

ROYAL MONETARY AUTHORITY OF BHUTAN



ANNUAL REPORT 2003/2004

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PREFACE

This Report is published by the Research and Statistics Division of the Royal Monetary Authority of Bhutan. The Report reviews developments that have taken place in the Bhutanese economy during the FY 2003/2004. Nevertheless, some important events, which have occurred in the more recent past, have also been covered. Commentaries on the domestic economy are based on information provided by government authorities, financial institutions, and other private sector sources. Comprehensive background data are available in the statistical section, while the annexes provide additional detailed and updated information on Bhutan's financial institutions and the power sector. An overview of events in the global economy and possible future developments is presented on the basis of the IMF World Economic Outlook, September 2004. The annual accounts of the RMA are published in accordance with the requirements stipulated in the RMA Act of 1982.

Introduced from the last Annual Report 2002/2003 was the review of developments in the financial sector during the most recent calendar year, as evaluated by the FIRD of the RMA.

New to this edition of the Annual Report is the reporting of non-sovereign commercial external debt, after Bhutan became a member of the IFC. The newly revised Consumer Price Index and the Thimphu Food Price Index of the NSB are also featured in this Report. Kindly refer to the end of the Report for a list of all articles published, so far, by the RMA.

It is also important to mention that, effective from July 1, 2004, in a restructuring exercise, changes in the RMA's organization were implemented with the creation of 2 Departments and 2 new Divisions. These developments have been outlined in detail in *Annex I*. Please refer to the organization chart on page 4 for a comprehensive overview.

All views expressed in this Report are those of the RMA and do not necessarily represent those of the sources of data.

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

BOARD OF DIRECTORS

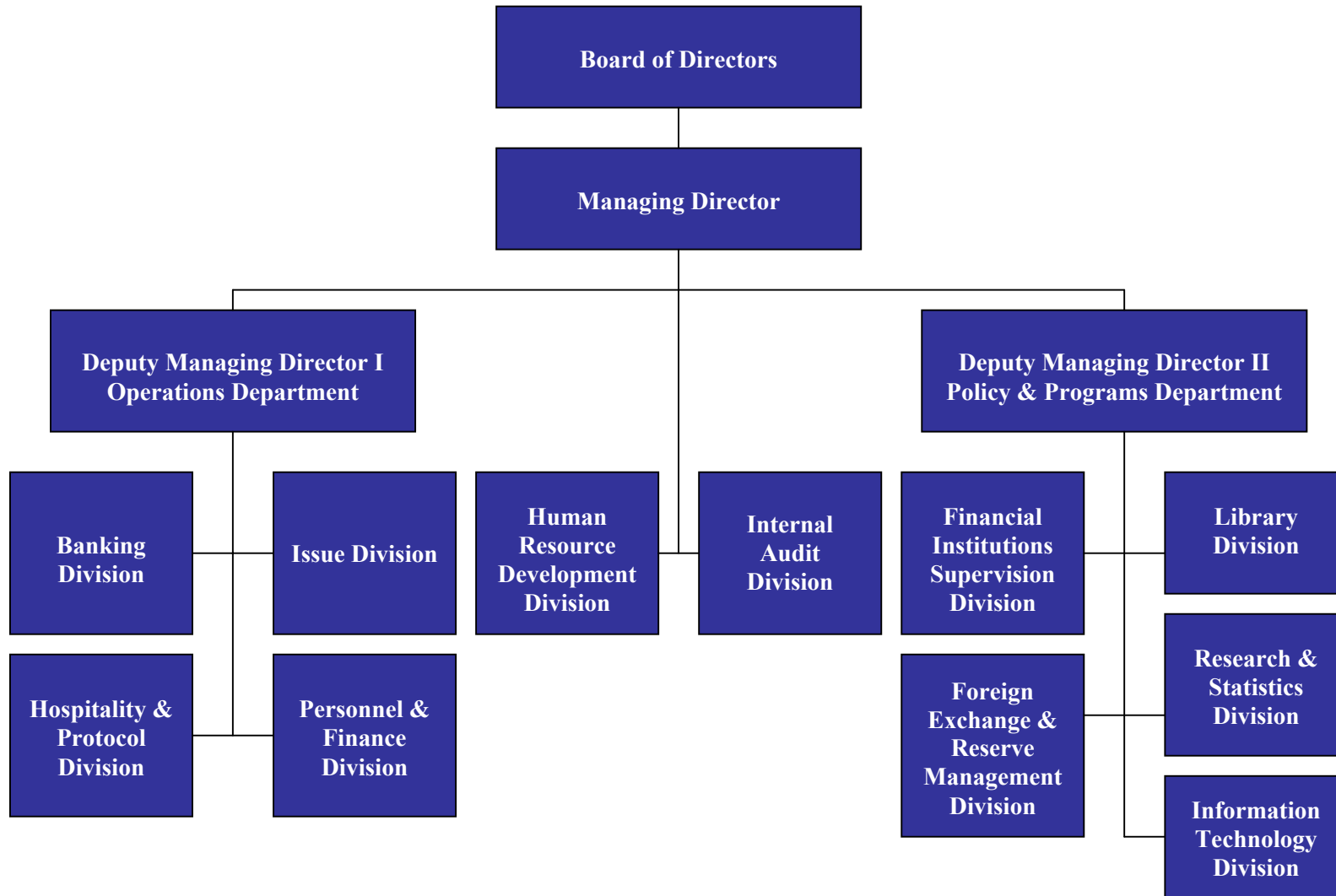
H.E. Lyonpo Wangdi Norbu Minister Ministry of Finance	Chairman
Aum Yangki T. Wangchuk Secretary Ministry of Finance	Vice-Chairman
Dasho Karma Dorjee Secretary Ministry of Trade, Industries & Power	Director
Mr. Sonam Wangchuk Director Department of Budget & Accounts Ministry of Finance	Director
Mr. Daw Tenzin Managing Director Royal Monetary Authority	Member Secretary
Mr. Dechen Tshering Deputy Managing Director I Operations Department Royal Monetary Authority	Observer
Mr. Penjore Deputy Managing Director II Policy & Programs Department Royal Monetary Authority	Observer

MANAGEMENT*

- | | |
|--|--------------------|
| 1. Managing Director | Daw Tenzin |
| 2. Deputy Managing Director I
Operations Department | Dechen Tshering |
| 3. Deputy Managing Director II
Policy & Programs Department | Penjore |
| 4. Head, Banking Division | Pushpa Lal Chettri |
| 5. Head, Financial Institutions Supervision Division | Eden Dema |
| 6. Head, Foreign Exchange & Reserve Management Division | Pema Tshering |
| 7. Head, Hospitality & Protocol Division | Phub Dorji Tangbi |
| 8. Head, Human Resource Development Division | Julien Gurung |
| 9. Head, Information Technology Division | Roshan Sharma |
| 10. Head, Internal Audit Division | Tshering Dorjee |
| 11. Head, Issue Division | Namgay Tshering |
| 12. Head, Library Division | Chimme Dorji |
| 13. Head, Personnel & Finance Division | J.N. Pradhan |
| 14. Head, Research & Statistics Division | Rinzin Lhamu |

*) With effect from July 1, 2004.

ORGANIZATION CHART OF THE RMA



ABBREVIATIONS AND SYMBOLS

General Abbreviations

ACU	Asian Clearing Union
ADB	Asian Development Bank
ATM	Automated Teller Machine
AWP	Army Welfare Project
BAIL	Bhutan Agro Industries Limited
BBCL	Bhutan Beverages Company Limited
BBPL	Bhutan Board Products Limited
BCCI	Bhutan Chamber of Commerce and Industry
BCCL	Bhutan Carbide and Chemicals Limited
BDFC	Bhutan Development Finance Corporation
BDL	Bhutan Dairy Limited
BEVL	Bhutan Eco Ventures Limited
BFAL	Bhutan Ferro Alloys Limited
BFPL	Bhutan Fruit Products Limited
BIMST-EC	Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation
BIT	Business Income Tax
BNB	Bhutan National Bank
BOB	Bank of Bhutan
BOP	Balance of Payments
BPC	Bhutan Power Corporation
BPCL	Bhutan Polythene Company Limited
BRCL	Bhutan Resorts Corporation Limited
BST	Bhutan Sales Tax
BTCL	Bhutan Tourism Corporation Limited
CAR	Capital Adequacy Ratio
CHPCL	Chukha Hydro Power Corporation Limited
CIB	Credit Information Bureau
CIT	Corporate Income Tax
COTI	Countries Other Than India
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
DACL	Druk Air Corporation Limited
DPCL	Druk Plaster and Chemicals Limited
DPOP	Druk Plaster of Paris
DPR	Detailed Project Report
DRC	Department of Revenue and Customs
DSCL	Druk Satair Corporation Limited
DSML	Druk Stones and Mining Limited

EBCC	Eastern Bhutan Coal Company
EDP	Entrepreneurial Development Program
EFIC	Export Finance and Insurance Corporation
FDI	Foreign Direct Investment
FI	Financial Institution
FISD	Financial Institutions Supervision Division (RMA)
FSA	Financial Services Act
FY	Fiscal Year (July-June)
GDP	Gross Domestic Product
GEPF	Government Employees Provident Fund
GOI	Government of India
IAIS	International Association of Insurance Supervisors
IDA	International Development Association (World Bank)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFS	International Financial Statistics, IMF
IMF	International Monetary Fund
IPOs	Initial Public Offers
KFAED	Kuwait Fund for Arab and Economic Development
KHPCL	Kurichhu Hydro Power Corporation Limited
M0	Reserve Money
M1	Narrow Money
M2	Broad Money
MOU	Memorandum of Understanding
MTI	Ministry of Trade and Industry
NBFI	Non Bank Financial Institution
NFA	Net Foreign Assets
NPA	Non Performing Assets
NPL	Non Performing Loans
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese
NSB	National Statistical Bureau
OIN	Other Items Net
PCAL	Penden Cement Authority Limited
PIT	Personal Income Tax
PR 2002	Prudential Regulations 2002
QM	Quasi Money
RGOB	Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority of Bhutan

RSEB	Royal Securities Exchange of Bhutan
SAARC	South Asian Association for Regional Cooperation
SAARCFINANCE	Network of SAARC Central Bank Governors and Finance Secretaries
SAFTA	South Asian Free Trade Agreement
SBI	State Bank of India
SEDF	South Asia Enterprise Development Facility
SME	Small and Medium Scale Enterprise
STCB	State Trading Corporation of Bhutan
SWIFT	Society for Worldwide International Financial Telecommunications
THPA	Tala Hydroelectric Project Authority
TPI	Thimphu Food Price Index
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
WTO	World Trade Organization

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
+	fiscal year, July-June

Discrepancies in the totals are due to rounding

EXECUTIVE SUMMARY

With positive regional and global economic recovery and growth, the FY 2003/2004 was also a period for numerous forward developments in the Bhutanese economy. Under the visionary leadership of His Majesty the King, Bhutan's sovereignty and security were strengthened, following successful military action on foreign insurgents in the country at the end of 2003. Bhutan is now geared for a new era of economic development, as the domestic economy continues to grow and new external partnerships increase Bhutan's access to markets and provide new opportunities at regional and international levels.

