was USD, accounting for 68.2 percent (Nu 331.16 million), followed by Japanese Yen (Nu 117.19 million), Australian Dollar (Nu 30.86 million), Euro (Nu 5.3 million), Others (Nu 0.68 million), closely followed by Swiss Franc (Nu 0.28 million). In terms of outflows, the highest was Japanese Yen (Nu 312.32 million), followed by USD (Nu 240.57 million), Swiss Franc (Nu 151.94 million), Others (Nu 10.72 million), Euro (Nu 6.81 million) and Australian Dollar (Nu 4.17 million).



[23] Others include Pound Sterling (GBP), Singapore Dollar, Canadian Dollar and Danish Kroner



8

ANNUAL FINANCIAL STATEMENT

8.1 Annual Audited Accounts: FY 2018/19

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, 2019 was carried out by Rinzing Financial Group.

The RMA's Annual Audited Accounts, FY 2017/18 presented here is referred as 2018 and FY 2018/19 as 2019. Factors that influenced the RMA's annual accounts for the year 2019 are summarized below.

Statement of Financial Position

Assets and liabilities of the RMA for the year 2019 was Nu 77.71 billion, which decreased by 0.2 percent from Nu 77.90 billion in 2018.

Assets

Assets of the RMA comprise Foreign currency, Local currency and Non- financial assets.

Foreign currency financial assets decreased by 0.33 percent from Nu 76.66 billion in 2018 to Nu 74.59 billion in 2019, mainly on account of the decrease in balances abroad.

Local currency financial assets increased significantly from Nu 0.75 billion in 2018 to Nu 2.58 billion on account of Nu 2.5 billion advance to Royal Government taken under Ways and Means Account during the close of Financial year. Domestic cash and cash equivalent, staff gratuity fund and loans to staff decreased by 97 percent, and 19 percent respectively.

Non-financial assets that includes property & equipment, inventories for bank notes, non-monetary gold and other assets, increased by 9 percent from Nu 486 million in 2018 to Nu 531 million in 2019. The increase was contributed by increase in fixed assets and banknote printing in progress during the year.

Liabilities and equity

Total Liabilities and Equity of the RMA are made up of three major components, namely the Foreign currency financial liabilities, Local currency financial liabilities and Equity.

Equity increased by 1 percent from Nu 21.05 billion in 2018 to Nu 21.29 billion in 2019. Increase in capital and reserves was driven by increase of profit by 16.7 percent in 2019 as compared to 2018. There was also an increase of 0.3 percent in the revaluation gain. On the other hand, revaluation reserves decreased from Nu 16.54 billion in 2018 to Nu 14.93 billion in 2019 after recycling the realized gains from the current period from the previously unrealized gains.

Foreign currency financial liabilities[24] stood at Nu 20.47 billion in 2019, an increase by 1 percent compared to the previous year. This was on account of increase in financial obligations to foreign central banks from Nu 10.85 billion in 2018 to Nu 11.12 billion in 2019, largely attributed to the RBI swap facility (INR 6.97 billion). While, dues to government and interest accrued decreased by 0.4 percent and 10 percent respectively.

Local currency financial liabilities[25] decreased by 2 percent in the year 2019 mainly on account of decrease in balances of the commercial banks which included sweeping of accounts and cash reserve ratio. It has decreased from Nu 23.67 billion in 2018 to Nu 22.79 billion in 2019. Additionally, balances of Government have decreased from Nu 0.35 billion in 2018 to Nu 0.09 billion in 2019. On the other hand, currency in circulation increased slightly by 2.3 percent.

[24]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.
[25]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.

Statement of comprehensive income

The total net operating income of the RMA in 2019 was Nu 2.16 billion (Nu 4.48 billion in 2018), which includes foreign currency revaluation gains and market gains on the securities amounting to Nu 336 million (Nu 2.92 billion in 2018). The other income, which includes revaluation gains, commission and fees, income from other sources and other income decreased by 85 percent. The decrease was largely contributed by revaluation loss for the current period, which decreased by Nu 2.5 billion.

The total operating expenses increased by 4 percent from Nu 340 million in 2018 to Nu 353 million in 2019. The increase was mainly contributed by increase in administrative expenses and staff cost by Nu 31 million and Nu 30 million respectively.

The distributable profit, including realized gains, amounting to Nu 1.95 billion for 2019 (Nu 325 million for 2018) increased significantly by 116 percent as compared to the previous year. The contributing factor for this increase is realized gains being recycled from the previously unrealized gains parked under revaluation reserve to the distributable profit.

Royal Monetary Authority of Bhutan

Statement of Financial Position

Assets				(Amount in Nu. '000)
	Note	June 30, 2019	June 30, 2018	July 1, 2017
Foreign Currency financial assets				
Cash and cash equivalents	9	51,598,402	54,955,292	20,500,447
Deposits with banks	10	15,895,170	13,344,538	40,721,784
Securities	11	4,342,724	5,605,555	9,355,888
IMF related assets	12	2,560,586	2,537,070	2,337,041
Interest and other receivables		199,444	220,273	354,044
Total foreign currency financial assets		74,596,326	76,662,728	73,269,204
Local currency financial assets				
Cash and cash equivalents	9	19,688	656,774	517,019
Gratuity fund	10	39,661	60,503	45,016
Loans to staff	13	25,732	31,882	36,188
Ways and means advance to Royal Government	14	2,500,000	-	-
Interest and other receivables		362	-	143
Total local currency financial assets		2,585,444	749,159	598,366
Non-financial assets				
Non-monetary gold	15	37,713	16,672	4,100
Inventories for banknotes	16	165,333	180,134	251,333
Property, Plant and Equipment	17	161,721	134,565	90,032
Other assets	18	166,761	155,604	126,142
Total non-financial assets		531,529	486,974	471,607
Total assets		**77,713,299**	**77,898,861**	**74,339,178**

Rinzing Financial Group
Thimphu, Bhutan

Royal Monetary Authority of Bhutan

Statement of Financial Position

Liabilities and Equity	**June 30, 2019**	**June 30, 2018**	**July 1, 2017**
Foreign Currency financial liabilities			
Balances of Commercial banks			
Balances of Government	7,176,250,281	7,206,766,699	7,164,579,439
IMF related liabilities	2,112,733,251	2,096,913,407	1,933,723,176
Loans			
Due to IFIs	1,367,595	7,661,663	25,944,129
Due to foreign central banks	11,117,600,000	10,845,460,000	3,872,190,000
Accrued interest payables	63,710,537	71,086,222	30,654,838
Total foreign currency financial liabilities	20,471,661,664	20,227,887,991	13,027,091,582
Local currency financial liabilities			
Currency in circulation	12,545,310,102	12,267,117,628	11,528,763,838
Balances of Commercial banks	22,799,761,583	23,666,760,473	27,950,888,071
Balances of Government	96,562,537	348,351,214	1,835,648,909
Loans			
Due to other Financial institutions	557,278	557,278	557,278
Total local currency financial liabilities	35,442,191,501	36,282,786,593	41,315,858,096
Other liabilities			
Deferred grants	66,537,863	61,142,633	-
Gratuity and other employee benefits	91,727,709	76,302,336	70,138,999
Accrued expense			
Managed Fund	253,873,753	43,444,444	276,158,532
Others	99,793,753	152,719,569	1,671,525,014
Total Liabilities	56,425,786,243	56,844,283,566	56,360,772,222
Equity			
Capital	800,000,000	800,000,000	800,000,000
General Reserve	2,000,000,000	2,000,000,000	2,000,000,000
Profit and loss	3,421,434,608	1,585,242,684	1,068,931,766
BAS adjustment reserve	138,814,431	125,248,695	162,684,000
Revaluation Reserve	14,932,773,481	16,547,385,607	13,946,546,299
Other comprehensive income	(5,510,155)	(3,299,264)	243,250
Total Equity	21,287,512,365	21,054,577,721	17,978,405,315
Total Equity and Liabilities	**77,713,298,608**	**77,898,861,288**	**74,339,177,537**

Rinzing Financial Group

Tashi Rinzing Schmidt, CPA

Rinzing Financial Group Thimphu, Bhutan

Royal Monetary Authority

Chairman

Royal Monetary Authority of Bhutan

Statement of Comprehensive Income

	Notes	June 30, 2019	June 30, 2018
Foreign currency income and expenses			
Interest income on foreign currency financial assets	27	2,237,151	1,998,620
Interest expense on foreign currency financial liabilities		-563,297	-519,706
Net foreign currency income		1,673,854	1,478,915
Local currency income			
Interest income on local currency financial assets	27	34,314	14,572
Net local currency income		34,314	14,572
Net interest income		1,708,168	1,493,487
Other income			
Gains on sale of foreign currencies		103,859	53,494
Unrealised gain/(loss) of fair value of securities		64,791	-16,890
Realised gain/(loss) on sale of securities		3,604	-5,323
Foreign exchange revaluation		271,794	2,940,705
Others	28	8,189	14,439
Net other income		452,237	2,986,424
Total net operating income		2,160,405	4,479,911
Expenses			
Cost of banknote printing		-46,877	-96,389
Personnel expenses	29	-196,495	-165,972
Administrative expenses	30	-110,210	-78,347
Total operating expenses		-353,583	-340,707
Net profit for year		1,806,822	4,139,203
Other Comprehensive Income			
Actuarial gain on Staff gratuity Fund		-5,510	-3,299
Total Comprehensive Income		**1,801,312**	**4,135,904**

