BHUTAN

Amidst the Middle East conflict, growth reached 7.3 percent in FY25/26, driven by hydropower expansion and public investment, while inflation increased to 5.1 percent. Youth unemployment fell to 13.4 percent in Q2 2026. The fiscal deficit narrowed to 0.4 percent of GDP, but the current account deficit remained elevated. Growth is projected to decelerate to 6.7 percent in FY26/27, with poverty declining and risks stemming from emigration, higher prices, and fiscal pressures.

Population[1]	Poverty[2]
thousand	thousands living on less than $4.20/ day
796.7	3.2
Life expectancy at birth[3]	**School enrollment[4]**
years	primary (% gross)
73.3	114.9
GDP[5]	**GDP per capita[6]**
current US$, billion	current US$
3.5	4431.9

Sources: WDI, MFMod, and official data. 1/ 2025. 2/ 2022 (2021 PPPs). 3/ 2024. 4/ 2024. 5/ 2025. 6/ 2025.

Key conditions and challenges

Despite recent labor market improvements, Bhutan faces youth outmigration driven by limited quality jobs. As of June 2026, emigrants accounted for about 10 percent of the population. Declining fertility rate (1.5 birth per woman) below the replacement rate of 2.1 threatens the long-term workforce sustainability. Regulatory bottlenecks constrain private businesses. The 13th Five-Year Plan (FYP) (FY23/24–FY28/29) and the Gelephu Mindfulness City (GMC) initiative aim to promote private sector growth and job creation.

Robust growth and remittances improved living standards over the past decade, with extreme poverty (US$3.00/day) almost eradicated and the national poverty rate dropping to 12.4 percent in 2022. However, welfare gains remain uneven, with poverty in 2022 ranging from 1.5 percent in Thimphu to 41.4 percent in Zhemgang, and 87 percent of the poor residing in rural areas. Female labor force participation remains substantially below that of men (55.8 percent versus 73.5 percent). Poor households remain vulnerable to food-price shocks, as many rural households depend on climate-sensitive agriculture.

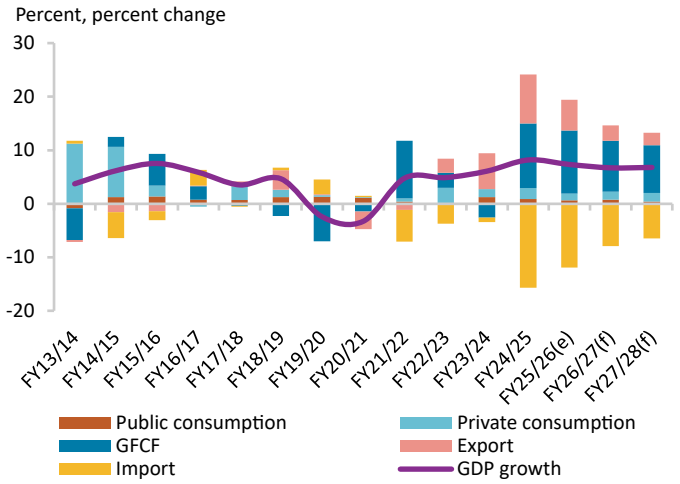
Recent developments

Real GDP grew by 7.3 percent in FY25/26, driven by hydropower expansion and associated investment. The commissioning of Punatsangchhu-II and construction of the Dorjilung and Khorlochhu hydropower projects supported industry growth of 10.5 percent, while higher 13th FYP capital spending and tourism revival supported domestic demand and services. Services sector growth reached 6.4 percent, although tourism arrivals remained below pre-pandemic levels.

Unemployment declined from 3.4 percent to 2.7 percent and youth unemployment from 16.5 percent to 13.4 percent between Q1 and Q2 2026, although youth unemployment remained elevated. Real labor earnings remained broadly unchanged since 2024, highlighting challenges in generating well-paying jobs. Earnings disparities persisted, with women earning about 81 percent of males.

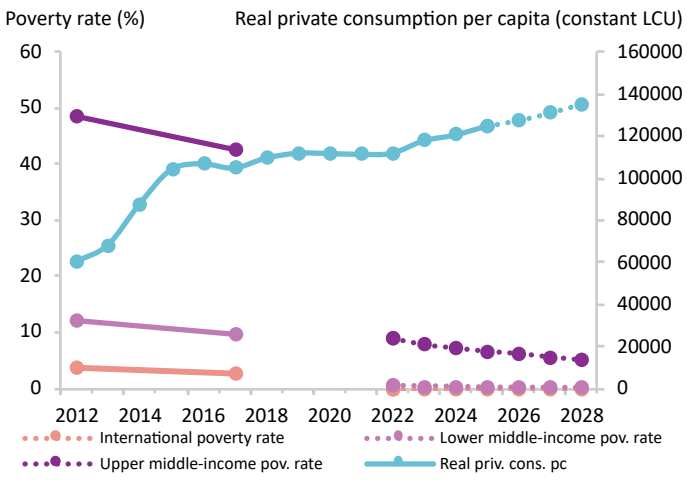
Inflation increased to 5.1 percent in FY25/26 due to higher fuel prices, initial adjustment to the Goods and Services Tax implementation, and currency depreciation. The Government has provided

FIGURE 1 / Real GDP growth and demand-side contributions to real GDP growth



Source: National Account Statistics, National Statistics Bureau (NSB).