In Bhutan, real GDP growth was estimated at 6.5 percent in 2003, driven by the performance of the construction sector, followed by the agriculture, and transport, storage, and communications sectors. Meanwhile, inflation fell to 1.2 percent during the first half of 2004. Current and future price movements are, however, expected to be higher, following revisions implemented in the commodity basket and the calculation of the index weights, introduced by the NSB in September 2004. And according to the IMF, inflation in Bhutan is strongly anticipated to grow by 3 and 4 percent in 2004 and 2005, respectively,¹ while they project GDP in Bhutan to grow by 7.3 and 7.6 percent in 2004 and 2005, respectively.

During 2003/2004, the economy experienced moderate monetary expansion in comparison to the past, with money supply (M2) growing by 4.1 percent against 29.7 percent as of 2002/2003. The slower growth in M2 can be attributed to the weak growth of the major components of money supply. On the component side, narrow money supply (M1) recorded a lower growth rate of 13.9 percent, whereas, quasi money decreased by 4.9 percent. Simultaneously, on the counterpart side, a considerable decline in the growth of NFA to negative 6.1 percent during 2003/2004 from 22 percent in the previous period also contributed to the monetary slowdown. Meanwhile, domestic credit increased by 12.5 percent to Nu.4.3 billion, of which credit to the private sector grew by 30.1 percent compared to 35.7 percent in the last fiscal year.

Among the highlights from the first half of the year, the NPPF's member housing loan scheme at 10 percent interest, sparked significant developments in the financial sector, with the BNB reducing its interest rates on housing loan schemes, encouraging other FIs to follow suit. During the course of the year the BNB also diversified basic banking services to introduce ATM and Gold Visa International Credit Card facilities.

Bhutan's economic development is largely dependent on the establishment of an efficient, and competitive financial system that is capable of supporting and sustaining the growth of the private sector. One of the reasons identified for the slow development in Bhutan's financial sector has been the lack of adequate development of the private sector². However, Bhutan's private sector has long been impeded by the lack of educated entrepreneurs, combined with high cost structures arising from

¹ Note that price movements in Bhutan are closely linked to price movements in India. As per the RBI WPI, inflation in India grew by 5.6 percent during the second half of 2003/2004.

² ADB TA NO.3687-BHU: Financial Sector Review, 2002.

Bhutan's rough and inaccessible geographical terrain, and resulting in considerable imports of consumer and capital goods from India and other countries. Guided by the RMA, efforts are continuously being made to support and shape the role of the financial sector in overall economic development, as Bhutan's financial sector gradually evolves to meet the needs of the economy.

As part of its developmental role in the financial system, the RMA, in cooperation with the SEDF, organized a training programme this year to improve the lending capacity of Bhutanese FIs to SMEs, supporting the growth of this small, but key sector. The RMA also held several workshops and meetings with FIs to review and revise provisions in the Prudential Regulations 2002, and to step-up efforts in the establishment of a Credit Information Bureau by appointing a Task Force. Moreover, during the first quarter of 2005, the RMA plans to establish clearing houses in Paro and Mongar to facilitate the operations of new and existing bank branches.

The drafting of the FSA is also being carried out by the RMA and will replace the FIA 1992. When completed in 2005, the FSA is expected to encompass all stipulations relating to the provision of financial services in Bhutan. As a result, the FSA will contribute to effective supervision and management of financial sector activities. This is especially critical now as Bhutan gradually opens its services sector to FDI.

And as regulatory and supervisory branch of the RMA, the FIRD continued to provide core supervisory functions, and conducted regular on-site and off-site examinations during the year. As per their findings, the financial sector continued to perform well in 2003, with FIs achieving an asset growth of 7 percent to Nu.20 billion. Of the FIs, the assets of the two commercial banks grew by more than 5 percent, while those of the two NBFIs achieved a growth of around 18 percent. The overall financial sector NPL ratio was 13 percent for the year 2003.

In terms of credit activities, the growth in domestic credit signaled good progress and remained positive, while out of total loan repayments, only 5 percent were classified under the doubtful and loss categories. Meanwhile, the capitalization of the FIs continued to improve, as the total capital base of the institutions achieved a growth of 36 percent to Nu.2.3 billion from Nu.1.7 billion at the end of 2002. This can be attributed to prudent regulatory policies, which were introduced to raise the minimum paid-up capital of both the banks and NBFIs. Supplementing this policy, the RMA also made it mandatory to transfer at least 20 percent of profits after tax to the general reserve, which forms part of the capital base. The overall financial sector capital to asset ratio increased from about 9 percent in 2002 to 12 percent at the end of 2003. As a result, against the minimum regulatory requirement of 8 percent, the CAR of the FIs stood within the range of 16.7 percent to 43.4 percent.

Investments in equities remained sluggish due to the slow performance of the capital market. Nonetheless, during 2003 the BBCL registered as the 15th company listed on the RSEB, and pushed total capitalization to Nu.3.5 billion and shareholder count to 15,867.

Though the RGOB followed through with cautious fiscal policy management, substantial growth in domestic revenue and grant inflows enabled to reduce the

overall budget deficit by 35.6 percent from Nu.2,891 million to Nu.1,861.1 million³. Total resources, both domestic and external, increased by 50.5 percent, of which tax revenues improved by 14 percent over the last year, and foreign grants by about 96.4 percent. On the other hand, of total expenditure incurred, both capital and current expenditures grew by 25.5 percent, and capital expenditure accounted for 55.4 percent of total expenditure. Moreover, as per the budget estimates, 60.5 percent of the overall deficit, or Nu.1,125.8 million, were financed through external borrowings, and the remainder through domestic borrowings.

In spite of the July 2004 National Assembly ruling to reduce PIT by 40 percent, national budget estimates for 2004/2005 still anticipate an increase in domestic revenue by 13.2 percent, with most of its growth to accrue from the non-tax sector. The overall budget deficit is projected to grow by roughly 22 percent to Nu.2.3 billion, representing 6.3 percent of projected GDP, and of which 60.7 percent will be financed by external borrowings.

By the end of 2003/2004, Bhutan's external debt grew by 30.5 percent to USD 529.2 million, and debt service remains manageable at 4.1 percent of the total export of goods and services (down from 5 percent as of 2002/2003). On the whole, Bhutan continues to enjoy the goodwill and assistance of its foreign development partners for the implementation of major power projects and other capital investment projects in the social sectors. Notably, after Bhutan's membership to the IFC in December 2003, Bhutan's external debt portfolio has now been expanded to include commercial non-sovereign debt from the private sector. The IFC made disbursements amounting to USD 8 million during 2003/2004 towards the development of Bhutan's tourism sector.

In September 2003, the RGOB and the GOI signed a Memorandum of Understanding for the execution of a detailed project report on yet another proposed mega power project, the 870 MW Punatsangchu hydroelectric project. In other developments, the THPA announced that the completion of the project will be delayed by 6 months, pushing its scheduled commissioning to March 2006. On the other hand, the Lower Stage Basochu project was completed a week before schedule and began operations in September 2004, adding to the country's domestic power supply another 40 MW.

Since the 8th Five Year Plan, the RGOB has identified the development of the private sector as a priority area, with the aim of stimulating economic growth. In the last decade, however, liberalizing public sector enterprises, and government incentives in the form of tax and tariff exemptions, have not yet resulted in the desired effect of boosting growth of the private sector with regard to overall GDP, diversification of revenue, or employment generation. Now as the RGOB continues in its accession process to the WTO⁴, with other memberships to regional economic cooperation groups, such as SAFTA and BIMST-EC⁵, Bhutan has the opportunity to benefit from increased market access for exports and FDI, especially in the service sector.

³ Source: National budget estimates as of April 2004 from the Ministry of Finance.

⁴ Bhutan's First Working Party Meeting was held in Geneva in November 2004.

⁵ In early 2004, Bhutan became a member of the South Asian Free Trade Agreement (SAFTA), and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMST-EC). These partnerships are aimed at improving Bhutan's access to prevailing and new markets, in addition to targeting potential FDI with the planned tariff reductions and the promotion of an enabling economic environment in the sub-region.

In line with the policy initiatives to promote private sector growth, the MTI is currently redrafting its FDI regulations to create a more comprehensive legal framework and to increase the transparency of Government policies related to foreign trade issues. During the FY 2003/2004, the RGOB also stepped up policy measures to stimulate private sector activities by allocating land at the Pasakha industrial estate, a long awaited project that will be the RGOB's largest endeavor yet to promote private enterprise. Other support included facilitating the purchase of 2 new Airbus aircraft for the DACL, a budget allocation towards the establishment of the Hotel and Tourism Management Training Institute, and other infrastructural projects aimed at improving domestic electricity supply, telecommunications, and road networks. Similarly, the RMA commenced the revision of Bhutan's Foreign Exchange Regulations 1997, expanding the legislation to cover all current and capital account transactions. The latter policy document is scheduled for completion by mid-2005.

Looking at Bhutan's BOP, at the end of 2003/2004, substantial inflows of grant and concessional loan receipts helped to counter trade and other invisibles account deficits to result in an overall balance of Nu.373 million. Despite better export performance in both trade and services, it was the growth in current transfer receipts which contributed to the current account surplus of Nu.2,220.3 million at the end of 2003/2004. Fortunately, 2003/2004 was a year free of any major global crisis after SARS, and this helped improve the performance of the tourism sector in the country. 6,873 tourists visited Bhutan during 2003/2004, while convertible currency earnings surged to USD 9.2 million from USD 8.4 million as of 2002/2003. The importance of this industry remains evident by the fact that tourism was also the government's second largest source of revenue, contributing Nu.152 million during 2003/2004, after the CHPCL with Nu.1.9 billion⁶.

Corresponding to the growth in Bhutan's BOP, gross international reserves grew by 2.7 percent to USD 383.1 million, which is sufficient to finance 19 months of imports. Bhutan also continued to benefit from stable macroeconomic conditions in India when the Ngultrum, in tandem with the Indian Rupee, appreciated by 2.7 percent against the US Dollar between June 2003 and June 2004. Expanding foreign exchange reserves, reflecting large capital inflows and sustained current account expansion in India's BOP, have contributed to the growing strength of the Indian Rupee.

As in the past, the RMA actively participated in major policy matters of the RGOB and represented Bhutan at various international fora, including the Annual Meeting of the ADB, ACU, and IMF-World Bank Meetings. In addition, during 2003/2004, the RMA experienced significant institutional changes, when it conducted a major internal restructuring, commensurate with the requirements of an effective central bank. With effect from July 1, 2004, the RMA now has 2 Departments within the organization, headed by 2 Deputy Managing Directors. These developments have not only promoted institutional capacity-building, but emphasized the importance of sound macro-economic policy management at the central bank level. Major organizational plans in the pipeline include the creation of a Legal Division, introduction of merit-based promotions, and drafting of an Internal Audit Charter. Works on the development of an Integrated Central Banking System, and a switch to the SWIFT banking system, are also scheduled for commencement in early 2005.

⁶ Source: National Revenue Report 2003-2004, Department of Revenue and Customs.

As central bank, the primary responsibility of the RMA is to ensure monetary and financial stability in the country, and consequently monetary policy tools have been further strengthened, as part of the ongoing development of its monetary policy framework. Meanwhile, on the currency front, given the significance of maintaining the exchange rate regime peg with the Indian Rupee, the RMA streamlined and enhanced its planning process to determine and maintain an adequate supply of national currency for circulation. As at the end of 2003/2004, new currency notes amounting to Nu.593.3.million were issued during the year, as compared to Nu.694.2 million in 2002/2003. In connection with currency management, while cases of counterfeit notes are generally negligible in Bhutan, the RMA took a pro-active stance during the year and launched anti-counterfeiting measures, consisting of improved security features on new currency notes, public media awareness campaigns, and closer collaboration with the banks and the Royal Bhutan Police. Other measures to be adopted consist of public information kits and training organized for the FIs.