Rinzing Financial Group
Thimphu, Bhutan

9

STATISTICAL TABLES

Table 1: Gross Domestic Product at Current Prices

Nu in Million

Sectors	Year					Share of GDP in 2018 (%)
	2014	2015	2016	2017	2018	
1. Agriculture, livestock and forestry	16,893.2	18,556.4	20,882.7	23,989.4	26,585.8	15.9
1.1 Crops	8,871.8	9,914.6	11,101.6	12,922.6	14,101.5	8.4
1.2 Livestock	4,869.3	5,210.0	5,789.2	7,050.3	7,463.7	4.5
1.3 Forestry and logging	3,152.1	3,431.7	3,991.9	4,016.5	5,020.6	3.0
2. Mining and quarrying *	3,376.4	4,484.3	6,455.1	6,954.6	8,137.8	4.9
3. Manufacturing	9,705.1	10,543.5	11,085.1	11,979.6	12,596.7	7.5
4. Electricity and water	16,917.8	18,933.1	19,909.5	21,766.9	19,602.8	11.7
5. Construction	18,479.7	20,649.7	24,280.5	26,068.5	23,753.2	14.2
6. Wholesale and retail trade	8,471.7	10,233.4	11,798.3	13,460.0	15,042.1	9.0
7. Hotels and restaurants	2,045.9	2,485.7	2,863.6	3,476.8	4,039.8	2.4
8. Transport, storage and communication	11,508.7	11,892.7	13,157.7	15,119.5	16,720.1	10.0
9. Financing, insurance and real estate	9,048.9	9,746.4	10,892.4	11,667.3	12,988.1	7.8
9.1 Finance	6,461.2	6,905.3	7,574.0	7,945.7	9,018.5	5.4
9.2 Real estate	2,489.8	2,738.7	3,176.9	3,408.3	3,593.1	2.2
9.3 Business services	97.9	102.4	141.4	313.4	376.5	0.2
10. Community, social and personal services	12,953.7	14,776.5	16,352.6	16,347.8	17,341.6	10.4
10.1 Public Administration	8,079.1	10,051.0	11,209.7	11,630.6	11,761.3	7.0
10.2 Education and health	4,874.6	4,725.5	5,142.9	4,717.2	5,580.3	3.3
11. Private social, personal and recreational services	471.8	503.7	532.5	654.7	679.2	0.4
12. Plus indirect taxes less subsidies	6,515.7	5,729.3	6,863.0	8,086.7	9,839.7	5.9
Gross Domestic Product	116,388.6	128,534.6	145,072.9	159,571.7	167,326.8	100.0
Nominal GDP Growth Rate (%)	**13.1**	**10.4**	**12.9**	**10.0**	**4.9**	

Source: National Accounts Statistics, 2018, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 2: Gross Domestic Product in 2000 Prices

Nu in Million

Sectors	Year 2014	2015	2016	2017	2018	Growth: 2017 to 2018 (%)
1. Agriculture, livestock and forestry	6,227.8	6,518.0	6,793.4	6,993.7	7,298.7	4.4
1.1 Crops	2,589.7	2,765.3	2,994.4	3,182.9	3,340.3	4.9
1.2 Livestock	2,052.4	2,111.3	2,246.3	2,345.5	2,507.9	6.9
1.3 Forestry and logging	1,585.7	1,641.4	1,552.7	1,465.3	1,450.5	-1.0
2. Mining and quarrying*	1,524.8	1,728.9	1,927.3	2,062.3	2,836.9	37.6
3. Manufacturing	5,098.8	5,323.9	5,452.9	5,805.0	6,019.7	3.7
4. Electricity and water	9,495.0	10,200.2	10,478.9	10,079.8	8,578.9	-14.9
5. Construction	7,963.3	8,807.6	10,009.2	10,630.9	9,781.7	-8.0
6. Wholesale and retail trade	4,317.0	4,866.1	5,463.6	6,032.5	6,646.9	10.2
7. Hotels and restaurants	780.7	906.7	1,011.1	1,164.8	1,287.2	10.5
8. Transport, storage and communication	5,425.1	5,905.8	6,409.8	7,265.1	8,057.2	10.9
9. Financing, insurance and real estate	4,751.3	5,016.4	5,553.2	5,755.5	6,429.8	11.7
9.1 Finance	3,765.6	3,998.3	4,400.5	4,525.8	5,136.7	13.5
9.2 Real estate	942.4	973.9	1,094.4	1,106.6	1,149.1	3.9
9.3 Business services	43.3	44.3	58.3	123.1	143.9	17.0
10. Community, social and personal services	5,885.0	6,276.0	6,797.8	6,680.8	6,924.7	3.7
10.1 Public administration	3,574.5	4,178.1	4,621.4	4,635.3	4,564.2	-1.5
10.2 Education and health	2,310.5	2,097.9	2,176.4	2,045.5	2,360.4	15.4
11. Private social, personal and recreational services	214.8	221.1	229.5	277.1	281.4	1.5
12. Plus indirect taxes less subsidies	3,023.8	2,570.6	2,956.0	3,269.6	3,872.9	18.5
Gross Domestic Product	54,707.4	58,341.1	63,082.6	66,017.1	68,015.8	3.0
Real GDP Growth Rate (%)	**5.8**	**6.6**	**8.1**	**4.7**	**3.0**	

Source: National Accounts Statistics, 2018, National Statistics Bureau. Discrepancies in the figures are due to rounding.

Table 3: Gross Domestic Product by Expenditure at Current Prices

Nu in million

Sectors	2014	2015	2016	2017	2018	Share of GDP in 2018 (%)
Investment	61,813.5	71,287.0	82,700.5	82,896.6	79,417.9	47.5
Private	51,611.3	59,250.5	62,967.3	61,821.3	59,660.4	35.7
Public	12,390.5	12,385.2	18,847.1	21,303.9	19,305.7	11.5
Change in stocks	-2188.4	-348.7	886.1	-228.7	451.7	0.3
Consumption	81,816.1	100,076.0	100,339.5	112,807.7	122,736.8	73.4
Private	61,622.1	76,610.4	75,278.1	85,992.8	94,093.4	56.2
Public	20,194.0	23,465.5	25,061.4	26,814.8	28,643.4	17.1
Net exports	-27241.0	-42828.3	-37967.2	-36132.6	-34827.9	-20.8
Exports	43,589.9	44,261.7	42,966.2	48,004.3	42,620.1	25.5
Imports	70,830.9	87,090.0	80,933.3	84,136.8	77,448.0	46.3
Gross Domestic Product	116,388.6	128,534.6	145,072.9	159,571.7	167,326.8	100.0
GDP Growth Rate	**13.1**	**10.4**	**12.9**	**10.0**	**4.9**	

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

Nu in million

Sectors	Year					Share of GDP in 2018 (%)
	2014	2015	2016	2017	2018	
Investment	26,157.6	30,468.3	34,115.2	33,375.5	31,527.0	46.4
Private	22,119.1	25,499.8	26,256.5	25,124.1	23,954.4	35.2
Public	5,005.1	5,118.7	7,492.0	8,341.9	7,398.3	10.9
Change in stocks	-966.7	-150.2	366.7	-90.5	174.3	0.3
Consumption	40,620.0	45,967.9	44,620.0	46,834.6	52,530.4	77.2
Private	31,672.2	36,053.7	34,288.0	36,050.1	41,417.5	60.9
Public	8,947.8	9,914.2	10,332.0	10,784.5	11,112.9	16.3
Net exports	-12,070.2	-18,095.1	-15,652.6	-14,193.0	-16,041.6	-23.6
Exports	19,314.2	18,700.7	17,713.5	18,856.2	19,719.8	29.0
Imports	31,384.4	36,795.7	33,366.1	33,049.2	35,761.5	52.6
Gross Domestic Product	54,707.4	58,341.1	63,082.6	66,017.1	68,015.8	100.0
GDP Growth rate	**5.8**	**6.6**	**8.1**	**4.7**	**3.0**	

Table 5: Consumer Price Index: Period Average

(December 2012=100)

Items	Weight (%)	2016				2017				2018				2019	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Food	39.9	124.8	125.6	127.9	131.1	133.3	135.2	137.0	140.0	142.4	142.5	142.2	145.3	146.9	147.0
Non-food	60.1	122.2	122.9	123.5	125.3	127.4	127.8	128.3	128.0	128.0	128.7	129.9	131.3	131.7	132.3
Total	100	123.2	124.0	125.2	127.6	129.7	130.7	131.7	132.6	133.6	134.1	134.7	136.7	137.6	137.9
Percentage change on the previous year (%)															
Food	39.9	3.1	3.7	4.0	5.1	6.8	7.7	7.1	6.8	6.8	5.4	3.8	3.8	3.2	3.1
Non-food	60.1	3.1	3.2	2.1	2.8	4.3	4.0	3.9	2.1	0.4	0.8	1.3	2.6	2.9	2.7
Total	**100**	**3.1**	**3.4**	**2.9**	**3.7**	**5.3**	**5.5**	**5.2**	**4.0**	**2.9**	**2.6**	**2.3**	**3.1**	**3.0**	**2.9**

Table 6: Domestic and Imported Inflation: Period Average

Domestic Inflation (December 2012=100)

Items	Weight (%)	2016				2017				2018				2019	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Food	17.8	126.6	128.4	131.2	134.7	136.9	139.7	140.0	142.7	145.9	145.3	144.3	148.5	151.2	151.1
Non-food	30.2	123.6	124.2	124.7	127.4	130.4	130.5	131.0	130.9	130.5	130.7	132.0	133.8	134.9	135.1
Overall	48	124.7	125.7	127.1	130.1	132.7	133.8	134.2	135.1	136.0	135.9	136.4	139.1	140.7	140.6
Percentage change on the previous year (%)															
Food	17.8	3.8	5.2	5.9	7.2	8.1	8.8	6.7	5.9	6.6	4.0	3.1	4.1	3.7	4.0
Non-food	30.2	4.4	4.4	2.4	3.4	5.5	5.0	5.0	2.7	0.1	0.2	0.8	2.3	3.3	3.4
Overall	**48**	**4.2**	**4.7**	**3.7**	**4.8**	**6.5**	**6.4**	**5.7**	**3.9**	**2.5**	**1.6**	**1.7**	**2.9**	**3.5**	**3.5**

Imported Inflation

Item	Weight (%)	2016				2017				2018				2019	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Food	22.2	123.3	123.3	125.2	128.2	130.4	131.6	134.6	137.7	139.5	140.1	140.4	142.6	143.4	143.7
Non-food	29.8	120.9	121.5	122.2	123.2	124.5	125.1	125.6	125.1	125.4	126.8	127.8	128.9	128.6	129.5
Overall	52	121.9	122.3	123.5	125.3	127.0	127.9	129.3	130.3	131.3	132.3	133.1	134.6	134.7	135.3
Percentage change on the previous year (%)															
Food	22.2	2.1	2.2	2.3	3.4	5.8	6.8	7.5	7.4	7.0	6.5	4.3	3.6	2.8	2.5
Non-food	29.8	1.8	1.9	1.8	2.2	3.0	3.0	2.8	1.6	0.8	1.3	1.8	3.0	2.5	2.1
Overall	**52**	**1.9**	**2.0**	**2.0**	**2.7**	**4.2**	**4.6**	**4.7**	**4.0**	**3.4**	**3.5**	**2.9**	**3.3**	**2.6**	**2.3**

