

BHUTAN

Key conditions and challenges

Table 1 2023

Population, million	0.8
GDP, current US\$ billion	2.9
GDP per capita, current US\$	3707.1
International poverty rate (\$2.15) ^a	0.0
Lower middle-income poverty rate (\$3.65) ^a	0.5
Upper middle-income poverty rate (\$6.85) ^a	8.4
Gini index ^a	28.5
School enrollment, primary (% gross) ^b	103.8
Life expectancy at birth, years ^b	71.8
Total GHG emissions (mtCO2e)	-5.2

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2022), 2017 PPPs.
 b/ Most recent WDI value (2021).

Output grew by 4.5 percent in FY22/23 and growth rate is projected to increase in the medium term, due to recovery in industry and services sectors. Fiscal deficit is anticipated to increase in FY23/24 before moderating in the medium term.

Current account deficit is expected to improve with increased hydropower exports, tourism, and reduced crypto equipment imports. In 2022, about 9 percent of the population lived below \$6.85/day but a substantial share of Bhutanese is vulnerable to falling into poverty.

Annual real GDP growth has averaged 7.5 percent since the 1980s, driven by the hydropower sector and in services, including tourism. Rapid economic growth has contributed to poverty reduction over the last two decades. Extreme poverty based on \$2.15/day was eliminated by 2022. Less than one percent of people live on less than \$3.65/day international poverty line and 8.5 percent of people live with less than \$6.85/day. Poverty reduced significantly in the last five years, partly driven by growth in real per capita consumption, social transfers and increases in remittances. Declines were particularly salient in rural areas. Access to food, education, water, and sanitation also improved in the last five years. Inequality, measured by the Gini index, decreased from 37 in 2017 to 28 in 2022. However, vulnerability to shocks and spatial inequalities remain a challenge, with a poverty rate as high as 41 percent in Zhemgang district and as low as 1.5 percent in Thimphu district, while Gini is as high as 0.32 in Zhemgang and as low as 0.24 in Punakha and Thimphu. Sluggish job creation with high youth unemployment rate (15.9 percent in 2023) has prompted an increase in emigration and contributed to a loss of skilled workforce.

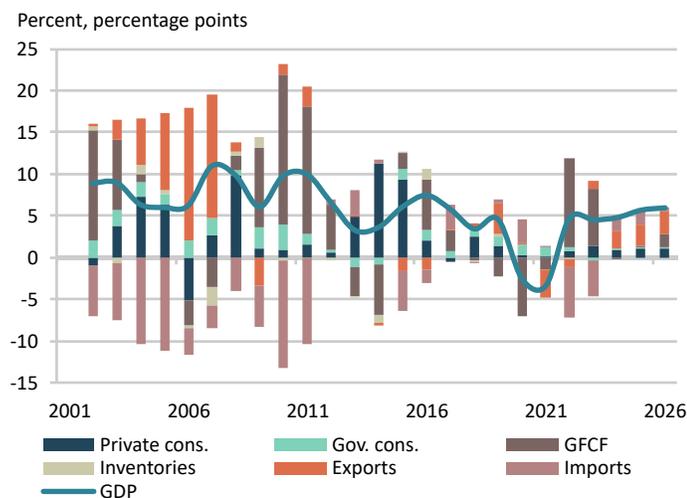
The economy has recovered from the shocks resulting from the pandemic and Russia's invasion of Ukraine. The fiscal deficit declined as pandemic-related relief measures were phased out and capital expenditures decreased. However, a major national investment in cryptocurrency mining resulted in a decline in international reserves and a widening of the current account deficit (CAD) to 34.3 percent of GDP in FY22/23. The government announced plans to establish a Special Economic Zone known as the Gelephu megacity project, aiming to mobilize significant foreign investments.

The downside risks to the economic outlook persist. Delays in hydropower projects could affect fiscal and external balances. Delayed fiscal consolidation and the materialization of financial sector contingent liabilities could further erode fiscal buffers. Rising and volatile commodity prices due to geopolitical tensions could exert further pressure on the external balance. Continued emigration of skilled labor could also weigh on the economy.

Recent developments

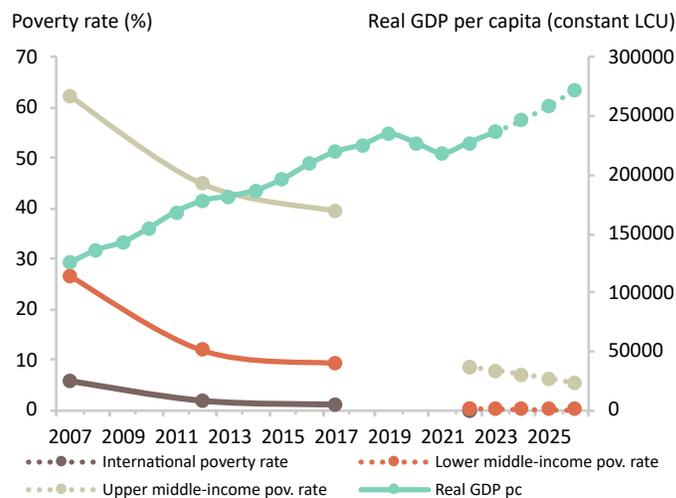
Real GDP is estimated to have grown by 4.5 percent in FY22/23, supported by the reopening of borders for tourism. The industry sector grew by 5.6 percent, driven by construction, mining, and manufacturing activities. The services sector grew by 4.9 percent, supported by transport- and trade-related services.