Meanwhile, the revision of the RMA Act of 1982 is currently in progress and is expected to be completed in 2005. The new Act will provide the RMA with clear powers that will enable it to effectively carry out its responsibilities in support of the efforts of the RGOB, and to enhance financial sector development in Bhutan.

KEY ECONOMIC INDICATORS (+)

Item	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
Population Growth Rate (a), (b)	-	-	3.1	2.4	1.3
Unemployment Rate (a), (b)	-	-	-	-	2.9
Per Capita Income (USD) (a), (b)	-	450.9	499.7	545.2	623.7
GDP Growth and Prices (percent change)					
Real GDP at Factor Cost (a)	7.7	5.5	7.1	6.7	6.5
Consumer Prices (c)	3.6	3.6	2.7	1.8	1.2
Wholesale Prices (India) (d)	5.3	6.6	1.7	5.7	5.6
Government Budget (in millions of Nu.) (e)					
Total Revenue & Grants	7859.5	8686.7	8826.7	7054.3	10618.5
Of which: Foreign Grants	3274.1	3711.0	3748.5	2269.1	4456.2
Total Expenditure and Net Lending	8624.1	11177.6	10052.1	9945.3	12479.6
Current Balance	883.3	540.1	610.3	204.4	593.2
Overall Balance	-764.5	-2490.9	-1225.4	-2891.0	-1861.1
Money and Credit (percent change, end of period)					
Broad Money, M2	21.4	5.5	17.6	29.7	4.1
Credit to Private Sector	4.1	48.3	29.3	35.7	30.1
Interest Rates (end of period)					
One Year Deposits	9-10	9-10	9.0	7.0	6.0
Lending Rate	12-16	12-16	12-16	12-16	10-16
91-day RMA Bills	7.3	6.9	4.7	3.5	3.5
Balance of Payments (in millions of Nu.)					
Trade Balance	-3087.3	-3259.1	-3995.5	-3681.0	-3996.0
With India	-1354.5	-1854.3	-2288.3	-3111.3	-3020.7
Current Account Balance	1049.6	343.5	-652.2	2467.5	2220.3
(In percent of GDP)	5.7	1.6	-2.7	8.9	7.0
With India	1537.5	448.6	-154.5	2478.9	2027.6
(In percent of GDP)	8.3	2.1	-0.6	8.9	6.4
Foreign Aid	1793.6	2310.0	2846.2	4527.5	4934.6
Of which: India	1572.5	1707.9	1863.2	3116.0	3258.6
Errors and Omissions	-1310.1	-1535.9	-1052.6	-4511.5	-7302.2
Overall Balance	1533.1	236.2	1242.7	2601.4	373.0
(In percent of GDP)	8.3	1.1	5.1	9.4	1.2
External Indicators (end of period)					
Gross Official Reserves in Millions of USD	291.1	292.6	315.3	373.0	383.1
(In months of imports)	19.3	21.0	20.6	23.0	18.8
External Debt (percent of GDP)	40.9	51.5	57.9	70.0	75.4
Debt-Service Ratio (f)	4.9	4.7	4.9	5.0	4.1

Item	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
Memorandum Items:					
Nominal GDP (in millions of Nu.)	18540.5	21327.8	24317.0	27779.0	31884.0
Ngultrum per USD (period average)	43.6	46.4	48.2	47.9	45.4
Money Supply, M2 (end of period)	8930.5	9419.8	11076.9	14370.0	14966.0
Money Supply, M1 (end of period)	3691.7	4477.9	5019.5	6908.7	7870.7
Counterparts					
Foreign Assets (Net)	13248.3	12788.9	14348.5	17508.0	16448.2
Domestic Credit	752.1	2017.9	2280.5	3815.0	4292.3
Claims on Private Sector	1360.0	2016.6	2607.0	3536.6	4599.5
Components					
Currency Outside Banks	1119.4	1483.1	1600.2	1699.0	2015.2
Demand Deposits	2474.8	2889.7	3313.6	5094.7	5721.7
Quasi-Money	5238.9	4942.0	6057.5	7461.3	7095.3
Reserve Money , M0, of which	4950.9	4710.9	6023.0	8123.0	9503.9
Currency Issued	1119.4	1483.1	1600.2	1699.0	2015.2
Banks' Deposits	3686.0	3045.3	4222.9	6242.9	7261.7
Money Multiplier (M2/M0)	1.8	2.0	1.8	1.8	1.6
Income Velocity (GDP/M2)	2.1	2.3	2.2	1.9	2.1

a) On a calendar year basis, e.g., the entry under 2000/01 is for 2000. - b) Source: NSB. - c) This still refers to the old CPI (average of the second half of the fiscal year) of the NSB with the 1979 base year, since rates of change (year-to-year) for the newly introduced quarterly CPI (Q3, 2003 = 100) are not available prior to the third quarter of 2004. - d) June. Source: Reserve Bank of India. Wholesale Price Index of All Commodities, Base 1993-94 = 100. Half-yearly averages. - e) Data for 2003/04 is as of April 2004. - f) Debt service payments in percent of exports of goods and services.

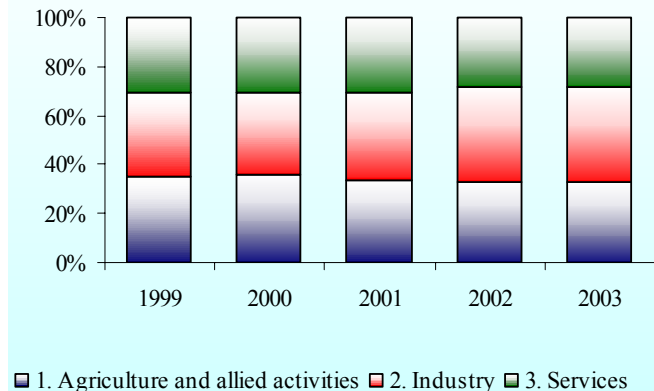
I. SECTORAL DEVELOPMENTS

1. DOMESTIC ECONOMY

This section provides an overview of economic developments in Bhutan during 2003/2004. The economic prospects for that year are indicated on the basis of data provided by the NSB.

As per the NSB, GDP growth fell to 6.5 percent in 2003, from 6.7 percent in 2002, mainly due to a slowdown in the growth of the electricity and construction sectors, as compared to the high base of the previous year. Nevertheless, the construction sector was the main contributor to the growth, followed by agriculture (by virtue of being the largest sector), and by transport, storage, and communications, to mention the leading three. Composition-wise, industry (which includes mining and quarrying, manufacturing, electricity, and construction) accounted for 38.9 percent, followed by the agricultural sector, which accounted for 32.7 percent. The services sector (wholesale and retail trade; restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; and community, social and personal services) accounted for the remaining 28.4 percent.

Graph 1.1: Sectoral Composition of GDP



1.1. Agriculture, Animal Husbandry, and Forestry

In the agricultural sector, consisting of the agriculture proper, livestock production, and forestry and logging, the declining trend that started since 1999 was reversed in 2003 where there was a growth of 4 percent, as compared to 2.6 percent in the previous year. This positive development reflects improvements in all the components of the sector. The agriculture proper (consisting of principal crops, such as maize, rice, wheat, and major cash crops, such as apples, oranges, potatoes, ginger, and cardamom) grew at 4.2 percent, as compared to 2.6 percent in the previous year. The annual growth of livestock production improved from 1.9 to 3.3 percent, and that of forestry and logging from 3.2 to 4.1 percent in 2003.

The contribution of the agricultural sector to overall GDP continued its gradual decline, reaching 32.7 percent in 2003 from 33.2 in 2002. However, this sector remained significant, providing livelihood for around 75 percent⁷ of the total labor force.

⁷ Statistical Yearbook of Bhutan 2003, NSB.

1.2. Manufacturing, Mining, and Electricity

Estimates indicate the growth of the manufacturing, mining, and electricity sectors to have deteriorated significantly from 13 percent in 2002 to 5.4 percent in 2003, while the contribution of these sectors to overall GDP remained more or less same at around 19 percent. Since growth in the manufacturing and mining sectors were higher than in the previous year, and because of the considerable contribution of electricity to overall GDP, the drop in growth can be explained by developments in the power sector.

The surge in electricity growth in 2002 (22 percent increase over 2001) was on account of the commencement of operations of both the Basochu and Kurichhu power projects, so while the growth of this sector was positive during 2003, it was nowhere that substantial. Furthermore, the share of electricity to GDP also declined from 10.8 percent in 2002 to 9.6 percent in 2003. Since the Chukha project experienced a boom in 2003, with its highest revenues and power production levels, the slowdown in the electricity sector can be attributed to the loss in revenue from the Kurichhu project, which was hampered by several operational shutdowns during the year for ongoing transmission works.

The number of major industries covered by the report in 2004 increased to eleven, with the addition of DPOP. Of the eleven, updates are still pending on BBPL, BPCL, and the EBCC. Of the remaining eight that have provided information, PCAL remains the biggest in terms of total value of sales, followed by BFAL and then by BCCL.

In the energy sector, total energy sales from the three major power projects during 2003 grew by 10.8 percent over the previous year, of which sales of the CHPCL accounted for 81.3 percent and the KHPCL for 15 percent. Meanwhile, total exports to India rose from Nu.2.3 billion to Nu.2.6 billion as of the end of 2003. Export revenue from electricity is anticipated to increase significantly during 2005, with the recent decision of the GOI to raise the Chukha export tariff from Nu.1.5 to Nu.2 per unit.

Meanwhile, in other developments, the completion of the Tala hydropower project has been delayed to March 2006, six months behind schedule due to adverse geological conditions. And the RGOB, in coordination with the GOI, is also conducting a DPR on the proposed 870 MW Punatsangchu hydropower project. The DPR will be completed before January 2006. Details of the production and sales of all three projects are available in *Table 4* in the Statistical Section. A detailed description of developments in Bhutan's power sector is also presented in *Annex V*.

Table 1.1: Real GDP Growth by Sector 1999 - 2003

Year-to-year change in %

Item	1999	2000	2001	2002	2003 (e)
GDP at Factor Cost	7.7	5.5	7.1	6.7	6.5
Agriculture	5.2	4.5	3.2	2.6	4.0
Industry	12.2	3.9	13.8	17.9	7.3
Services	5.9	8.7	7.6	-2.3	7.8

1.3. Construction

The construction sector is estimated to have grown at a significantly lower pace of 9.8 percent, as compared to 25 percent in the previous year. However, the sector's share in nominal GDP maintained its upward trend, accounting for 19.9 percent in 2003, as compared to 19.0 percent in 2002. The performance of this sector continued to reflect the activities related to large power projects - Tala, Kurichhu, and Basochu - and to a certain extent, construction work carried out by individuals, government departments, and autonomous entities. This is also supported by high credit levels in the financial sector for construction, in combination with lowered interest rates for housing by financial institutions. Credit towards the building and construction sector grew by 39.3 percent during 2003.

1.4. Tourism

FY 2003/2004 displayed encouraging indicators of recovery for Bhutan's tourism sector after suffering from the global recessionary trends of the past year. Tourist arrivals increased by 12.9 percent to 6,873 from 6,087 as of 2002/2003. Similarly, foreign exchange revenues grew to USD 9.2 million from the previous fiscal year's earnings of USD 8.4 million.