FIGURE 2 / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

fuel price support by maintaining an upper price ceiling through the National Fuel Price Smoothening Mechanism introduced in March 2026 to mitigate inflationary pressures.

The financial sector remains resilient but faces risks from elevated non-performing loans (NPLs), constraining credit intermediation. The reported NPL ratio, including write-offs, stood at 7.7 percent in June 2026. Structural weaknesses in the enabling environment for NPL resolution delay balance-sheet cleanup. With forbearance measures now expired, asset quality pressures may intensify, potentially increasing reported NPLs.

The fiscal deficit narrowed to 0.4 percent of GDP in FY25/26, due to higher hydropower dividends, external grants and lower capital expenditure. Public debt reached 112.5 percent of GDP, driven by hydropower financing. Most of the public debt is linked to hydropower project loans with risk mitigating measures. The current account deficit widened to 20.1 percent of GDP, as imports of hydropower and data center related investments outpaced export growth. International reserves increased to US$1.2 billion (6.6 months of FY25/26 imports) supported by increased external grants and remittance inflow.

Outlook

Real GDP growth is projected to decelerate to 6.7 percent in FY26/27, reflecting moderation in electricity generation growth and rising costs from the Middle East conflict. Services growth is expected to moderate, due to the impact of higher fuel prices on transport and communication sub-sectors. Industrial growth is expected to remain strong, supported by hydropower construction. Headline inflation is projected to rise to 6.0 percent in FY26/27, driven by higher food and energy prices, before easing in FY27/28.

The fiscal deficit is projected to widen to 5.4 percent of GDP in FY26/27, reflecting higher 13th FYP investments. Corporate and personal income tax rate cuts are expected to lower tax revenues from 15.6 percent of GDP in FY26/27 to around 11.6 percent in the medium term, narrowing the available fiscal space. Public debt is projected to stabilize around 109.6 percent of GDP. The current account deficit is expected to widen to 23.5 percent of GDP in FY26/27 with higher machinery and construction materials imports. With higher foreign direct investment, external loans and grants inflows, international reserves are projected at US$1.1 billion in FY26/27 (5.1 months of total imports).

The share of the population living below the US$8.30-a-day poverty line is projected to decline to 6.2 percent in 2026 and further to 5.1 percent in 2028 on continued growth in real consumption per capita. However, gains remain fragile as remittance inflows are projected to moderate in 2026, potentially weakening consumption among remittance-dependent households. Rural livelihoods remain exposed to climate shocks and price increases of fertilizers and other agricultural inputs, which could adversely impact agricultural production, farm incomes, and food prices. Continued outmigration of young and skilled professionals could weaken human capital accumulation and constrain growth, affecting the pace of poverty reduction.

Key domestic risks include hydropower project delays, weaker-than-expected tax revenues, and materialization of contingent liabilities in the financial sector. External risks stem from escalation of the Middle East conflict, which could raise fuel and transport costs, increase imported inflation, and worsen the current account position, alongside climate hazards. Managing economic spillovers between the GMC and the rest of Bhutan could help reduce the economy's exposure to GMC-related risks. The GMC is also expected to generate private sector opportunities.

Recent history and projections	2022/23	2023/24	2024/25	2025/26e	2026/27f	2027/28f
Real GDP growth, at constant market prices	4.9	6.1	8.2	7.3	6.7	6.8
Private consumption	6.1	3.0	4.2	2.7	3.4	3.7
Government consumption	-0.5	6.0	4.3	3.4	3.9	2.3
Gross fixed capital investment	5.5	-4.8	26.4	22.0	15.6	13.6
Exports, goods and services	9.8	24.2	28.1	14.9	7.0	5.6
Imports, goods and services	7.5	1.7	32.9	20.3	12.1	9.4
Real GDP growth, at constant factor prices	4.7	5.9	8.0	7.3	6.7	6.8
Agriculture	0.1	2.6	2.8	2.6	2.9	2.8
Industry	2.3	4.5	13.1	10.5	10.1	11.4
Services	7.3	7.5	6.2	6.4	5.4	4.7
Inflation (consumer price index)	3.8	2.1	2.6	5.1	6.0	5.0
Current account balance (% of GDP)	-33.9	-20.1	-17.4	-20.1	-23.5	-24.6
Net foreign direct investment inflow (% of GDP)	-0.4	-0.1	-3.1	-3.0	-3.2	-3.5
Fiscal balance (% of GDP)	-4.7	-0.2	-2.6	-0.4	-5.4	-6.6
Revenues (% of GDP)	25.3	26.1	27.2	30.5	27.7	25.9
Debt (% of GDP)	125.5	114.9	112.7	112.5	109.6	111.3
Primary balance (% of GDP)	-4.1	0.6	-1.7	-0.2	-5.1	-4.9
International poverty rate ($3.00 in 2021 PPP)[1,2]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($4.20 in 2021 PPP)[1,2]	0.4	0.3	0.2	0.2	0.2	0.2
Upper middle-income poverty rate ($8.30 in 2021 PPP)[1,2]	7.8	7.2	6.6	6.2	5.6	5.1
GHG emissions growth (mtCO2e)	-2.4	-2.5	-4.3	-3.9	-2.9	-2.9

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Fiscal year is from July 1 to June 30 of next year. Data in annual percent change unless indicated otherwise.
1/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023-2025. Forecasts are from 2026 to 2028.
2/ Projection using neutral distribution (2022) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.