FIGURE 1 Bhutan / Real GDP growth and contributions to real GDP growth



Sources: National Account Statistics and National Statistics Bureau (NSB).

FIGURE 2 Bhutan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Growth in agriculture has been moderate, primarily due to reduced crop production. Demand side growth was driven by non-hydro goods and services exports and private investment, with potential positive effects on employment and wages.

The headline inflation rose marginally since March 2023 to reach 5.0 percent in December 2023. The pickup was driven by the increase in food prices locally and rising prices in India. This is expected to have negative effects on household consumption, particularly in poor urban households.

The fiscal deficit declined to 4.1 percent of GDP in FY22/23, primarily due to reduced capital spending. Although corporate income taxes, driven by hydro revenues, remained subdued, non-hydro revenues increased, reflecting the gradual recovery of the industrial and services sectors. Capital expenditure remained low in FY22/23 due to frontloading of the 12th Five-Year Plan in FY20/21.

The current account deficit (CAD) widened significantly to 34.3 percent of GDP in FY22/23. Tourist inflow supported export services growth, and imports

declined with the fall in crypto-related IT equipment imports. Hydropower exports declined due to increased domestic consumption, reflecting the higher electricity needs for crypto-mining operations. Gross international reserves stood at US\$533 million as of November 2023.

Outlook

The economy is projected to grow by 4.9 percent in FY23/24, supported by higher growth in tourism. Net trade is expected to improve due to rising services exports and a fall in crypto-related IT equipment imports. Medium-term growth is expected to be supported by the services sectors and the commissioning of the Puna II hydropower plant. The growth is expected to improve household income and create new jobs.

The incidence of poverty is estimated to decrease slightly to 7.8 percent in 2023 based on \$6.85/day. However, a large share of the population will remain vulnerable to falling into poverty.

The fiscal deficit is projected to increase in FY23/24. Current expenditure is expected to increase due to a major salary hike for public sector employees and capital expenditures are likely to remain robust, but close monitoring of the expenditure will keep the fiscal deficit at 5 percent of GDP. The fiscal deficit is expected to decline beyond FY24/25, driven by higher revenue from the Puna II hydropower plant and lower capital expenditure due to declining grants. Public debt is expected to remain elevated at 110.9 percent of GDP in FY23/24.

The CAD improved in the first quarter of FY23/24 and is expected to improve further to 15.7 percent of GDP in FY23/24 driven by a lower trade deficit. Export growth is expected to be driven by hydro exports and services exports fuelled by increased tourist arrivals. Conversely, the import of goods is expected to decrease, primarily due to the decline in imports of crypto IT equipment, which constituted approximately 6 percent of GDP in 2022. International reserves are expected to decline by US\$63 million since FY22/23 to US\$516 million in FY23/24 (3.8 months of import).

TABLE 2 Bhutan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices^a	-3.3	4.8	4.6	4.9	5.7	6.0
Private consumption	0.3	1.5	2.9	2.0	2.2	2.3
Government consumption	5.4	1.9	-1.2	0.5	0.9	1.4
Gross fixed capital investment	-3.4	25.4	13.3	-0.5	0.4	3.2
Exports, goods and services	-10.4	-3.6	3.7	7.7	9.3	9.7
Imports, goods and services	-0.5	13.2	8.9	-4.0	-3.9	-1.0
Real GDP growth, at constant factor prices	-2.3	4.9	4.6	4.9	5.7	6.0
Agriculture	2.7	0.1	0.3	1.7	1.6	1.7
Industry	-5.9	4.8	5.6	5.0	9.1	9.6
Services	-1.2	6.3	5.0	5.6	4.7	4.7
Inflation (consumer price index)	8.2	5.3	4.6	4.9	4.1	4.0
Current account balance (% of GDP)	-11.1	-28.1	-34.3	-15.7	-9.7	-9.6
Fiscal balance (% of GDP)	-5.8	-7.0	-4.1	-5.0	-3.5	-2.2
Revenues (% of GDP)	30.9	25.1	25.2	24.6	25.1	24.1
Debt (% of GDP)	123.3	118.8	116.5	110.9	103.4	112.0
Primary balance (% of GDP)	-4.8	-5.6	-2.4	-3.8	-2.0	-0.3
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	..	0.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	..	0.5	0.4	0.3	0.3	0.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	..	8.4	7.8	7.0	6.3	5.3
GHG emissions growth (mtCO₂e)	0.1	-1.2	-1.5	-1.4	-1.4	-1.4
Energy related GHG emissions (% of total)	-14.6	-15.3	-16.4	-17.3	-18.3	-19.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The GDP estimates in the AM23 MPO reflect the base year 2000. The National Statistics Bureau has recently updated the base year from 2000 to 2017. The SM24 MPO will reflect the rebased NIA estimates for 2017 to 2022.

b/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

c/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.