Table 7: Annual and Monthly PPI and Inflation by Industry

Sectors	Weight (%)	Index level (September 2011=100)						Monthly Inflation (%)			Annual Inflation (%)		
		Apr-18	May-18	Jun-18	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19
All Industry	100.0	125.7	126.2	126.1	122.2	122.2	121.2	-0.3	-0.0	-0.8	-2.8	-3.2	-3.9
Logging	0.7	134.8	134.8	134.8	134.8	134.8	134.8	0.0	0.0	0.0	0.0	0.0	0.0
Mining and quarrying	5.8	124.9	125.6	125.2	125.9	125.9	125.9	0.4	0.0	0.0	0.8	0.3	0.6
Manufacturing	47.7	131.7	132.5	132.4	123.1	122.9	121.0	-0.7	-0.1	-1.6	-6.5	-7.2	-8.6
Electricity, gas, steam and air conditioning supply	35.4	124.0	124.0	124.0	124.2	124.2	124.2	0.0	0.0	0.0	0.2	0.2	0.2
Water supply; sewerage, waste management and remediation activities	0.1	109.4	109.4	109.4	109.4	109.4	109.4	0.0	0.0	0.0	0.0	0.0	0.0
Transport	5.9	121.2	122.1	122.2	127.9	128.1	127.9	-0.0	0.1	-0.1	5.6	4.9	4.7
Information and communication	4.5	89.6	89.6	89.6	89.6	89.6	89.6	0.0	0.0	0.0	0.0	0.0	0.0

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-18	May-18	Jun-18	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19	Apr-19	May-19	Jun-19
All Products	100.0	125.7	126.2	126.1	122.2	122.2	121.2	-0.3	-0.0	-0.8	-2.8	-3.2	-3.9
Logging	0.7	134.8	134.8	134.8	134.8	134.8	134.8	0.0	0.0	0.0	0.0	0.0	0.0
Ores and minerals; electricity, gas and water	5.8	124.9	125.6	125.2	125.9	125.9	125.9	0.4	0.0	0.0	0.8	0.3	0.6
Food products, beverages and tobacco; textiles, apparel and leather products	3.6	113.5	113.4	113.4	114.0	114.0	114.0	0.3	0.0	-0.0	0.5	0.6	0.5
Other transportable goods, except metal products, machinery and equipment	15.4	118.9	120.3	117.4	119.1	119.2	119.9	0.7	0.1	0.6	0.1	-0.9	2.1
Metal products, machinery and equipment	28.8	141.6	142.2	144.0	126.4	126.2	122.5	-2.0	-0.2	-2.9	-10.7	-11.3	-14.9
Distributive trade services; accommodation, food and beverages, transport, electricity, gas and water	41.3	123.5	123.7	123.7	124.7	124.7	124.7	0.0	0.0	-0.0	0.9	0.8	0.8
Business and production services	4.5	89.6	89.6	89.6	89.6	89.6	89.6	0.0	0.0	0.0	0.0	0.0	0.0

Source: National Statistics Bureau.

Table 9: Summary of Budgetary Operations

Nu in Million

Item	Year					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 (r)
Revenue & Grants	**37,819.1**	**36,231.1**	**42,039.3**	**42,673.1**	**52,113.2**	**40,743.1**
Domestic Revenue	**23,244.6**	**25,141.0**	**28,033.8**	**29,713.6**	**36,871.4**	**35,855.0**
Tax	16,182.8	18,387.3	19,884.6	21,707.0	27,107.9	26,151.0
Non-tax	7,061.8	6,753.7	8,149.2	8,006.6	9,763.5	9,704.0
Other Receipts (Net)	**338.2**	**1,135.0**	**-884.1**	**-27.2**	**394.7**	
Grants	14,236.4	9,955.0	14,889.6	12,986.8	14,847.1	**4,888.1**
GOI	10,684.4	6,593.8	10,721.7	9,882.6	11,200.8	2,117.5
Others	3,551.9	3,361.3	4,167.9	3,104.2	3,646.2	2,770.5
Program	**1,749.7**	**2,125.0**	**2,340.0**	**2,125.0**	**1,700.0**	150.0
GOI	1,625.0	2,125.0	1,275.0	2,125.0	1,700.0	
Others	124.7	0.0	1,065.0	0.0	0.0	**150.0**
Project tied	**12,486.7**	**7,830.0**	**12,549.6**	**10,861.8**	**13,147.1**	4,738.1
GOI	9,059.4	4,468.8	9,446.7	7,757.6	9,500.8	2,117.5
Others	3,427.2	3,361.3	3,102.9	3,104.2	3,646.2	**2,620.5**
Outlay	**33,522.8**	**34,334.3**	**43,603.0**	**48,018.0**	**52,658.7**	**39,847.5**
Total expenditure	**34,609.9**	**36,475.9**	**44,688.5**	**49,966.6**	**56,331.4**	**39,847.5**
Current	17,941.2	21,032.0	22,880.6	24,129.6	27,494.7	29,075.2
Capital	16,668.8	15,443.8	21,807.9	25,837.0	28,836.7	10,772.3
Net Lending	**-1,332.0**	**-2,552.8**	**-1,885.3**	**-2,003.1**	**-2,077.9**	
Advances/Suspense (Net)	**244.9**	**411.2**	**799.9**	**54.5**	**-1,594.8**	
Overall Balance	**4,296.3**	**1,896.8**	**-1,563.7**	**-5,344.9**	**-545.5**	**895.6**
Financing	**-4,296.3**	**-1,896.8**	**1,563.7**	**5,344.9**	**545.5**	**-895.6**
Net Lending						1,540.0
Recovery						1,568.9
Lending						28.9
Net Borrowing	**-1,042.3**	**-1,086.4**	**-1,215.5**	**524.3**	**-102.0**	**-2,435.6**
Borrowing	**1,534.5**	**1,685.3**	**1,818.7**	**3,227.7**	**2,718.3**	**1,248.8**
External	1,534.5	1,685.3	1,818.7	3,227.7	2,718.3	1,248.8
Internal	0.0	0.0	0.0	0.0	-	
Repayment	**2,576.9**	**2,771.7**	**3,034.2**	**2,703.3**	**2,820.4**	**3,684.3**
External	2,401.6	2,596.4	2,850.3	2,694.1	2,810.5	2,016.1
Internal	175.3	175.3	183.8	9.2	9.9	1,668.3
Resource Gap	**3,254.0**	**810.4**	**-2,779.2**	**-4,820.5**	**-647.5**	**-1,540.0**

Source- National Budget Report: 2019/20 and Annual Financial Statements: 2017/18, Ministry of Finance. Figures may not add due to rounding. (1) Includes:Net Lending and Advance/Suspense (Net) (2) Financing transactions by definition must equal the budget deficit or surplus on revenue/grant/expenditure which they finance. Negative financing transactions depicts net repayment of borrowings or increase in cash or bank balances. (3) Resource Gap.

Table 10: Monetary Survey

Nu in Million

Items	2014/15	2015/16	2016/17	2017/18	2018/19
Broad Money (M2)[1]	**68,344.3**	**79,162.7**	**104,113.6**	**114,973.7**	**121,416.7**
Narrow Money (M1)	41,675.5	44,933.6	60,723.3	66,295.1	69,203.4
Currency Outside Banks	5,946.1	6,101.7	8,787.7	9,234.0	9,744.1
Transferable Deposits	35,729.4	38,831.9	51,935.6	57,061.0	59,459.3
Current Deposits	16,831.7	17,570.7	24,952.2	25,465.2	22,530.4
Saving Deposits	18,897.8	21,261.2	26,983.4	31,595.8	36,928.9
Other Deposits	26,668.8	34,229.1	43,390.3	48,678.6	52,213.4
Time Deposits	25,446.5	32,640.5	41,285.5	46,163.9	51,011.3
Foreign Currency Deposits	1,222.3	1,588.7	2,104.9	2,514.8	1,202.0
Sources of M2					
Foreign Assets (Net)	58,248.7	67,815.6	68,186.7	66,006.3	63,920.6
Indian Rupee	4,034.4	7,316.8	18,236.6	6,423.3	5,592.1
Convertible Foreign Currency	54,214.4	60,498.8	49,950.1	59,583.0	58,328.5
Net Domestic Assets	10,095.6	11,347.2	35,926.9	48,967.4	57,496.1
Domestic Credit	56,255.1	65,692.7	85,084.8	100,320.5	113,488.2
Claims on Government	-7,739.7	-5,570.5	2,852.9	5,029.4	2,406.9
Claims on Other Public Sector[2]	7,174.3	6,106.0	7,046.8	8,306.0	6,230.8
Claims on Private Sector[3]	56,820.5	65,157.2	75,185.1	86,985.1	104,850.5
Other Items Net [4]	46,159.6	54,345.5	49,447.3	51,353.1	55,992.1
Percent Change (y-o-y)					
Broad Money (M2)	**7.8**	**15.8**	**31.5**	**10.4**	**5.6**
Narrow Money (M1)	**5.0**	**7.8**	**35.1**	**9.2**	**4.4**
Currency Outside Banks	4.2	2.6	44.0	5.1	5.5
Transferable Deposits	5.1	8.7	33.7	9.9	4.2
Current Deposits	-4.8	4.4	42.0	2.1	-11.5
Saving Deposits	15.8	12.5	26.9	17.1	16.9
Other Deposits	12.6	28.4	26.8	12.2	7.3
Time deposits	15.9	28.3	26.5	11.8	10.5
Foreign Currency Deposits	-29.5	30.0	32.5	19.5	-52.2
Foreign Assets (Net)	8.1	16.4	0.6	-3.2	-3.2
Indian Rupee	1421.1	81.4	149.2	-64.8	-12.9
Convertible Foreign Currency	1.1	11.6	-17.4	19.3	-2.1
Domestic Assets	6.3	12.4	216.6	36.3	17.4
Domestic Credit	7.6	16.8	29.5	17.9	13.1
Claims on Government	291.3	-28.0	-151.2	76.3	-52.1
Claims on Other Public Sector	61.6	-14.9	15.4	17.9	-25.0
Claims on Private Sector	14.0	14.7	15.4	15.7	20.5
Other Items Net	7.9	17.7	-9.0	3.9	9.0