Table 1.2: Selected Tourism Indicators 1999-2003

Item	1999	2000	2001	2002	2003
Tourist Arrivals	7158	7559	6393	5599	6261
Of which: Cultural	6328	6633	5925	5242	5823
Trekking	830	926	468	357	438
% Change in arrivals	18.8	5.6	-15.4	-12.4	11.8
Gross Receipts ¹	8.9	10.5	9.2	8.0	8.3
% Change in receipts	11.3	18.0	-12.4	-13.0	3.8
Government Revenue	3.5	4.1	3.3	2.8	2.9
% Change in revenue	14.3	17.1	-19.5	-15.2	3.6

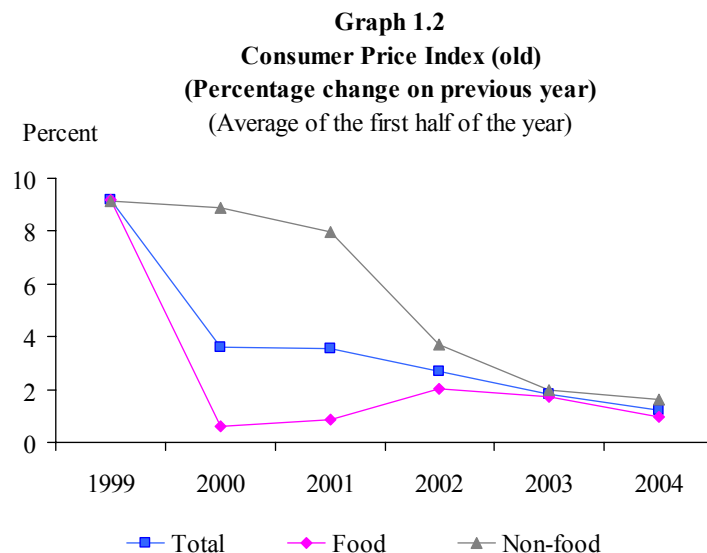
Source: Department of Tourism. -1) Millions of USD.

Meanwhile, updates on FDI in the tourism sector reveal that the BRCL (joint venture between Bhutan Tourism Corporation Ltd. and Maha/Aman Resorts, Singapore) and the BEVL (joint venture between Bhutan International Company and M/s. HPL Properties (West Asia) Private Limited, Singapore) have both completed construction of their Paro resorts. Further information on the tourism sector and FDI ventures is presented in *Annex IV*.

1.5. Prices

The NSB introduced a new and revised quarterly CPI with a revised commodity basket and the third quarter of 2003 as the new base period.

The new quarterly CPI reported an annual inflation rate of 4.6 percent in the third quarter of 2004, with food prices increasing by 2.8 percent and non-food prices by 5.3 percent. Overall inflation in Bhutan is now quite close to the inflation rate in India, and, therefore, is now much more realistic than the previous rates. The new CPI cannot be compared with the old CPI as outlined in Box 1.1.



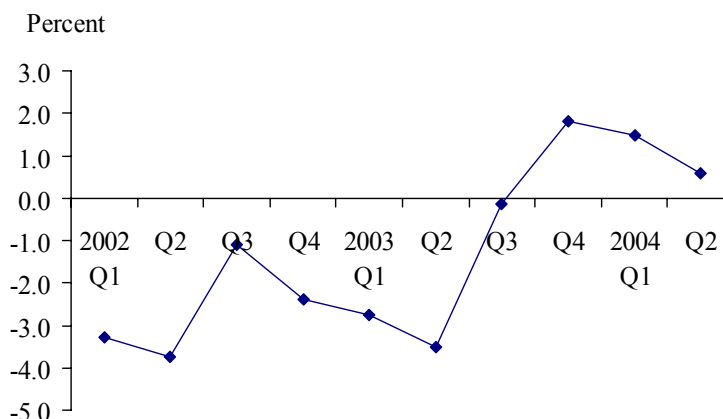
On the other hand, the old CPI which was published half-yearly by the NSB, with 1979 as the base period, reflected a decline in inflation rate to 1.2 percent in the first half (H1) of 2004, as compared to 1.8 percent in the same period last year.

This low inflation reflected the slow rise in prices of both food and non-food items. Food prices' growth dropped from 1.7 (in H1 2003) to 1 percent (in H1 2004) and non-food prices' growth from 2 to 1.6 percent during the same period. Of the food items, the major effect came from the prices of cereals and vegetables which fell by 3 and 2 percents, respectively. The bumper agricultural production in India resulted in a decline in the prices of the food items.

The slow pace (0.6 percent) of clothing prices, which have the highest weights among the non-food items, is the main contributor to the drop in the non-food prices. The growth rate of prices for clothes has been steadily dropping over the years, possibly because of the ever increasing numbers of textile importers in the country.

And according to the newly rebased TPI, despite a fall in the prices of vegetables, fruits and pulses by 1.3 percent, food prices in Thimphu increased by 0.6 percent in the second quarter of 2004, as compared to the fall of 3.5 percent in the same quarter of 2003.

Graph 1.3
Thimphu Food Price Index (new)
(Percentage change on previous year)



Box 1.1

A New CPI and TPI

The NSB has re-based the quarterly CPI and TPI, with the third quarter 2003 as the base. The indices have been compiled on the basis of the 2003 Household Income and Expenditure Survey. The new quarterly indices replace the old indices, which were based on the 1979 Expenditure Survey, and, which, therefore, were outdated. On the basis of information having been made available, so far, by the NSB, the salient features of the new indices can be summarized as follows:

Consumer Price Index

- a) There is a much wider coverage of items in the consumer basket than in the old CPI, e.g., rent is now included. Furthermore, as a consequence of changing consumption patterns from 1979 to 2003, the weight of food has changed from 72.31 in the old CPI to 31.67 in the new index, while, commensurate with this development, the weight of non-food increased from 27.69 to 68.33. It is expected that the new index will give a more reliable picture of actual price developments, i.e., inflation developments in Bhutan, than has been the case with the old index.
- b) So far, quarterly data (quarterly averages) for the new CPI have been made available from the third quarter 2003 (base quarter = 100), to the third quarter 2004. In analyzing the new CPI, the following should be kept in mind:
 - Since the new CPI is not seasonally adjusted, simple quarter-to-quarter comparisons are not meaningful, as they could result in substantial distortions and in turn, misinterpretations, due to seasonal influences. As a result, only year-to-year comparisons could be carried out, as long as the data are not seasonally adjusted, being in accordance with “international best practices” which implies a simple seasonal adjustment. Consequently, at present, a meaningful comparison can only be made after the second quarter of 2004.

(contd...)

(concl...)

- The new CPI should not be compared with the old CPI (percentage changes) because there is a very substantial break in continuity and the old CPI refers to semi-annual averages, while the new CPI refers to quarterly averages.

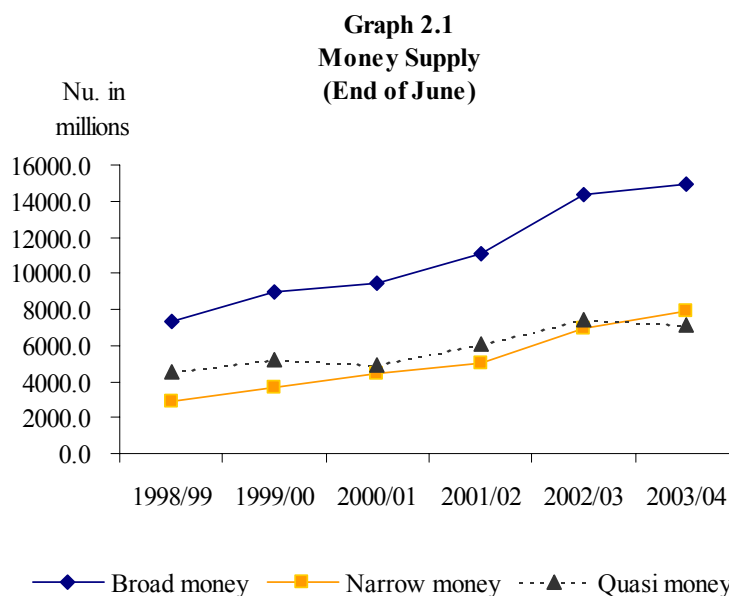
Thimphu Food Price Index

- a) There is a much wider coverage of food items than in the old quarterly TPI index. For example, “edible oil and fats”, “milk, cheese, and eggs”, “meat and fish”, and “non-alcoholic beverages”, which were missing in the old index, are now included. Therefore, it is expected that the new index will give a much more reliable picture of actual food price developments in Thimphu than has been the case with the old index.
- b) The new index was calculated, starting with the third quarter of 2003, while the major food items available, more or less, for the old index, i.e., “cereals and its products”, “vegetables, fruits, and pulses”, “other food items”, and the “total food index”, were linked. As a result, there is a break in continuity between the second quarter of 2003 and the third quarter of 2003. Consequently, the data comparability across the break of continuity is rather limited and should, therefore, be considered with due caution. In this connection, it has to be kept in mind that only data comparisons from the third quarter onward are consistent, just as are data comparisons prior to the third quarter of 2003.
- c) As in the case of the old index, the new index refers to the average prices during the quarter.

2. MONEY AND BANKING STATISTICS

2.1. Monetary and Credit Developments

Monetary developments during FY 2003/2004 exhibited a much slower growth as compared to the previous year. Totalling Nu.15 billion at the end of the review year, broad money supply (M2) grew at a slower rate of 4.1 percent, as compared to the 29.7 percent growth in 2002/2003. All major components of M2 grew at slower rates, with QM, NFA, and OIN even decreasing from the previous year.



Of the two major elements of M2 on the component side, M1 exhibited a lower annual growth of 13.9 percent in contrast to its 37.6 percent growth in 2002/2003. While currency in circulation grew at 18.6 percent as compared to 6.2 percent in the previous year, there was a significant decrease in the growth of demand deposits. In particular, growth in the current account deposits of individuals and government corporations was much lower this year at 9.6 percent, vis-à-vis 89.4 percent in the previous year. QM, the other major element of M2, decreased by 4.9 percent in 2003/2004, from an increase of 23.2 percent in 2002/2003. The major contributor to the decrease in QM was the fall in foreign currency deposits by 49.2 percent.

During the same period, reserve money (M0) grew from Nu.8,123 million to Nu.9,504 million, resulting mainly from the increased commercial banks' deposits with the RMA from Nu.6,242.9 million to Nu.7,261.7 million.

Meanwhile, on the counterpart side, NFA and OIN, recorded negative growths during the review period. NFA decreased by a substantial 6.1 percent from an increase of 22 percent in the previous year, out of which net convertible currency assets decreased by 7.3 percent, and net Rupee assets by 1.1 percent. However, domestic credit recorded an increase of 12.5 percent to Nu.4.3 billion, of which credit to the private sector grew by 30.1 percent as compared to 35.7 percent in the last fiscal year.

Table 2.1: Money Supply, M2 – Its Counterparts and Components

<i>Millions of Ngultrum</i>		<i>End of period</i>			
Item	1999/00	2000/01	2001/02	2002/03	2003/04
<u>MONEY SUPPLY, M2</u>	8930.5	9419.8	11076.9	14370.0	14966.0
<u>MONEY SUPPLY, M1</u>	3691.7	4477.9	5019.5	6908.7	7870.7
<u>Counterparts*</u> ⁾					
1. Foreign Assets (Net)	13248.3	12788.9	14348.5	17508.0	16448.2
2. Domestic Credit	752.1	2017.9	2280.5	3815.0	4292.3
Claims on Govt. (Net)	-1110.6	-455.7	-744.5	-109.8	-746.0
Claims on Private Sector	1360.0	2016.6	2607.0	3536.6	4599.5
Others ¹⁾	502.7	457.0	417.9	388.2	438.8
3. Other Items (Net) ²⁾	5069.8	5387.0	5552.0	6953.0	5774.6
<u>Components⁺</u>					
4. Currency Outside Banks	1119.4	1483.1	1600.2	1699.0	2015.2
5. Demand Deposits ³⁾	2474.8	2889.7	3313.6	5094.7	5721.7
6. Quasi-Money ⁴⁾	5238.9	4942.0	6057.5	7461.3	7095.3
<u>Memorandum Item:</u>					
Reserve Money of which:	4950.9	4710.9	6023.0	8123.0	9503.9
Currency Issued	1167.4	1567.5	1694.5	1765.1	2057.1
Banks' Deposits	3686.0	3045.3	4222.9	6242.9	7261.7

*) M2 = 1 plus 2 minus 3. - +) M2 = 4 plus 5 plus 6 and M1 = 4 plus 5.- 1) Claims on Government Corporations, Claims on Joint Corporations, and Claims on Non-monetary Financial Institutions.- 2) Including Money Market Instruments (RMA Bills).- 3) Including Savings Deposits.- 4) Time Deposits and Foreign Currency Deposits.

2.2. Monetary Policy Framework

The RMA's monetary policy framework is implicit, since it is not clearly spelled out in the Act (please see *Annex I* for a schematic overview). According to the RMA Act, Section 6 b), one of the purposes of the RMA is "to promote monetary stability", which can be interpreted as the promotion of "price stability". In some central bank acts, price stability is quantified, e.g., in the case of the European Central Bank price stability is equivalent to a year-to-year rate of change of the CPI below, but close to, 2 percent, to be maintained over the medium term. The intermediate target for achieving and maintaining price stability in Bhutan is the one-to-one peg between the Indian Rupee and the Ngultrum. In light of the pegged exchange rate regime adopted by

Bhutan, however, the scope of Bhutan's monetary policy is limited and confined to the support of the peg, including the following basic measures:

- a) Ensuring the sustainability of the exchange rate arrangement, i.e., always making available sufficient Rupees on demand for exchange with the Ngultrum for payments in India and provision of at least 100 percent reserve backing for all Ngultrum issued (elements of a Currency Board).
- b) Confidence-building measures for the Ngultrum (e.g., credible RMA and Government policies).
- c) Sterilizing any persistent growth in liquidity to forestall a possible build-up of inflationary pressures, a weakening of the balance of payments, and a contingent effect on the financial market.

The following are the main supporting factors for the existing system:

- a) Close economic and financial relationships exist between India and Bhutan.
- b) There is a dual currency system, with the Ngultrum and the Rupee circulating freely side by side in Bhutan. The system can be described as an informal monetary (currency) union with India.
- c) Inflation and interest rates in the two countries are closely related.
- d) The arrangement maintains confidence and ties Bhutan to the relatively stable monetary conditions in India.
- e) The peg has also clear benefits for trade with India, since there is no uncertainty about exchange rate developments between the two trading partners.

On the basis of the above factors, the monetary policy decisions made in Bhutan are viewed as prudent and appropriate.

While ensuring the sustainability of the exchange rate arrangement, the Monetary Authority is also required to play an important role in monetary and credit management, largely owing to the build-up of excess liquidity in recent years. With the elimination of quantitative credit controls, it has developed and increasingly relied upon more indirect instruments of monetary management. In particular, for the purpose of liquidity management in the banking system, the RMA has resorted to variations in reserve requirements, the sale of central bank bills, and the sale of foreign exchange to banks. Through the issuance of the short-term central bank bills, the RMA also aims to establish a modest money market and to establish a frame of reference for interest rates.

According to the Act, the RMA has also at its disposal various liquidity support facilities (e.g., discount of bills, secured loans, and reserve repurchase-introduced in September 1996 and thereafter discontinued on January 1, 2002), which, however, are not being used at present due to the relatively large surplus liquidity of commercial banks.

2.2.1. Cash Reserve Ratio (CRR)

The CRR, set at the rate of 3 percent for all deposits with the BOB, was introduced in 1984. It was revised in 1994 to 15 percent for all deposit liabilities, cash in vaults being counted towards the CRR after the introduction of RMA discount bills and Government bonds. With the conversion of the Unit Trust of Bhutan into Bhutan's second commercial bank, BNB, the CRR was adjusted in July 1997 to 15 percent for demand deposits only, cash in vaults being counted towards the CRR. Thereafter, in January 2000, the CRR was further adjusted to 10 percent for all deposits, cash in vaults not being counted towards the CRR. And on July 1, 2002, in a move to sterilize additional excess liquidity from the banking system, the CRR was further revised to 20 percent on total deposit liabilities, while interest payable on the balance was also amended from 2 percent to 3 percent per annum.

As the level of liquidity is progressively declining through increased lending, the policy stance is to free bank reserves to an appropriate level by reducing the CRR rate and RMA bills issuance. In this respect, the RMA Board of Directors during the 35th meeting decided to revise the CRR maintained by the commercial banks with the RMA with effect from March 1, 2004. The volume of CRR has been revised downward from the existing rate of 20 percent to 13 percent of total deposit liabilities and the rate of interest payable on CRR balances has also been revised from 3 percent to 1.5 percent per annum. At the end of June 2004, the CRR instrument alone accounted for Nu.2,210.9 million of banks' liquidity.

2.2.2. RMA Discount Bills

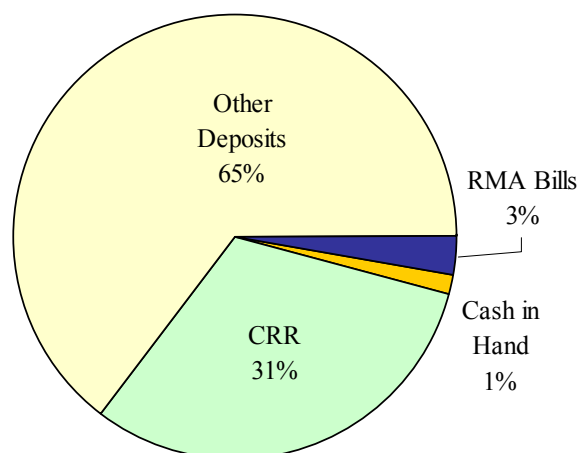
The RMA discount bills (maturity of 31 days) were introduced in December 1993 at the discount rate of 11 percent. Till October 29, 2001, the selling procedure was based on auctions and after that it was discontinued and tap sales were introduced. At the end of June 2004, there were Nu.200 million worth of bills (maturity of 91 days) outstanding, at a weighted discount rate of 3.5 percent.

2.3. Review of Developments in Commercial Banking

During the FY 2003/2004, total collective assets and liabilities of the two commercial banks, BOB and BNB, grew at a low rate of 0.4 percent to Nu.17.7 billion, from Nu.17.6 billion (31 percent growth) in 2002/2003. This was evidence of only a slight expansion that took place in the deposits on the sources side and the growth of the liquid funds on the uses side.

On the uses side, the commercial bank's reserves with the RMA

Graph 2.2
Composition of Commercial Banks' Reserves with the RMA (June-end 2004)



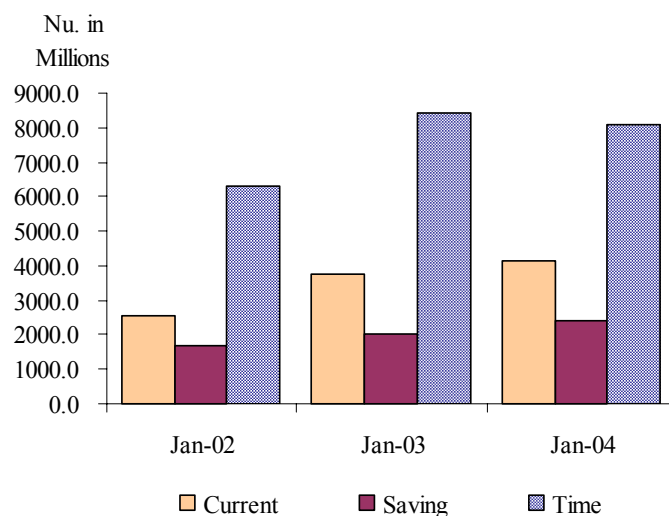
grew at a low rate of 3.1 percent to Nu.7.1 billion during the FY 2003/2004 from Nu.6.8 billion (34 percent) in the previous year, representing roughly 40 percent of their total assets. Of the total reserves, 34.1 percent were absorbed by the RMA through RMA bills and the CRR, while the rest were held as current deposits with the RMA. The latter amounts to Nu.4.6 billion, representing about 26 percent of their total assets. In addition to reserves, the banks are allowed to maintain foreign assets consisting of rupee and convertible foreign currency. As at the end of the FY 2003/2004, they held Nu.2.6 billion Rupees and Nu.1.8 billion in convertible currencies. Credit to the private sector achieved a smaller growth of 30.1 percent as against a growth of 35.7 percent in the previous year.

On the liability side, growth in total deposits (including foreign currency deposits), was much lower at 2.6 percent (35 percent in 2002/2003), influenced by the lower growth in current account deposits (9.6 percent), and decline in the time deposits (4 percent). This significantly lower growth in both the current account and fixed deposits can be attributed to the decrease in individual current account deposits of 52.7 percent and in foreign currency deposits of 49.2 percent, respectively.

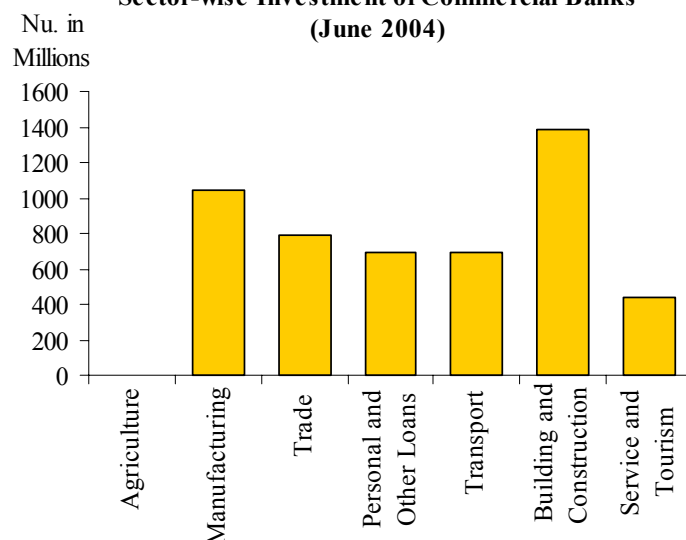
The commercial banks' sector-wise distribution of credit indicates an overall decrease by 0.6 percent to Nu.7.5 billion, when compared to the last fiscal year. Of total sectoral investment, the largest share went to building and construction (29 percent) followed by manufacturing (20 percent), the trade and commerce sector (19 percent), service and tourism (10 percent), with the rest going to other sectors.

A detailed description of the developments of the two commercial banks is presented in *Annex III*.