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

Table 11: Royal Monetary Authority Survey

Nu in Million

Items	2014/15	2015/16	2016/17	2017/18	2018/19
Assets					
Foreign Assets	62,112.5	77,976.9	71,820.7	75,194.0	73,116.5
Indian Rupee	9,826.6	19,017.7	23,496.1	18,614.4	17,266.4
Convertible Foreign Currency	52,286.0	58,959.1	48,324.6	56,579.5	55,850.0
Claims on DMBs	1,696.9	266.6	578.4	709.3	724.8
Claims on Government	0.0	0.0	0.0	0.00	2,500.0
Claims on Private Sector	28.3	33.3	36.3	32.0	26.1
Claims on NBFIs	0.0	0.0	0.0	0.0	0.00
Govt. securities	0.0	0.0	0.0	0.0	0.0
Liabilities					
Reserve Money	26,248.8	27,802.9	34,327.9	33,469.8	31,973.92
o/w Currency Outside Banks	5,946.1	6,101.7	8,787.7	9,234.0	9,744.1
Foreign liabilities	7,000.0	13,804.1	7,000.0	13,776.3	14,007.13
Indian Rupee	7,000.0	13,804.1	7,000.0	13,776.3	14,007.1
Covertable foreign currency	0.0	0.0	0.0	0.0	0.0
Government Deposits	7779.7	10200.1	7152.2	3020.4	4310.1
RMA Bills outstanding	0.0	0.0	0.0	0.0	0.0
Capital Accounts	3,597.1	3,686.8	3,951.5	4,357.7	6,354.7
Other Items Net[1]	19,212.1	22,782.9	20,003.8	21,311.1	19,721.4
Percent Change (y-o-y)					
Foreign Assets	2.5	25.5	-7.9	4.7	-2.8
Indian Rupee	3.5	93.5	23.5	-20.8	-7.2
Convertible Foreign Currency	2.4	12.8	-18.0	17.1	-1.3
Reserve Money	-1.5	5.9	23.5	-2.5	-4.5
Foreign liabilities	-30.0	97.2	-49.3	96.8	1.7
Other Items Net	10.6	18.6	-12.2	6.5	-7.5

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

Table 12: Deposit Money Banks Survey

Nu in million

Items	2014/15	2015/16	2016/17	2017/18	2018/19
Assets					
Reserves	19,549.3	17,852.9	25,197.8	23,752.5	21,724.9
Foreign Assets	3,136.2	3,642.8	3,655.4	5,356.8	4,811.2
Indian Rupee	1,207.8	2,103.2	1,740.5	1,585.1	2,332.8
Convertible Foreign Currency	1,928.4	1,539.6	1,914.9	3,771.7	2,478.5
Claims on Government[1]	40.0	4,629.6	10,005.2	8,049.8	4,217.0
Claims on Other Public Sector[2]	7,174.3	6,106.0	7,046.8	8,306.0	6,230.8
Claims on Private Sector	56,792.2	65,123.8	75,148.8	86,953.1	104,824.4
Capital Accounts	16,713.7	18,029.3	16,915.4	18,019.3	19,542.3
Other Items Net[3]	6,683.6	5,561.7	8,253.5	7,727.3	9,762.4
Liabilities					
Demand Depsoits	35,729.4	38,831.9	51,935.6	57,061.0	59,459.3
Current Deposits	16,831.7	17,570.7	24,952.2	25,465.2	21,064.3
Saving Deposits	18,897.8	21,261.2	26,983.4	31,595.8	36,239.3
Time Deposits	25,446.5	32,640.5	41,285.5	46,163.9	51,011.3
Foreign Currency Deposits	1,222.3	1,588.6	2,104.8	2,514.8	1,202.0
Percent Change (y-o-y)					
Reserves	-7.3	-8.7	41.1	-5.7	-8.5
Foreign Assets	-5.3	16.2	0.3	46.5	-10.2
Claims on Other Public Sector	61.6	-14.9	15.4	17.9	-25.0
Claims on Private Sector 2	14.0	14.7	15.4	15.7	20.6
Capital Accounts	10.6	7.9	-6.2	6.5	8.5
Other Items Net	1.2	-16.8	48.4	-6.4	26.3
Demand Deposits	5.1	8.7	33.7	9.9	4.2
Current Deposits	-4.7	4.4	42.0	2.1	-17.3
Saving Deposits	15.7	12.5	26.9	17.1	14.7
Time Deposits	15.9	28.3	26.5	11.8	10.5
Foreign Currency Deposits	-29.5	30.0	32.5	19.5	-52.2

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

Table 13: Financial Sector Investment by Economic Activity

Nu in million

Economic Sector/Source	2014/15	2015/16	2016/17	2017/18	2018/19
Agriculture	**3,487.4**	**4,457.9**	**5,069.5**	**5,632.9**	**6,247.3**
Bank of Bhutan	17.5	30.6	41.5	100.7	197.2
Bhutan National Bank	0.7	0.7	0.7	13.0	65.3
Bhutan Development Bank Limited	3,467.1	4,413.8	5,003.6	5,508.1	5,969.6
TBank Limited	1.5	1.4	0.4	0.0	2.4
Druk PNB Bank Limited	0.6	10.2	15.7	2.5	7.7
Royal Insurance Corporation of Bhutan	0.0	0.0	3.4	4.1	1.9
Bhutan Insurance Limited	0.0	1.0	4.1	4.6	3.2
Service and Tourism	**12,402.7**	**11,323.9**	**20,017.9**	**24,844.2**	**31,523.7**
Bank of Bhutan	5,570.8	3,163.5	5,648.7	8,463.9	11,784.9
Bhutan National Bank	3,171.6	3,636.8	4,476.8	4,706.5	5,833.9
Bhutan Development Bank Limited	2,057.5	2,384.2	2,948.6	2,886.8	3,055.8
TBank Limited	328.7	479.4	440.5	559.8	1,084.4
Druk PNB Bank Limited	916.1	896.5	1,505.0	2,139.9	2,463.5
Royal Insurance Corporation of Bhutan	325.2	706.1	4,924.6	5,980.0	7,243.0
Bhutan Insurance Limited	32.8	57.3	73.7	107.3	58.3
Manufacturing	**10,088.9**	**10,433.7**	**12,767.1**	**13,416.7**	**15,231.8**
Bank of Bhutan	3,522.7	3,485.9	3,724.2	3,944.3	4,596.3
Bhutan National Bank	3,537.5	3,611.0	4,480.9	4,438.7	4,579.5
Bhutan Development Bank Limited	858.2	816.1	830.7	1,038.2	972.7
TBank Limited	199.5	182.3	197.7	257.91	300.1
Druk PNB Bank Limited	651.9	740.2	1,454.0	1,525.7	2,192.4
Royal Insurance Corporation of Bhutan	1,270.8	1,479.8	1,939.6	2,046.2	2,401.8
Bhutan Insurance Limited	48.4	118.4	140.1	165.9	189.0
Building & Construction	**17,371.5**	**19,244.0**	**21,704.9**	**25,405.8**	**32,581.8**
Bank of Bhutan	5,370.0	5,263.4	6,032.5	7,873.2	12,407.6
Bhutan National Bank	6,181.3	6,665.3	6,962.9	7,727.0	8,811.8
Bhutan Development Bank Limited	1,856.5	2,447.2	2,776.3	3,230.4	3,693.9
TBank Limited	465.7	500.9	1,329.4	1,910.0	2,625.9
Druk PNB Bank Limited	1,067.9	1,340.6	1,532.3	1,703.8	1,933.9
Royal Insurance Corporation of Bhutan	2,387.6	2,911.5	2,811.9	2,638.8	2,701.6
Bhutan Insurance Limited	42.5	115.2	259.5	322.6	407.3
Trade & Commerce	**11,250.2**	**17,621.4**	**13,285.1**	**15,044.1**	**17,719.0**
Bank of Bhutan	1,277.3	1,736.8	1,320.8	1,985.1	2,425.7
Bhutan National Bank	4,269.4	6,675.5	5,123.4	5,934.2	6,964.8
Bhutan Development Bank Limited	1,246.5	1,552.9	1,637.1	1,587.7	1,515.4
TBank Limited	495.6	454.0	785.1	761.4	942.6
Druk PNB Bank Limited	484.9	654.1	433.1	839.9	1,411.8
Royal Insurance Corporation of Bhutan	3,374.7	6,393.7	3,801.2	3,695.6	4,159.4
Bhutan Insurance Limited	101.9	154.4	184.4	240.2	299.3
Transport (Heavy + Light)	**2,617.8**	**4,535.1**	**5,003.5**	**6,297.5**	**6,747.6**
Bank of Bhutan	522.7	875.7	1,008.9	1,841.8	2,076.9
Bhutan National Bank	696.4	1,041.5	1,334.4	1,753.4	1,884.2
Bhutan Development Bank Limited	432.1	1,120.6	1,193.5	1,144.9	1,036.9
TBank Limited	189.3	117.0	251.2	222.3	206.1
Druk PNB Bank Limited	103.0	159.0	134.4	161.0	157.9
Royal Insurance Corporation of Bhutan	533.2	940.1	644.0	587.2	696.3
Bhutan Insurance Limited	141.2	281.2	437.1	586.9	689.3

Personal Loans	**11,750.9**	**11,818.3**	**13,636.6**	**12,811.0**	**13,816.9**
Bank of Bhutan	5,479.6	5,597.0	5,463.3	5,480.1	5,597.0
Bhutan National Bank	1,034.0	1,098.6	1,295.0	1,207.3	1,270.8
Bhutan Development Bank Limited	2,718.5	2,633.5	2,972.3	2,407.5	2,458.2
TBank Limited	510.5	504.2	914.7	1,057.6	1,508.2
Druk PNB Bank Limited	510.0	555.8	532.0	324.3	725.4
Royal Insurance Corporation of Bhutan	1,437.6	1,364.6	2,399.6	2,250.6	2,176.1
Bhutan Insurance Limited	60.7	64.7	59.7	83.6	81.3
Loan Against Shares	**667.3**	**402.8**	**432.7**	**214.2**	**553.1**
Bank of Bhutan	171.6	6.7	32.8	0.1	17.8
Bhutan National Bank	106.4	77.9	0.0	0.0	0.0
Bhutan Development Bank Limited	0.0	98.4	0.0	0.0	0.0
TBank Limited	11.4	5.7	138.8	37.1	314.6
Druk PNB Bank Limited	261.5	88.8	98.8	89.3	117.5
Royal Insurance Corporation of Bhutan	77.6	92.3	111.2	45.4	57.1
Bhutan Insurance Limited	38.9	33.2	51.0	42.4	46.2
Government (Short term loans)	**0.0**	**4,605.5**	**515.2**	**445.3**	**855.4**
Bank of Bhutan	0.0	4,605.5	0.0	0.0	461.5
Bhutan National Bank	0.0	0.0	515.2	445.3	394.0
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	0.0	0.0	0.0	0.0	0.0
Druk PNB Bank Limited	0.0	0.0	0.0	0.0	0.0
Royal Insurance Corporation of Bhutan	0.0	0.0	0.0	0.0	0.0
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Credit Card	**8.8**	**11.3**	**10.4**	**15.9**	**23.0**
Bank of Bhutan	3.6	5.34	6.0	12.8	20.2
Bhutan National Bank	5.2	5.9	4.4	3.0	2.4
Bhutan Development Bank Limited	0.0	0.0	0.0	0.0	0.0
TBank Limited	0.0	0.0	0.0	0.0	0.0
Druk PNB Bank Limited	0.0	0.0	0.0	0.0	0.0
Royal Insurance Corporation of Bhutan	0.0	0.0	0.0	0.0	0.4
Bhutan Insurance Limited	0.0	0.0	0.0	0.0	0.0
Others	**1,863.5**	**2,150.5**	**2,615.7**	**3,592.7**	**4,295.7**
Bank of Bhutan	319.5	362.2	668.3	857.7	1,040.1
Bhutan National Bank	231.6	277.0	331.1	384.8	406.2
Bhutan Development Bank Limited	608.0	459.2	508.5	823.2	1,037.6
TBank Limited	344.2	310.5	379.1	791.5	1,064.3
Druk PNB Bank Limited	93.3	287.0	235.6	219.1	192.5
Royal Insurance Corporation of Bhutan	236.6	429.0	459.9	487.7	527.8
Bhutan Insurance Limited	30.4	25.6	33.2	28.8	27.1
Total	**71,509.0**	**86,604.3**	**95,058.6**	**107,720.4**	**129,595.4**

Table 14: Deposit Base of Commercial Banks by Sector

Nu in Million

Items	2014/15	2015/16	2016/17	2017/18	2018/19
Total Deposits	**62,398.2**	**73,061.0**	**95,325.9**	**105,739.6**	**111,672.6**
Individuals	35,929.4	46,976.4	65,663.9	73,851.6	74,013.5
Govt. Corps.	7,684.4	8,746.7	8,716.4	10,901.5	14,987.3
Others	18,784.3	17,337.9	20,945.7	20,986.6	22,671.9
Demand deposits	**35,729.4**	**38,831.9**	**51,935.6**	**57,061.0**	**59,459.3**
Individuals	24,608.7	29,482.1	47,724.0	51,135.0	47,587.9
Govt. Corps.	3,111.7	3,724.0	920.9	1,352.4	2,417.3
Others	8,009.0	5,625.7	3,290.8	4,573.7	9,454.1
Time Deposits	**26,668.8**	**34,229.1**	**43,390.3**	**48,678.6**	**52,213.4**
Individuals	11,320.7	17,494.25	17,939.88	22,716.6	26,425.6
Govt. Corps.	4,572.8	5,022.64	7,795.54	9,549.1	12,570.0
Others	10,775.3	11,712.22	17,654.90	16,412.9	13,217.8
% of total deposits					
Individuals	57.6	64.3	68.9	69.8	66.3
Govt. Corps.	12.3	12.0	9.1	10.3	13.4
Others	30.1	23.7	22.0	19.8	20.3
Demand deposits	**57.3**	**53.1**	**54.5**	**54.0**	**53.2**
Individuals	39.4	40.4	50.1	48.4	42.6
Govt. Corps.	5.0	5.1	1.0	1.3	2.2
Others	12.8	7.7	3.5	4.3	8.5
Time Deposits	**42.7**	**46.9**	**45.5**	**46.0**	**46.8**
Individuals	18.1	23.9	18.8	21.5	23.7
Govt. Corps.	7.3	6.9	8.2	9.0	11.3
Others	17.3	16.0	18.5	15.5	11.8
% of total deposits					
Total Deposits					
Individuals	57.58	64.30	68.88	69.84	66.28
Govt. Corps.	12.32	11.97	9.14	10.31	13.42
Others	30.10	23.73	21.97	19.85	20.30
Demand deposits	**57.26**	**53.15**	**54.48**	**53.96**	**53.24**
Individuals	39.44	40.35	50.06	48.36	42.61
Govt. Corps.	8.71	9.59	1.77	2.37	2.16
Others	12.84	7.70	3.45	4.33	8.47
Time Deposits	**42.74**	**46.85**	**45.52**	**46.04**	**46.76**
Individuals	18.14	23.94	18.82	21.48	23.66
Govt. Corps.	7.33	6.87	8.18	9.03	11.26
Others	17.27	16.03	18.52	15.52	11.84

Source: Commercial Banks

Table 15: Annual Over all Balance of Payments Estimates

Nu in million

Items	2014/15	2015/16	2016/17	2017/18	2018/19 (Provision)
A. CURRENT ACCOUNT	**-34,177.2**	**-41,436.1**	**-36,371.6**	**-31,156.9**	**-39,677.4**
Goods and Services	-30,970.2	-39,604.4	-34,852.4	-30,548.6	-35,928.8
Goods: Net (Trade Balance)	**-26,662.8**	**-35,519.1**	**-31,350.0**	**-27,956.2**	**-29,880.30**
Exports (fob)	35,982.2	32,789.3	36,872.0	39,231.7	38,165.3
Imports (fob)	62,644.9	68,308.4	68,222.0	67,189.9	68,045.6
Services	**-4,307.4**	**-4,085.3**	**-3,502.38**	**-2,590.44**	**-6,048.50**
Credit	7,784.2	9,659.8	10,469.9	12,263.8	8,895.8
Debit	12,091.6	13,745.1	13,972.3	14,854.2	14,944.3
Primary Income	**-8,250.5**	**-11,385.4**	**-13,148.1**	**-13,799.2**	**-15,580.5**
Credit	2,575.7	1,623.1	1,999.0	2,413.6	2,631.9
Debit	10,826.2	13,008.5	15,147.1	16,212.8	18,212.4
Secondary Income	**5,043.4**	**9,553.7**	**11,628.9**	**13,190.9**	**11,831.9**
Credit	6,874.2	11,358.5	13,256.5	15,019.1	14,281.5
o.w. Budgetary grants	4,785.0	8,373.3	6,415.8	6,204.9	6,999.3
Debit	1,830.7	1,804.8	1,627.7	1,828.2	2,449.6
B. CAPITAL ACCOUNT	**13,981.0**	**12,668.1**	**12,391.6**	**11,884.0**	**8,769.1**
o.w. Budgetary grants for investment *	4,408.0	6,114.6	3,532.3	7,348.0	4,088.0
C. FINANCIAL ACCOUNT **	**-21,130.7**	**-43,297.1**	**-15,724.3**	**-28,476.9**	**-21,879.4**
Direct Investment in Bhutan: net incurrence of liabilities	**394.9**	**788.4**	**-1,640.4**	**274.0**	**920.7**
o.w. Equity capital	306.7	677.8	-497.1	419.7	754.4
Other Investment	**-20,735.8**	**-42,508.7**	**-17,364.7**	**-27,445.6**	**-21,325.1**
Other Investment: net acquisition of financial assets	**-820.5**	**1,450.8**	**734.2**	**1,079.5**	**1,718.2**
Other Investment: net incurrence of financial liabilities	**19,915.3**	**43,959.5**	**18,099.0**	**28,525.1**	**23,043.3**
o.w. RGOB loans ***	17,838.3	30,052.8	13,078.4	10,655.5	-14,238.6
o.w. Other loans	1,990.3	14,050.4	3,682.3	16,043.4	38,038.1
D. Net Errors & Omissions	**-1,505.3**	**-1,944.5**	**6,690.4**	**-4,346.8**	**9,650.7**
E. Overall Balance	**-570.8**	**12,584.5**	**-1,565.3**	**4,857.2**	**621.9**
F. Reserve Assets	**-570.8**	**12,584.5**	**-1,565.3**	**4,857.2**	**621.9**

* 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 onwards to include improvements in data coverage and classification.

Table 16: Annual Balance of Payments Estimates with India

Nu in Million

Items	2014/15	2015/16	2016/17	2017/18	2018/19 (provision)
A. CURRENT ACCOUNT	-28,684.8	-38,312.6	-33,868.1	-34,014.9	-42,147.1
Goods and Services	-23,023.7	-33,478.5	-27,967.0	-27,185.1	-32,274.7
Goods: Net (Trade Balance)	-18,963.1	-28,878.4	-24,165.4	-25,453.2	-29,363.3
Exports (fob)	31,946.8	29,870.1	32,637.1	31,713.5	29,051.9
Imports (fob)	50,910.0	58,748.5	56,802.4	57,166.7	58,415.2
Services	-4,060.5	-4,600.1	-3,801.7	-1,732.0	-2,911.4
Credit	1,213.0	2,940.3	2,887.2	4,621.3	3,455.6
Debit	5,273.5	7,540.4	6,688.9	6,353.3	6,367.0
Primary Income	-8,256.4	-10,878.3	-12,798.7	-13,584.8	-15,540.4
Credit	1,362.2	817.5	1,157.2	1,327.0	1,021.8
Debit	9,618.6	11,695.8	13,955.9	14,911.7	16,562.1
o.w. Interest on hydropower loans *	1,445.4	1,344.6	1,243.7	1,325.2	764.4
Secondary Income	2,595.3	6,044.2	6,897.6	6,755.0	5,667.9
Credit	4,022.3	7,399.7	8,179.8	7,840.4	7,179.7
o.w. Budgetary grants	3,346.0	7,099.3	4,566.5	3,600.9	4,410.5
Debit	1,427.0	1,355.5	1,282.1	1,085.4	1,511.7
B. CAPITAL ACCOUNT	13,650.5	12,122.0	12,337.7	11,862.2	8,709.7
o.w. Budgetary grants for investment **	4,077.4	5,568.5	3,478.5	7,326.2	4,028.6
o.w. Grants for hydropower development	9,573.0	6,553.5	8,859.2	4,536.0	4,681.1
C. FINANCIAL ACCOUNT ***	-18,874.1	-40,782.1	-12,777.0	-26,347.5	-22,333.2
Direct Investment in Bhutan: net incurrence of liabilities	-152.2	337.2	63.7	14.2	184.4
o.w. Equity capital	-147.0	313.0	0.0	1.9	39.0
Other Investment	-19,026.4	-40,444.9	-12,713.4	-25,576.1	-22,515.1
Other Investment: net acquisition of financial assets	-21.7	1,310.4	481.3	-494.5	1,894.1
Other Investment: net incurrence of financial liabilities	19,004.6	41,755.3	13,194.7	25,081.7	24,409.2
o.w. Hydropower loans (incl. accrued interest)*	16,600.4	28,574.1	10,093.1	8,176.3	-14,471.9
o.w. Other loans	2,059.9	13,443.8	2,840.3	16,580.0	38,277.1
D. Net Errors & Omissions	-3,104.7	-4,648.0	8,130.9	-5,963.9	13,465.2
E. Overall Balance	735.1	9,943.5	-622.5	-1,769.2	2,360.9
F. Reserve Assets	735.1	9,943.5	-622.5	-1,769.2	2,360.9