Graph 2.3
Types of Deposits of Commercial Banks



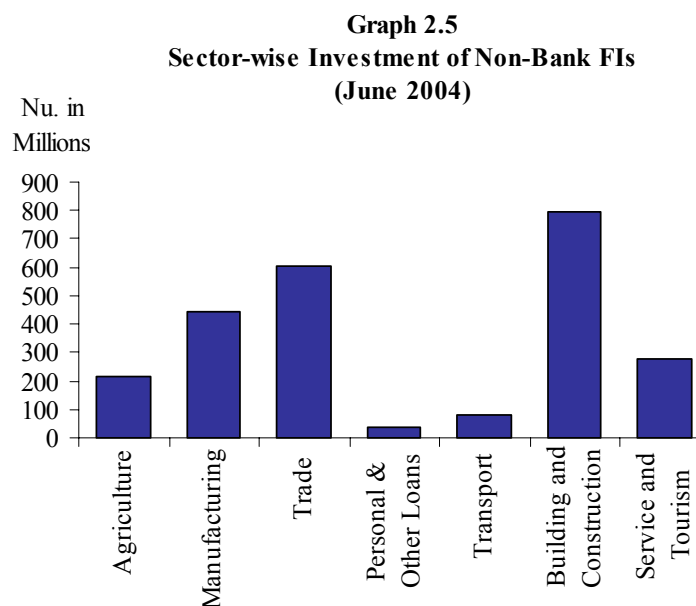
Graph 2.4
Sector-wise Investment of Commercial Banks (June 2004)



2.4 Review of Developments in Other Financial Institutions

As at the end of FY 2003/2004, the combined assets of the two NBFIs, namely the RICBL and the BDFC, rose by 6 percent, with the expansion of credit to the private sector by 10 percent.

In the sector-wise growth of credit of the NBFIs during the review year (9 percent), the highest share of credit went to building and construction (34 percent), followed by trade and commerce (25 percent), manufacturing (18 percent), service and tourism (11 percent) with the rest going to other sectors.



A detailed description of the developments of the two NBFIs is presented in *Annex III*. The FISD of the RMA also prepared a report on developments that took place in the financial sector during 2003. This is presented in *Annex VII*. It is important to note that the analysis provided in this sectoral commentary and reviews made in their report may vary on account of differences in the definitions of items.

With regard to the RSEB, at the end of 2003, with no new company listed, the number of listed companies still remains at 15. Total market capitalization stood at approximately Nu.3.5 billion, up from Nu.3.4 billion in the previous year. Shareholders' count now stands at 15,867, compared to 6,641 in 2002, recording a growth of 138.9 percent. This was particularly driven by the issuance of a public offer by the ADB of its shares in BNB. There was an upsurge in the year-wise traded volume in IPOs in the primary market to Nu.408.6 million, compared to Nu.115 million in 2002. In the secondary markets, the most active trading during 2003 took place with BBCL, BNB, PCAL, and RICBL; the total turnover during the year was Nu.20 million.

RMA Bills worth Nu.2,179 million, down from its previous record of Nu.3,801.6 million, were traded as of December 2003. The decline in bills traded was due to the absorption of funds by the issue of DAFL Bonds. In October and November 2003, the Ministry of Finance issued ten-year maturity bonds of Nu.1.3 billion each at a coupon rate of 7.5 percent per annum for the purchase of the Airbus A319 aircraft. The issue has been fully subscribed by the participants from the financial institutions, the NPPF, the Health Trust Fund, and the RSEB.

Prior to the establishment of the NPPF, the GEPF was managed by the RICB and was available only for government employees. Benefits were limited to a gratuity and a provident fund scheme, which was paid in a lump sum after retirement. The inadequacy of the lump sum payment from gratuity and the GEPF prompted the RGOB to initiate a formal old-age income security scheme by restructuring the GEPF scheme. With ADB assistance, the Government Working Committee in 1999, under the governance of the Board of Directors, reviewed and evaluated the UNDP's study (1997) on the "Feasibility of Introducing a Pension Scheme in Bhutan" and recommended an annuity-based, multi-tiered retirement plan, called the National Pension and Provident Fund Plan. The NPPF was thereafter established on July 1, 2002, by the RGOB as an autonomous body under the governance of the National Pension Board. Since its inception in July 2002, the plan had seen increasing trends in its membership. At the end of the financial year 2003/2004, the NPPF Plan, the Armed Forces Pension and Provident Fund Scheme witnessed a 7.8 percent growth in their membership, bringing the total figure to 34,574 members on June 30, 2004 as against 32,079 members in the previous year.

Box 2.1

Events in the Financial Sector, FY 2003/2004

- **Lending Rates** - With the introduction of the housing loan scheme by the NPPF at 10 percent per annum, all the FIs except for the BDFC, scaled down their interest rates from 13 percent to 10 percent per annum from January 2004. Furthermore, on July 19, 2004, during the 82nd session of the National Assembly, the interest rate on rural credit of the BDFC was reduced from 13 percent to 10 percent.
- **Deposit Rates** – Along with the reduction in the lending rates of the FIs was a simultaneous fall in the deposit rates of the two commercial banks. During the fiscal year, the average saving rate for the two commercial banks fell from 5 percent to 4.8 percent. The average fixed deposit rates for 3 months - 1 year, declined from 5.8 percent to 5 percent. Similarly, the average deposit rates for 1-3 years fell from 7.5 percent to 6 percent, and the average deposit rate for 3 years and above fell from 8.3 percent to 7 percent during 2003/2004.
- **New Schemes** - The NPPF launched the housing and the education loan schemes for the benefit of its members on July 1, 2003, and March 1, 2004, respectively, at the rate of 10 percent per annum. On September 15, 2003, the Finance Ministry, BNB, BOB, and the MTI signed an MOU to create a new credit scheme whereby young entrepreneurs, under specified circumstances, could access loans of Nu.200,000 – Nu.300,000 without any collateral requirements. The BNB also introduced Gold Visa International Credit Cards (January 4, 2004) and ATM facilities (April 2004).

(contd...)

(concl...)

- **Credit Information Bureau (CIB)** - In the late 1990s, a proposal to set up a CIB was initiated by the RMA and the FIs but the project was stalled due to complications in the planning process. During RMA's meeting with the FIs in March 2004, the importance and the need for establishing a CIB in Bhutan as an effective institutional mechanism for assisting the FIs in making proper credit decision was felt necessary by the FIs. The FIs agreed to commit themselves in establishing a CIB in Bhutan. In continuation of the efforts, a CIB Task Force comprising of two members from each FI including RMA was formed in July 2004. A CIB Secretariat was informally set up under the FISC in RMA for the smooth facilitation of the project. Thereafter, a series of preliminary meetings were conducted to discuss and deliberate on various issues relating to CIB.
- **RMA's Meeting with the FIs** - After a long period gap, the annual m between the RMA and the FIs, including NPPF, was held at Phuentsholing in March 2004. The main objective of the meeting was to discuss issues pertaining to the FIs, particularly with regard to the Prudential Regulations 2002. Thereafter, necessary amendments were made to certain sections of the PR 2002 in line with the decisions taken during the meeting. These changes have come into effect since September 2004.
- **Prudential Regulations 2002** - A five-day familiarization workshop on the PR 2002 was conducted by the FISC (June 23-27, 2003) for the FIs, including the NPPF at the RMA in Thimphu. During the workshop, the PR 2002 was discussed in detail for its proper understanding and smooth implementation process. Nonetheless, various teething problems were observed during the implementation process. Therefore, a meeting was organized in March 2004 between the RMA and the FIs to discuss and resolve pertinent issues relating to the PR 2002 and other related matters pertaining to the FIs.
- **South Asia Enterprise Development Facility (SEDF)** - The SEDF, based in Bangladesh, is a multi-donor funded program managed by the IFC, the private sector arm of the World Bank Group. Its objective is to assist in the development of SMEs in Bangladesh, Nepal, Bhutan, and Northeast India. Under this program, various trainings such as Credit Appraisal for SMEs (2003) and Reconstruction of Financial Statements and Credit Scoring for SMEs (May 2004) have already been conducted in the country. More recently, in December 2004, SEDF and RMA jointly organized training on sales and marketing, human resources tools, mixed instruments, factoring and leasing in Thimphu for participants from the financial institutions.
- **International Association of Insurance Supervisors (IAIS)** - The Insurance Unit was created in 2003 under the FISC to regulate and supervise the insurance business in Bhutan and in coordination with RMA's overall efforts to strengthen insurance regulation and supervision in Bhutan. In 2000, Bhutan joined as a member in the South Asian Insurance Regulatory Forum (SAIRF). In 2004, RMA's proposal to join the IAIS as a member was approved by the Board of Directors thereby enabling the RMA to complete the necessary administrative formalities with the IAIS Secretariat in Switzerland. The Insurance Unit was re-activated in 2004 in terms of human resource training, insurance supervision and staff strength.

3. EXTERNAL SECTOR

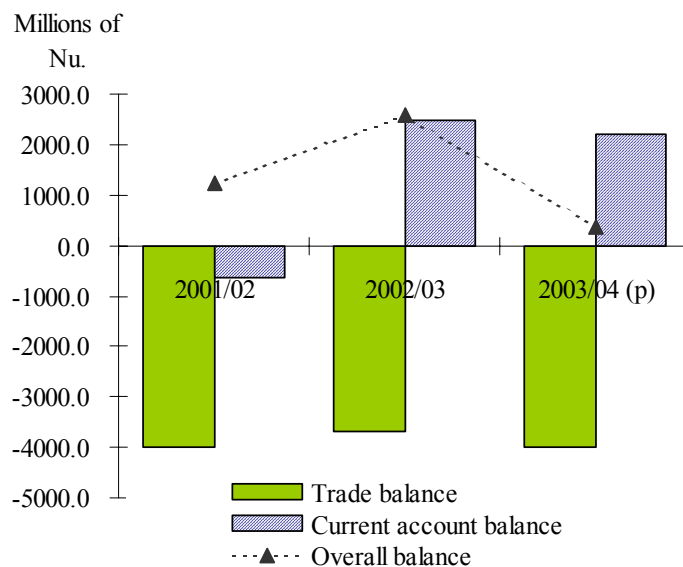
Bhutan's economic outlook during 2003/2004 as indicated by developments in the BOP, were characterized by improved merchandise exports, substantial inflows from grants, loans, and FDI, recording an overall balance of Nu.373 million. Gross international reserves, accordingly, registered an increase of 2.7 percent to USD 383.1 million, which is sufficient to finance 19 months of imports. With the growing strength of the Indian Rupee against the US Dollar, the Ngultrum followed suit in its appreciation vis-à-vis the USD by 5.6 percent between FY 2002/2003 and 2003/2004. And the debt service ratio⁸ has improved from 5 percent to 4.1 percent in 2003/2004. A feature on Bhutan's external debt has been attached in *Annex VIII*.