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

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

Nu in Million

Item	2014/15	2015/16	2016/17	2017/18	2018/19 Prov.
A. CURRENT ACCOUNT	**-5,492.5**	**-3,123.5**	**-2,503.5**	**2,858.0**	**2,469.7**
Goods and Services	-7,946.5	-6,125.9	-6,885.3	-3,363.4	-3,654.1
Goods: Net (Trade Balance)	-7,699.6	-6,640.7	-7,184.6	-2,504.9	-517.0
Exports (fob)	4,035.3	2,919.2	4,234.9	7,518.3	9,113.4
Imports (fob)	11,735.0	9,559.9	11,419.6	10,023.2	9,630.4
Services	-246.9	514.8	299.3	-858.5	-3,137.1
Credit	6,571.2	6,719.5	7,582.6	7,642.4	5,440.1
Debit	6,818.1	6,204.6	7,283.3	8,500.9	8,577.3
Primary Income	5.9	-507.1	-349.4	-214.4	-40.1
Credit	1,213.5	805.6	841.7	1,086.6	1,610.2
Debit	1,207.6	1,312.7	1,191.2	1,301.0	1,650.3
Secondary Income	2,448.1	3,509.5	4,731.3	6,435.9	6,163.9
Credit	2,851.8	3,958.8	5,076.8	7,178.8	7,101.9
o.w. Budgetary grants	1,439.0	1,274.0	1,849.3	2,604.0	2,588.7
Debit	403.7	449.3	345.5	742.9	937.9
B. CAPITAL ACCOUNT	**330.6**	**546.0**	**53.8**	**21.8**	**59.5**
o.w. Budgetary grants for investment *	330.6	546.0	53.8	21.8	59.5
C. FINANCIAL ACCOUNT **	**-2,256.6**	**-2,515.0**	**-2,947.3**	**-2,129.4**	**453.8**
Direct Investment in Bhutan: net incurrence of liabilities	547.1	451.2	-1,704.1	259.9	736.3
o.w. Equity capital	453.6	364.7	-497.1	417.7	715.4
Other Investment	**-1,709.5**	**-2,063.8**	**-4,651.4**	**-1,869.5**	**1,190.1**
Other Investment: net acquisition of financial assets ***	-798.8	140.5	252.9	1,574.0	-175.9
Other Investment: net incurrence of financial liabilities	910.7	2,204.2	4,904.3	3,443.5	-1,365.9
o.w. RGOB loans	1,238.0	1,478.7	2,985.3	2,479.2	233.4
o.w. Other loans	-69.6	606.5	842.1	-536.6	-239.0
D. Net Errors & Omissions	**1,599.4**	**2,703.5**	**-1,440.5**	**1,617.1**	**-3,814.4**
E. Overall Balance	**-1,305.9**	**2,641.0**	**-942.8**	**6,626.4**	**-1,739.0**
F. Reserve Assets	**-1,305.9**	**2,641.0**	**-942.8**	**6,626.4**	**-1,739.0**

* 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.

Table 18: Composition of Imports from Countries Other Than India

Nu in million

SI.#	IMPORT CATEGORY	2014	2015	2016	2017	2018
1	Live Animals & Animal Products	69.5	92.1	107.5	109.7	121.3
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	50.3	112.0	84.0	85.8	56.2
3	Animal or Vegetable Fats & Oils	10.8	14.3	8.9	2.8	149.2
3.1	Palm Oil (Crude & Other)	10.3	11.9	7.2	0.0	146.5
4	Processed Foods & Beverages	334.9	493.9	482.2	618.5	666.3
5	Mineral Products inc. oils & fuels	237.7	120.6	351.8	99.2	515.4
6	Products of Chemical & Allied Industries	740.9	700.7	427.3	456.8	709.1
6.1	Medicines / Pharmaceutical Products	270.9	309.1	50.9	96.2	128.5
6.2	Photographic / Cinematographic goods	14.9	11.6	0.8	11.0	1.0
7	Plastic & Rubber Products	863.9	906.0	832.2	758.4	679.0
8	Wood and Wood Products	23.7	21.3	28.0	27.6	31.5
9	Wood Pulp Products	83.4	187.4	173.1	123.3	118.7
10	Textiles, Footwear & Hats/Headgear	195.9	209.0	280.4	305.4	335.6
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	57.8	57.5	68.2	76.8	105.0
11.1	Ceramic Products	22.0	16.5	17.3	33.6	42.3
12	Pearls and Products of Precious/ Semi-precious Metal & Stones	8.8	14.2	39.5	41.6	19.9
13	Base Metals and Articles of Base Metal	1494.4	978.9	856.8	838.9	457.7
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	3894.8	4607.8	6021.0	7887.1	5298.2
14.1	Magnetic Discs & Media (recorded/ unrecorded)	128.5	387.8	199.4	339.2	172.1
15	Transport Vehicles & Aircraft and Engines & Parts	502.7	5199.8	1613.0	996.4	963.5
16	Optical, Photographic, Cinematographic & Measuring Equipment	242.2	349.6	478.3	357.5	1005.4
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	1.0	8.5	7.8	0.9	0.1
18	Miscellaneous Manufactured Products	224.3	223.5	215.3	236.9	301.8
	TOTAL	**9036.9**	**14296.8**	**12075.1**	**13023.5**	**11533.5**

Table 19: Composition of Exports to Countries Other Than India

Nu in million

SI	EXPORT CATEGORY	2014	2015	2016	2017	2018
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	1,387.5	1,284.8	1,342.9	1,259.4	1,287.4
1.1	Oranges	520.1	446.6	425.6	470.8	349.7
1.2	Apples	59.1	61.4	39.7	21.9	8.3
1.3	Cardamoms	421.4	565.4	708.5	552.6	613.0
2	Processed Foods & Beverages	43.5	24.9	19.8	5.3	16.0
3	Mineral Products inc. oils & fuels	770.5	713.8	1,206.0	2,219.0	3,944.1
3.1	Limestone & other calcereous stone	348.3	338.1	169.4	319.0	326.2
3.2	Dolomite	169.7	520.3	205.6	241.6	202.2
3.3	Bituminous Coal	75.0	-	-	5.0	219.1
4	Products of Chemical & Allied Industries	34.1	645.2	263.6	134.1	258.5
5	Plastic & Rubber Products	0.0	0.0	2.3	0.0	0.6
6	Wood and Wood Products	1.0	0.8	3.9	0.4	11.4
7	Wood Pulp Products	0.0	0.1	1.1	0.4	2.2
8	Textiles, Footwear & Hats/Headgear	0.5	4.7	2.9	2.0	0.1
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	0.4	2.3	5.3	0.6	10.7
10	Articles of Precious/Semi-precious Metals	-	0.0	-	-	-
11	Base Metals and Articles of Base Metal	1,541.0	745.1	353.2	2,054.1	3,703.1
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	-	-	0.0	-	-
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	-	-	-	-	-
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	4.0	4.6	1.6	3.4	6.4
14	Miscellaneous Manufactured Products	1.2	1.6	3.2	0.5	2.9
	TOTAL	**3,783.6**	**3,428.0**	**3,205.7**	**5,679.1**	**9,243.4**

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

Table 20: Composition of Imports from India

Nu in million

Sl	IMPORT CATEGORY	2014	2015	2016	2017	2018
1	Live Animals & Animal Products	2,674.7	2,755.5	2,713.7	2,690.2	2,679.9
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	3,551.3	3,412.9	3,757.0	3,738.1	3,572.2
3	Animal or Vegetable Fats & Oils	1,005.5	976.0	1,032.2	1,129.4	1,199.4
4	Processed Foods & Beverages	2,024.3	2,159.5	2,306.0	2,375.9	2,354.7
5	Mineral Products inc. oils & fuels	13,329.6	12,341.9	12,423.9	13,963.5	16,106.0
6	Electricity	319.0	249.7	173.0	74.9	295.0
7	Products of Chemical & Allied Industries	1,954.9	2,098.7	2,129.6	2,098.0	2,269.8
7.1	Medicine / Pharmaceutical Products	173.5	338.2	297.2	262.5	303.8
8	Plastic & Rubber Products	1,727.7	1,793.1	1,807.8	2,105.7	2,642.9
9	Wood and Wood pulp products	2,349.6	2,391.1	1,868.3	2,330.1	3,306.6
9.1	Wood and Wood Products	1,611.3	1,683.1	1,183.7	1,585.4	2,504.6
9.2	Wood Pulp Products	738.2	707.9	684.6	744.8	802.0
10	Textiles, Footwear & Hats/Headgear	835.4	925.2	826.7	874.3	879.0
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	803.5	899.1	905.1	1,111.3	1,314.1
11.1	Ceramic Products	254.0	320.1	316.2	329.3	429.1
12	Pearls and Products of Precious/Semi-precious Metal & Stones	1.1	0.9	0.3	0.8	0.9
13	Base Metals and Articles of Base Metal	8,407.0	9,257.0	6,298.4	6,876.5	7,389.2
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	6,604.8	9,282.4	12,198.0	9,302.1	9,233.7
14.1	Magnetic Discs & Media (recorded/ unrecorded)	16.2	21.8	14.0	19.4	44.1
15	Transport Vehicles & Aircraft and Engines & Parts	1,623.9	4,319.5	5,758.7	4,268.7	5,807.8
16	Optical, Photographic, Cinematographic & Measuring Equipment	227.2	300.8	497.2	449.8	403.6
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	1.8	0.4	0.0	0.0	1.4
18	Miscellaneous Manufactured Products	406.2	577.0	588.8	583.5	652.0
	TOTAL	**47,847.6**	**53,740.5**	**55,284.7**	**53,972.7**	**60,108.1**

Table 21: Composition of Exports to India

Nu in million

Sl.#	EXPORT CATEGORY	2014	2015	2016	2017	2018
1	Live Animals & Animal Products	2.9	6.8	12.9	20.9	50.5
1.1	Raw Hides & Skins	-	-	-	-	-
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	1475.2	1132.0	1535.7	1562.7	1101.5
2.1	Potatoes	686.3	370.9	542.1	458.7	492.9
3	Animal or Vegetable Fats & Oils	13.7	8.0	9.7	9.5	265.0
3.1	Palm Oil	0.0	-	-	-	-
4	Processed Foods & Beverages	838.0	897.4	1067.4	1010.7	1043.7
5	Mineral Products inc. oils & fuels	4800.2	4813.8	4646.5	4683.2	4959.9
6	Electricity	10633.6	12124.5	13032.1	11983.5	10578.0
7	Products of Chemical & Allied Industries	1953.9	1990.0	1714.7	1722.1	1128.9
8	Plastic & Rubber Products	636.0	678.8	678.2	783.7	559.0
9	Wood and Wood Pulp Products	380.7	353.0	318.2	255.9	488.0
9.1	Wood Pulp Products	15.4	19.8	14.7	19.2	20.6
10	Textiles, Footwear & Hats/Headgear	29.9	10.8	1.1	2.4	0.4
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	196.5	168.4	150.2	113.0	68.5
12	Base Metals and Articles of Base Metal	10826.2	9605.8	8874.6	9459.0	11905.0
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	3.0	2.3	3.2	4.7	16.1
14	Transport Vehicles & Aircraft and Engines & Parts	-	-	-	0.1	-
15	Optical, Photographic, Cinematographic & Measuring Equipment	-	0.0	-	-	0.2
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.1	-	0.3	-	0.3
17	Miscellaneous Manufactured Products	11.6	9.8	7.5	6.7	4.8
	TOTAL	**31801.5**	**31801.4**	**32052.4**	**31618.1**	**32169.8**