3.1. Overall Balance of Payments⁹

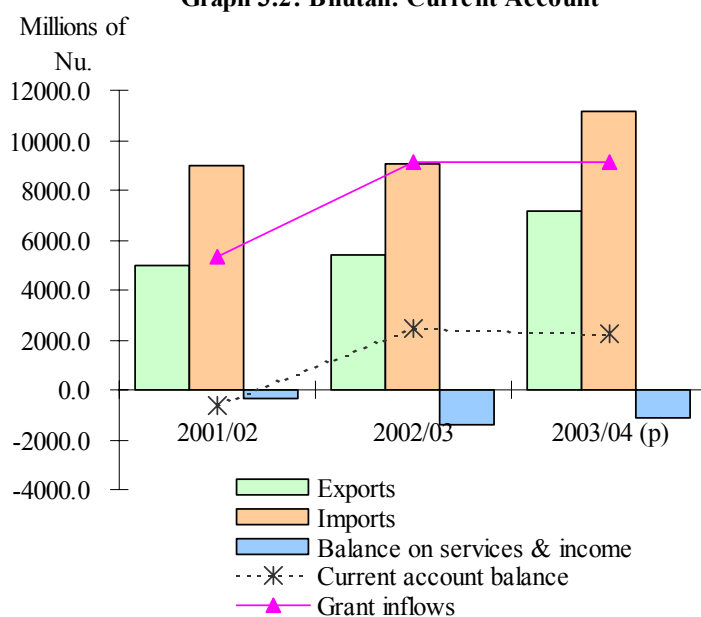
Current Account

Despite better export performance in both trade and services, it was the growth in current transfer receipts that helped narrow the trade and invisibles deficits, resulting in a current account surplus of Nu.2,220.3 million as of 2003/2004. This represents 7 percent of GDP.

Graph 3.1: Bhutan: Overall BOP



Graph 3.2: Bhutan: Current Account



⁸ Debt Service Ratio - Debt service payments as a percentage of the export of goods and services.

⁹ Adjustments were made to Bhutan's balance of payments (BOP) compilation methodology in the fiscal year 2001/2002 and onwards.

Trade Account

The trade account is compiled on the basis of trade data generated by the DRC and other enterprise surveys. Commencing 2002/2003, the DRC has been generating half-yearly trade data, thereby enabling the use of fiscal year aggregated data for the balance of payments, supplemented by calendar-year information for the composition of trade.

As of 2003/2004, Bhutan's trade deficit widened by 8.6 percent from Nu.3,681 million in 2002/2003 to Nu.3,996 million. Imports related to the development of major power projects such as Tala have boosted overall import levels in recent years; Tala imports alone accounted for approximately 18 percent of total imports during the year. Similarly, the DACL's recent purchase of new aircraft for its fleet was one of the major factors which added to the growth in import levels during the year.

Table 3.1: Bhutan's Balance of Payments

Item	2002/03	2003/04 (p)	2002/03	2003/04 (p)
	Millions of Ngultrum		Millions of USD	
A. Current Account	2467.5	2220.3	51.9	53.5
Goods	-3681.0	-3996.0	-76.4	-83.4
Exports	5405.9	7157.5	112.8	157.6
Imports	-9086.9	-11153.4	-189.6	-245.6
Services	-801.5	-379.7	-16.7	-8.4
Credit	1194.0	1421.1	24.9	31.3
Debit	-1995.5	-1800.8	-41.6	-39.7
Income	-598.8	-740.1	-12.5	-16.3
Credit	561.4	436.3	11.7	9.6
Debit	-1160.3	-1176.5	-24.2	-25.9
Current Transfers	7548.8	7336.2	157.5	161.5
Credit	9810.7	9719.8	204.7	214.0
Debit	-2261.9	-2383.6	-47.2	-52.5
B. Capital and Financial Account	4645.5	5454.9	96.9	120.1
Foreign Direct Investment	117.9	157.0	2.5	3.5
Portfolio Investment	0.0	0.0	0.0	0.0
Net Official Flows	4527.5	4934.6	94.5	108.7
Other Loans	0.0	363.3	0.0	8.0
C. Net Errors and Omissions	-4511.5	-7302.2	-94.1	-160.8
D. Overall Balance	2601.4	373.0	54.3	8.2

Merchandise exports growth was robust during 2003/2004, increasing by 32.4 percent over 2002/2003, supported by the combined exports of electricity from Chukha and Kurichhu projects. Strong growth was also experienced by items such as agricultural and agro-based goods, plastic and rubber goods, textiles, and base metal and base metal products. On the import side, overall imports at Nu.11,153.4 million increased by 22.7 percent from Nu.9,086.9 million in 2002/2003. This can be mostly attributed to higher food imports, the imports of wood pulp commodities, and machinery and mechanical imports.

Graph 3.3: Development of Power and Non-Power Exports

Millions of Nu.



Studying the composition of merchandise trade, India remains Bhutan's major trading partner, with the sale of electricity from the Chukha and Kurichhu projects dominating Bhutan's exports and accounting for 39.2 percent of overall merchandise trade, earning Bhutan Nu.2,804.3 million during 2003/2004. Other major export commodities to India continue to be agro-based and mineral exports. In 2003, textiles, plastic and rubber products, and prepared food items were the biggest gainers. In terms of COTI exports,

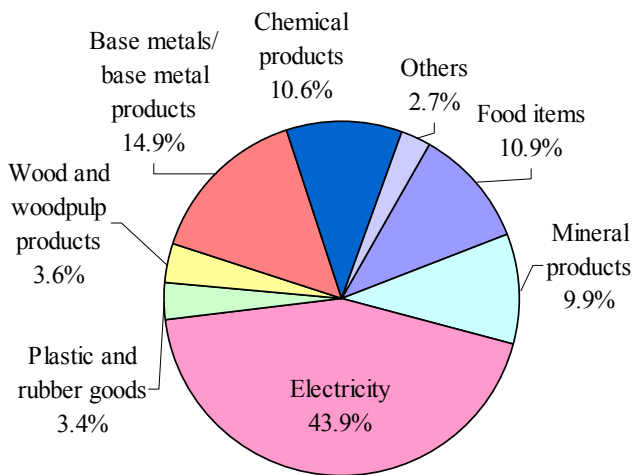
leading items consisted of processed foods, and mineral products. During 2003, significant export performance was achieved for vegetables and fruits, and household items.

Table 3.2: Selected Top Non-Power Commodity Exports, 2003

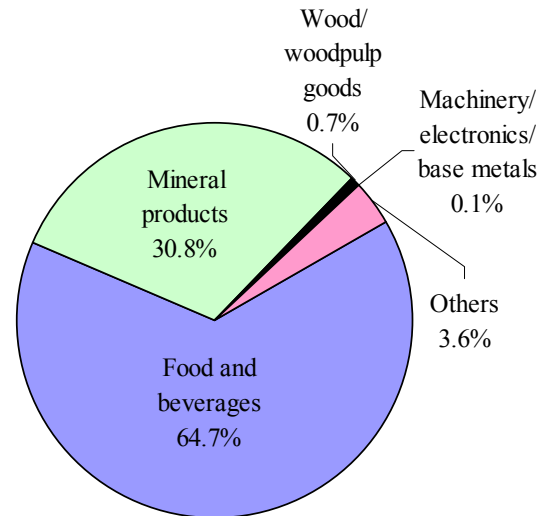
Item	2003		2002
	Millions of Nu.	% Share of total	Millions of Nu.
Carbide	640.8	5.5	636.6
Ferro-silicon	596.9	5.1	575.2
Portland cement	406.0	3.5	348.5
Mineral & aerated water	225.5	1.9	20.1
Particle board	184.6	1.6	125.8
Oranges	145.8	1.3	201.6
Gypsum; anhydrite	103.9	0.9	109.1
Mixture of juices	100.0	0.9	69.1
Total	2403.5	20.7	2086.0

Source: Department of Revenue and Customs.

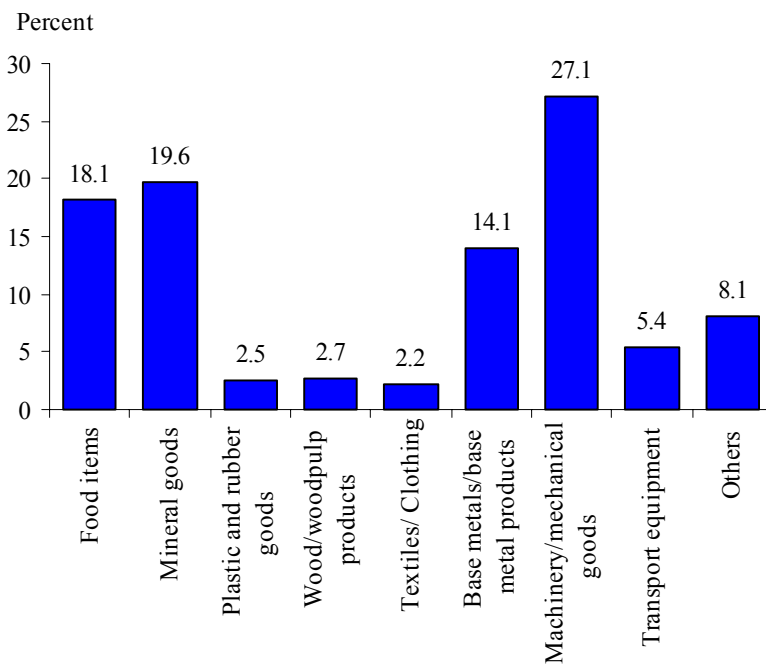
Graph 3.4: Composition of Merchandise Exports to India: 2003



Graph 3.5: Composition of Merchandise Exports to COTI: 2003



Graph 3.6: Composition of Merchandise Imports from India: 2003



Meanwhile, in the debit trade account, major categories of imports from India included capital equipment, food, fuel and mineral commodities, and a range of consumer products, with the largest share going to machinery and mechanical appliances, making up 27.1 percent of total Indian imports during 2003/2004. Most Indian imports registered an increase in 2003, while the highest gainers that year included machinery and mechanical appliances, whose imports grew by 82.3 percent, and base metal/ base metal products, which increased by 55.3 percent over 2002 figures. Popular imports from COTI cover machinery,

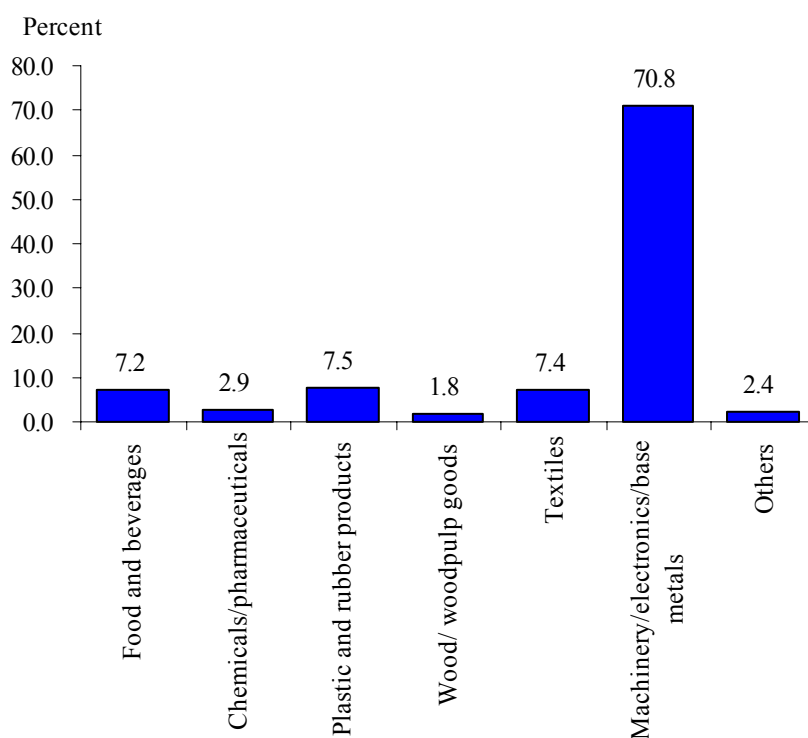
electronic items along with plastic/rubber goods, and textiles. While almost all categories of imports were reduced in 2003, the import of prepared food items (vegetables fats and oils) and wood pulp products both rose by over 100 percent over the previous year, while textile imports increased by 22.4 percent.