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

Table 22: Direction of Trade

Item	2014	2015	2016	2017	2018
Exports					
India	31,801.5	31,801.4	32,052.4	31,618.1	32,169.8
Bangladesh	1,661.9	1,817.5	2,398.0	3,486.3	5,948.4
Italy	477.7	152.2	27.0	428.2	917.9
Netherlands	227.7	434.1	51.2	351.0	550.3
Nepal	178.5	80.7	152.4	321.2	525.1
Germany	597.1	186.2	122.0	186.8	423.2
Hongkong	252.9	110.1	77.2	138.5	104.9
Turkey	83.3		0.1	96.1	102.5
Singapore	61.7	169.8	7.6	63.0	100.0
UAE	10.2	15.6	0.0	35.4	90.2
Belgium	39.5			16.8	68.4
Thailand	32.5	23.1	40.6	33.6	52.3
Japan	14.1	16.8	22.1	103.9	49.0
Vietnam	9.3	4.1	26.2	50.2	43.9
Malaysia	12.3	11.0	16.0	24.5	31.0
South africa			5.1	10.6	25.1
Taiwan	3.6	7.2		3.5	14.6
Poland	-	-	0.0	51.6	14.5
slovenia	-		18.3	0.4	12.2
United States	30.7	292.9	171.2	29.3	11.2
Others	90.6	99.2	70.7	165.6	33.4
Total Exports	**35,584.9**	**35,221.7**	**35,258.1**	**37,214.6**	**41,287.7**
Imports					
India	47,847.6	53,740.5	55,284.7	53,972.7	60,108.1
South Korea	240.7	344.1	1,262.7	2,592.2	1,665.0
China	949.9	1,333.5	1,476.2	1,609.9	1,613.7
Singapore	724.6	1,391.3	1,206.3	1,066.0	1,486.2
Thailand	812.2	1,169.0	1,486.7	1,262.1	1,050.2
Japan	1,401.1	1,466.6	1,298.9	1,655.0	783.9
Bangladesh	170.3	169.7	218.2	329.2	454.0
UAE	150.2	161.2	306.6	372.1	401.7
Germany	478.4	416.8	407.7	577.3	340.5
United States	137.5	176.8	360.9	224.1	254.7
United Kingdom	90.9	173.0	112.1	220.8	205.6
Sweden	244.2	732.8	260.2	496.6	181.6
Hong Kong	119.4	133.7	179.1	154.6	172.8
Indonesia	78.6	119.9	97.2	56.3	163.8
Qatar	202.9	136.9	147.6	103.7	161.9
Austria	296.0	19.8	41.0	179.0	160.2
Norway	25.0	14.1	78.5	147.3	158.2
Malaysia	64.9	192.4	175.1	48.5	143.6
Italy	314.4	111.4	444.3	181.8	103.8
Switzerland	240.1	72.8	106.8	75.2	91.9
Others[1)]	2,295.8	5,961.2	2,409.0	1,671.7	1,940.2
Total Imports	**56,884.5**	**68,037.3**	**67,359.8**	**66,996.0**	**71,641.6**

*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 23: Outstanding External Loan

End of June

Items	Rupee/Ngultrum Million					USD Million				
	2014/15	2015/16	2016/17	2017/18	2018/19	2014/15	2015/16	2016/17	2017/18	2018/19
1. Convertible Currency Debt	**37055.0**	**41178.5**	**42759.0**	**47990.2**	**49629.3**	**581.2**	**609.0**	**663.2**	**699.8**	**720.1**
Public	37010.2	40502.3	40824.9	45932.9	47643.5	580.5	599.0	633.2	669.8	691.3
World Bank	10542.5	12507.2	13475.7	17058.7	18936.3	165.4	185.0	209.0	248.8	274.8
IFAD	2304.6	2442.7	2276.0	2491.4	2464.5	36.1	36.1	35.3	36.3	35.8
ADB	16523.2	17115.1	17700.5	18997.0	19869.2	259.2	253.1	274.5	277.0	288.3
Govt of Austria	5163.4	4918.1	4315.5	4139.7	3497.2	81.0	72.7	66.9	60.4	50.7
Govt. of Denmark	139.2	48.8	0.0	0.0	0.0	2.2	0.7	0.0	0.0	0.0
JICA	2337.3	2997.5	2593.7	2742.6	2876.3	36.7	44.3	40.2	40.0	41.7
Private	44.8	676.2	1934.1	2057.3	1985.8	0.7	10.0	30.0	30.0	28.8
2. Rupee Debt	**81183.6**	**115393.8**	**118770.1**	**133190.7**	**138409.4**	**1273.4**	**1706.6**	**1842.2**	**1942.3**	**2008.3**
Hydropower debt	73196.3	101677.0	111770.1	119452.8	124432.8	1148.1	1503.7	1733.6	1741.9	1805.5
Chukha	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kurichhu	186.7	0.0	0.0	0.0	0.0	2.9	0.0	0.0	0.0	0.0
Tala	4699.1	3356.5	2013.9	671.3	0.0	73.7	49.6	31.2	9.8	0.0
Punatsangchhu-I	31423.7	42543.7	44543.7	46043.7	46673.7	492.9	629.2	690.9	671.4	677.2
Punatsangchhu-II	20984.3	27487.5	35982.2	39182.2	41804.5	329.1	406.5	558.1	571.4	606.6
Mangdechhu	15902.5	28289.3	29230.3	32706.6	34397.0	249.4	418.4	453.4	476.9	499.1
Nikachhu Project(SBI)				849.1	1557.6				12.4	22.6
Other										0.0
GOI Line of Credit	7000.0	7000.0	7000.0	7000.0	7000.0	109.8	103.5	108.6	102.1	101.6
RBI Swap	0.0	6716.8	0.0	6737.9	6976.6	0.0	99.3	0.0	98.3	101.2
Total (CC + Rupee)	**118238.7**	**156572.3**	**161529.1**	**181180.9**	**188038.7**	**1854.6**	**2315.6**	**2505.4**	**2642.1**	**2728.4**
Convertible Currency Debt										
As a % of Total Debt										
Rupee Debt										
As a % of Total Debt	68.7	73.7	73.5	73.5	73.6	31.3	26.3	26.5	26.5	26.4
Total Loans in % of GDP	**101.6**	**121.8**	**111.3**	**113.5**	**114.2**					
Nominal GDP(Calendar Year)	116388.6	128534.6	145072.9	159571.7	167326.8					
Exchange Rate										
Ngultrum/USD exchange rate	63.8	67.6	64.5	68.6	68.9					

Note: Debt data published by the RMA include the total external debt of the country (public + private) and are therefore not comparable to data published by the Ministry of Finance which covers only public debt. Furthermore, the RMA uses calendar year GDP figures for all ratios to the GDP. Hydropower debt excludes accrued interest.
Source: Department of Public Accounts, Royal Monetary Authority of Bhutan & private sector enterprises.

Table 24: External Debt Indicators

External Debt Indicators	2014/15	2015/16	2016/17	2017/18	2018/19
Total Outstanding (USD millions)	**1,854.6**	**2,315.6**	**2,505.4**	**2,642.1**	**2,728.4**
Convertible Currency (USD millions)	581.2	609.0	663.2	699.8	720.1
Indian Rupee (in millions)	81,183.6	115,393.8	118,770.1	133,190.7	138,409.4
Debt/GDP ratio *					
Total	**101.6**	**121.8**	**111.3**	**113.5**	**112.4**
Convertible Currency loan	31.8	32.0	29.5	30.1	29.7
Indian Rupee loan	69.8	89.8	81.9	83.5	82.7
Debt service ratio ** (including OD)					
Total	**19.8**	**14.5**	**24.8**	**23.4**	**37.1**
Convertible Currency loan	16.6	20.8	16.7	16.0	20.6
Indian Rupee loan	20.7	12.6	27.4	26.4	43.8
Debt service ratio (excluding OD)	19.8	14.5	24.8	23.4	37.1
GDP (Nu in Millions)	116,388.6	128,534.6	145,072.9	159,571.7	167,326.8

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

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

Table 25: Rupee Debt Indicators

Millions of Indian Rupees

	2014/15	2015/16	2016/17	2017/18	2018/19
Total INR Debt Outstanding	**81,183.6**	**115,393.8**	**118,770.1**	**133,190.7**	**138,409.4**
Hydropower Debt	**73,196.3**	**101,677.0**	**111,770.1**	**119,452.8**	**124,432.8**
Kurichhu	186.7	0.0	0.0	0.0	0.0
Tala	4,699.1	3,356.5	2,013.9	671.3	0.0
Punatsangchhu - I	31,423.7	42,543.7	44,543.7	46,043.7	46,673.7
Punatsangchhu - II	20,984.3	27,487.5	35,982.2	39,182.2	41,804.5
Mangdechhu	15,902.5	28,289.3	29,230.3	32,706.6	34,397.0
Nikachhu Project				849.1	1,557.6
Non-hydropower Debt	**7,987.4**	**13,716.8**	**7,000.0**	**13,737.9**	**13,976.6**
GOI Line of Credit	7,000.0	7,000.0	7,000.0	7,000.0	7,000.0
OD Facility	0.0	0.0	0.0	0.0	0.0
RBI SWAP	0.0	6,716.8	0.0	6,737.9	6,976.6
Dungsam Cement Corp Ltd	987.4	0.0	0.0	0.0	0.0
Debt Service Payments	**6,859.0**	**4,127.6**	**9,802.3**	**9,556.0**	**15,858.1**
Principal	4,816.1	2,423.3	8,059.4	7,749.4	14,522.6
Interest	2,042.9	1,704.3	1,742.8	1,806.5	1,335.5
Debt Service Ratio (%)	**20.7**	**12.6**	**27.5**	**26.4**	**44.0**
Interest Payments / Export of Goods & Services (INR)	6.2	5.2	4.9	5.0	3.6
Principal Repayments / Exports of Goods & Services (INR)	14.5	7.4	22.6	21.4	39.4
Debt Outstanding/GDP (%)	**67.9**	**87.4**	**79.9**	**80.9**	**84.1**

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

Table 26: Gross International Reserves

Millions of Indian Rupees

Items	2014/15	2015/16	2016/17	2017/18	2018/19
1. Rupee Reserves (INR in Million)	10,865.9	20,811.9	21,092.4	16,111.2	15,237.5
Royal Monetary Authority of Bhutan	9,826.6	19,017.7	19,433.1	14,534.4	12,924.0
Bank of Bhutan Limited	598.0	830.3	1,075.9	363.2	460.9
Bhutan National Bank Limited	193.9	142.0	212.2	514.6	867.8
T Bank Limited	77.3	175.9	122.4	480.0	630.9
Druk PNB Limited	170.1	645.9	248.8	193.7	342.8
Bhutan Development Bank Limited				25.3	11.1
2. Convertible Currency Reserves (USD in Million)	**788.0**	**811.0**	**776.6**	**876.3**	**843.7**
Royal Monetary Authority of Bhutan (1)	759.4	789.5	748.8	824.3	809.6
Bank of Bhutan Limited	20.3	13.4	11.0	36.2	17.2
Bhutan National Bank Limited	6.9	5.8	7.3	5.03	5.9
T Bank Limited	0.1	0.4	0.9	5.8	4.7
Druk PNB Limited	1.3	1.9	8.7	5.1	4.7
DHI					1.4
3.Total Reserves (USD in Million) (1+2)	**958.5**	**1,118.8**	**1,103.8**	**1,111.3**	**1,064.8**
4. Exchange rates used	**63.8**	**67.62**	**64.5**	**68.6**	**68.92**
5. Months of Merchandise Imports (2)					
Total Reserves	**11.7**	**12.9**	**12.5**	**13.6**	**12.9**
Rupee Reserves	2.6	4.3	4.5	3.4	3.1
Convertible Currency Reserves	51.4	57.1	52.6	72.0	72.5
6. Months of Imports (Merchandise + Services) (2)					
Total Reserves	**9.8**	**10.8**	**10.4**	**11.0**	**10.3**
Rupee Reserves	2.3	3.8	4.0	3.0	2.8
Convertible Currency Reserves	32.5	37.1	32.0	38.2	36.0

(*) Excludes cash in hand of commercial banks.

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

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

10

CHRONOLOGY, GLOSSARY AND ACRONYMS

Chronology and Major Developments

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 registered as micro-Loan Institutions on May 21, 2016.
- Based rate was replaced by the Minimum Lending Rate on August 1, 2016.
- On September 21, 2016, His Excellency, Lyonchhen Dasho Tshering Tobgay launched the Nu1000 Denomination Commemorative Banknote to celebrate the birth of the Gyalsey. On the same day, RemitBhutan was launched to provide Foreign Currency Account facility for Non-Resident Bhutanese and also handed over surplus profit (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 at 31.74 billion on December 2, 2016.
- Approved the Rules and Regulations for Deposit Taking Microfinance Institutions (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 denominated Commemorative Banknote was launched on February 5, 2017 to celebrate the First Birth Anniversary of His Royal Highness The Gyalsey, Jigme Namgyel Wangchuck.
- RemitBhutan was launched in Perth, Australia by the Finance Minister on February 5, 2017.
- Implemented the new Private Money Lending Rules and Regulations on April 1, 2017.
- In collaboration with the Ministry of Labour and Human Resources and Ministry of Finance, the RMA introduced the Overseas Education and Skill Development Scheme on April 7, 2017.
- Signed MoU on Cross Border Supervision with the Reserve Bank of India on April 13, 2017.
- As the inaugural BEFIT event, the International Financial Inclusion Summit on the theme "Equitable Growth through Financial Inclusion" was hosted on May 24-26, 2017.
- Launched the Internet-based Point of Sales at fuel stations in collaboration with the commercial banks and the Department of Trade, Ministry of Economic Affairs (MoEA), on June 15, 2017.
- Signed the MoU on Money Laundering and Terrorist Financing with Bhutan Narcotic Control Agency on July 7, 2017. The MoU on Anti-Money Laundering and Terrorist Financing was also signed with FIU Sri Lanka and FIU Cambodia on July 16 and 19, 2017, respectively.
- Implemented web based Cheque Truncation System on August 15,2017.
- Approved the e-Money Issuer Rules and Regulations during its 130th Board Meeting held on September 29, 2017.
- Opened Currency Exchange Counter at the Paro International Airport on October 9, 2017.
- Launched the RemitBhutan in United Arab Emirates (UAE) and Kuwait respectively on October 19 and 21, 2017.
- Signed the MoU with Myanmar Financial Intelligence Unit concerning cooperation in the exchange of financial intelligence relating to money laundering associated predicate offences and terrorist financing on October 31, 2017.
- Lyonchhen Dasho Tshering Tobgay launched the Guidelines for Priority Sector Lending (PSL) on December 13, 2017.
- His Majesty awarded the prestigious Druk Thuksey Medal to Dasho Penjore and the

RMA during the 110th National Day Celebrations in Haa on December 2017.

2018

- Implemented the Reserve Management Policy with effect from January 01, 2018.
- Implemented the Whistle Blowing (WB) Policy as proposed on December 29, 2017.
- The RMA Board endorsed the adoption of the BAS in Accounting Policy from January 1, 2018.
- Signed a Memorandum of Understanding (MoU) with Royal Bhutan Police and Civil Society Organizations Authority on February 20, 2018.
- Launched Druk MicroFin, an integrated MFI and CSI banking platform, on May 16, 2018.
- Approved the Amended Regulation for establishment of commercial banks and RENEW's proposal for establishment of DMFI (RENEW Microfinance Private Ltd) on May 22, 2018.
- Received the Country Award from the Child Youth Finance International (CYFI) for Regional Winner-Asia & the Pacific and Certificate for the Global Finalist-Asia & the Pacific for Global Money Week 2018 held during the 7th Global Inclusion Awards 2018.
- Implemented Rules and Regulations for Insurance & Reinsurance Companies in Bhutan on July 1, 2018, and the Corporate Governance Rules and Regulations 2018 (CGRR 2018) on July 1, 2018.
- Opened the INR Exchange Counter at the Department of Immigration Office in Phuentsholing on July 6, 2018.
- Signed a Memorandum of Understanding (MoU) with Financial Intelligence Unit (FIU), India, on July 26, 2018, during the 21st Annual Meeting of Asia Pacific Group (APG) in Kathmandu, Nepal.
- Issued the Rules and Regulations for Cottage and Small Industries (CSI) Bank.
- Bhutan Care Credit Microfinance Project was licensed on August 14, 2018 as the 4th MFI.
- Introduced exchange counter at Mongar Regional Office on September 1, 2018.
- Jointly conducted workshop on the Modernization of Monetary Policy Frameworks in Bhutan, India and Nepal on September 10 -11, 2018 in Paro.
- The RMA successfully closed accounts for the financial year 2017/18 and transferred a surplus of Nu 1,550.24 million to the RGoB on October 3, 2018.
- Launched "Jabchor"- a platform to help youth nurture and grow their business ideas through access to equity financing on December 13, 2018.
- The RMA signed a Memorandum of Understanding (MoU) with the Royal Education Council (REC) for financial literacy curriculum integration on December 31, 2018.

2019

- The RMA signed the MoU with Tourism Council of Bhutan (TCB) and the Department of Immigration (DoI), MoHCA, for cooperation in the exchange of information relating to Financial Intelligence on money laundering associated predicate offences and terrorist financing on June 12, 2019.
- Issued license to Microfinance Bhutan Private Limited (MBPL) as a Deposit Taking Microfinance Institution on June 18, 2019.
- The second BEFIT 2019, with the theme of "Catalyzing CSIs to Drive Bhutan's Economic Diversification" was held from 16-18 July, 2019.
- The Royal Securities Exchange of Bhutan (RSEBL) was licensed to operate the first "Bhutan Crowd Funding Portal" by the RMA during BEFIT 2019.
- The Hon'ble Finance Minister, Lyonpo Namgay Tshering launched the e-PEMS and GIFT payment systems on July 22, 2019 in Thimphu.
- His Excellency Shri Narendra Modi, Prime Minister of India, and His Excellency Dr. Lotay Tshering, Prime Minister of Bhutan, jointly launched the RuPay card scheme in Thimphu on August 17, 2019.
- The RMA signed the MoU on Anti-Money Laundering Council with FIU-Philippines and FIU-Malaysia between 18-23 August, 2019 during the APG Annual Meeting 2019 held in Canberra, Australia
- The RMA handed over its highest annual surplus of Nu 3.01 billion for FY 2018/19 to the RGoB on October 11, 2019.

ABBREVIATIONS AND SYMBOLS

AFI Alliance for Financial Inclusion
ARNW Average Return on Net Worth
ATM Automated Teller Machine
AML/CFT Anti-Money Laundering and Combating the Financing of Terrorism

BDBL Bhutan Development Bank Limited
BHP Basochhu Hydropower Plant
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
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)

DCCL Dungsam Cement Corporation Limited
DHI Druk Holding and Investments
DMB Deposit Money Bank
DPNBL Druk PNB Bank Limited
DRC Department of Revenue and Customs
DSPBL Drukyul Securities Broker Private Limited

FATF Financial Action Task Force
FDI Foreign Direct Investment
FI Financial Institution
FIRMA Financial Institutions Ratio Management and Analysis System
FSA Financial Services Act
FY Fiscal Year (July-June)
FYP Five Year Plan

GBRL GIC-Bhutan Re. Limited
GDP Gross Domestic Product
GOI Government of India
GPMS Government Performance Management System
GVA Gross Value Added

ICT Information and Communication Technologies
IIP International Investment Position
IMF International Monetary Fund
INR Indian Rupee
IPO Initial Public Offering

JV Joint Venture

LPG	Liquid Petroleum Gas
M0	Reserve Money
M1	Narrow Money
M2	Broad Money
MFCC	Macroeconomic Framework Coordination Committee
MFCTC	Macroeconomic Framework Coordination Technical Committee
MLR	Minimum Lending Rate
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee
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
ODF	Overdraft Facility
OIN	Other Items Net
PPI	Producer Price Index
PPN	Purchasing Power of Ngultrum
SDR	Special Drawing Rights
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunications
TA	Technical Assistance
WPI	Wholesale Price Index

Statistical Abbreviations and Symbols

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

Note: Discrepancies in the totals are due to rounding.

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