Table 3.3: Selected Top Commodity Imports, 2003

Item	2003		2002
	Millions of Nu.	% Share of total	Millions of Nu.
Parts for turbines and water wheels	930.9	15.0	116.8
High speed diesel	813.3	13.1	658.1
Other generating sets	696.1	11.2	5.6
Rice	459.3	7.4	304.5
Beer made from malt	277.2	4.5	251.1
Cars (petrol), below 1000 c.c.	263.5	4.3	168.5
Petrol	255.0	4.1	206.0
Other bars and rods	143.3	2.3	71.4
Total	3838.8	62.0	1782.1

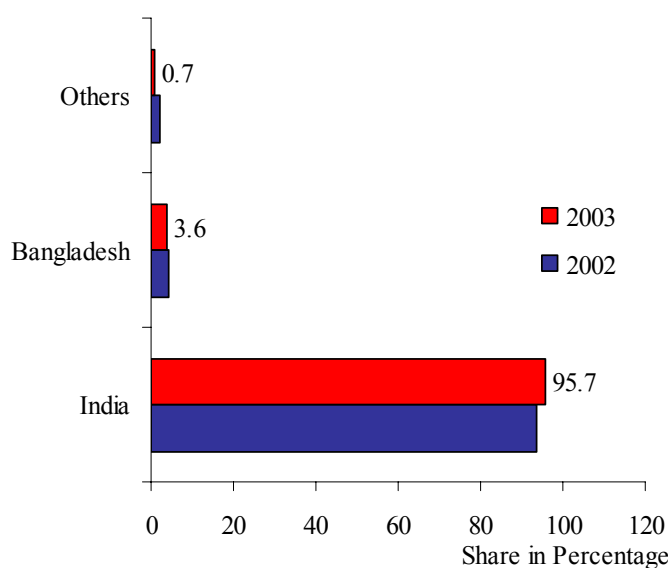
Source: Department of Revenue and Customs.

Graph 3.7: Composition of Merchandise Imports from COTI: 2003

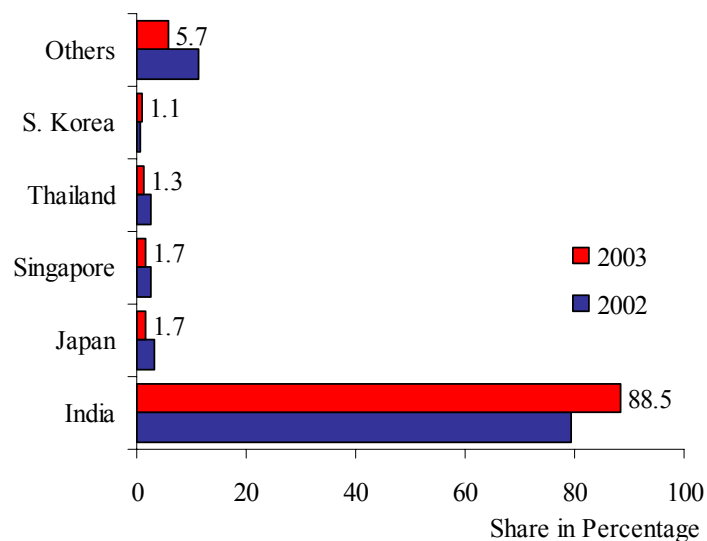


In terms of the direction of trade, India maintains its position as Bhutan's key trading partner. India presently accounts for 94.6 percent of all of Bhutan's exports at Nu.6,768.8 million in 2003/2004, while Bangladesh follows suit at 3.6 percent (2003). Meanwhile, the top 3 sources for Bhutanese imports are India, Japan, and Singapore.

Graph 3.8: Exports of Goods by Destination



Graph 3.9: Imports of Goods by Origin



Invisibles

Table 3.4: Summary of Overall Invisibles Receipts

	Millions of Nu.		
	2001/2002	2002/2003	2003/2004 (p)
Travel	471.9	501.0	671.2
Transportation	320.2	172.0	208.2
Insurance and GNIE	591.6	476.8	491.4
Misc.	32.9	44.2	50.3
Transfers	5,988.2	9,810.7	9,719.8
Income	523.1	561.4	436.3

GNIE: Government not included elsewhere.

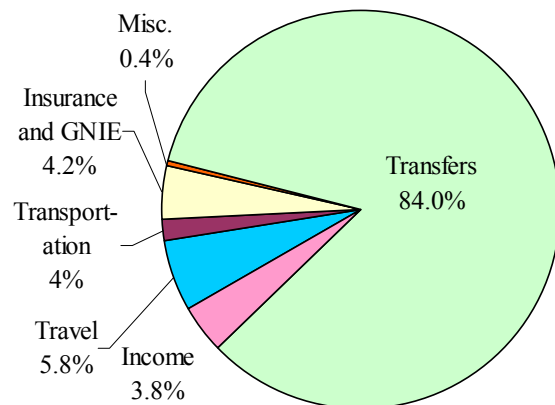
In contrast to the reduction in services exports in 2002/2003, services exports grew by 19 percent during 2003/2004 on account of growth in services to India and COTI, as tourism, insurance and financial receipts picked up even further. The share of convertible currency tourism receipts to overall services receipts was the largest at 29.6 percent. However, since the import of services from both India and COTI exceeded exports, it resulted in the net outflow of Nu.379.7 million, which is still an improvement over the 2002/2003 deficit of Nu.801.5 million. The reduced deficit is also due to a reduction in payments for services imports by 9.8 percent mainly in the areas of transportation, and government services expenditure abroad. Travel abroad by Bhutanese and government services expenditure were among the largest imports during the period under review.

The net outflow from income of Nu.740.2 million was a 23.6 percent increase from 2002/2003, propelled by lowered investment income by 24.9 percent, together with large outflows towards compensation of Indian employees in Bhutan (related to aid and loan projects), as well as interest payments made towards Rupee and convertible currency debt service. In terms of income receipts for 2003/2004, Nu.393 million

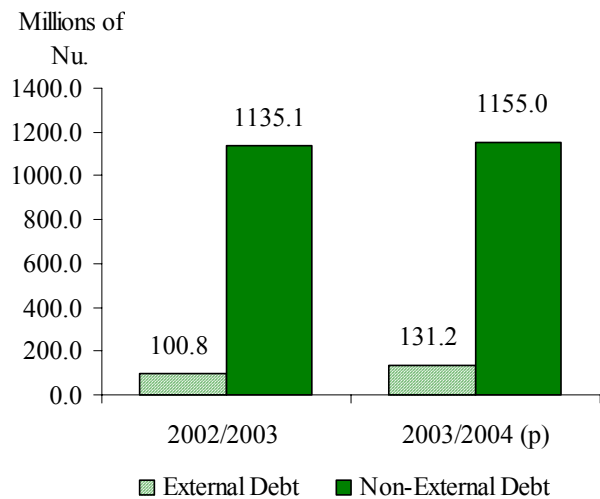
(compared to Nu.523.5 million during 2002/2003) were earned from investment of the RMA and FIs deposits held abroad, of which, 63.5 percent were earned from deposits held in India.

COTI outward remittances from aid-related projects and programs are estimated against foreign aid received by Bhutan, including concessional loans and grants. This was reflected in current transfer payments of Nu.1,391.5 million during 2003/2004. On the other hand, Indian labor remittances are calculated based on average wages of workers, estimated expenditure and remittances against the number of workers in the country. Accordingly, this estimate for BOP with India was recorded at Nu.913.2 million for the fiscal year ending 2003/2004. As per official figures, the total number of foreign workers working in the country (with issued permits), are estimated at 40,000. Including day-time border-town workers, the numbers could rise to 60,000.

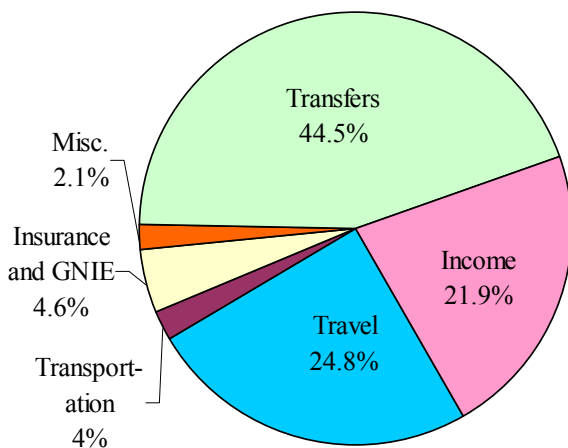
Graph 3.10: Invisibles Receipts: 2003/2004 (p)



Graph 3.11: Income Payments



Graph 3.12: Invisibles Payments: 2003/2004 (p)



In spite of extensive current transfer outflows, these were more than adequately supported by current transfer receipts of Nu.9,719.8 million as compared to total payments of 2,383.6 million in 2003/2004. The significant volume of current transfer inflows were driven by substantial releases of non-budgetary Indian grant funds for major power projects, as well as large convertible currency official grant disbursements, and inflow of an IFC commercial loan during the year. Consequently, a net inflow for current transfers of Nu.7,336.2 million was recorded for the fiscal year, a 2.8 percent fall over 2002/2003.

In light of growing numbers of Bhutanese living in foreign countries and sending money back to their families in Bhutan, commencing from 2002/2003, remittances from Bhutanese living abroad (specifically the United States) are being included under the current transfer credit account as NRB remittances. During 2003/2004, these estimates totaled Nu.58.3 million.

Capital and Financial Account

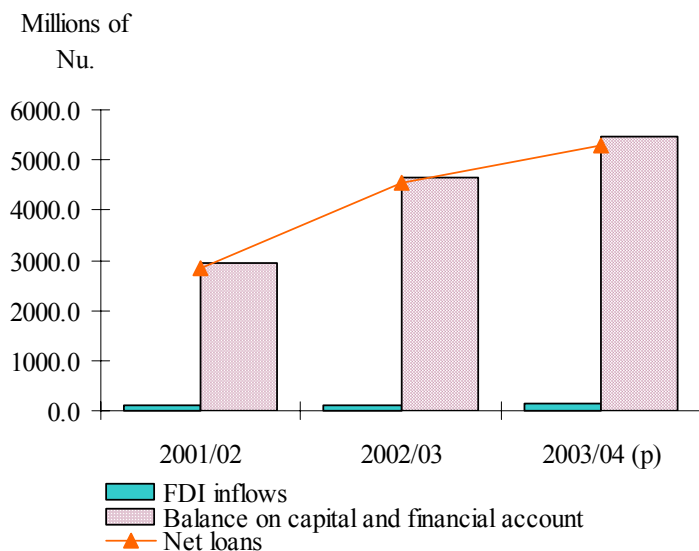
Bhutan's financial inflows have constantly been dominated by concessional loans provided by foreign governments and international aid agencies. Disbursement of loans was fuelled in recent years by the development of the Tala, Kurichhu, and Basochu hydropower projects. Commercial borrowings are negligible and direct investment has only begun to take off with recent FDI in the tourism and hotel industry. This however is a promising development in Bhutan's BOP, especially since inflows from

FDI is the beginning of alternative foreign exchange inflows and corresponding future improvements in the invisibles account. The future prospects for increased FDI look positive as Bhutan continues to forge international and regional trade partnerships, and as the RGOB steps up efforts in improving legal infrastructure that will promote transparency in its trade and payments transactions.

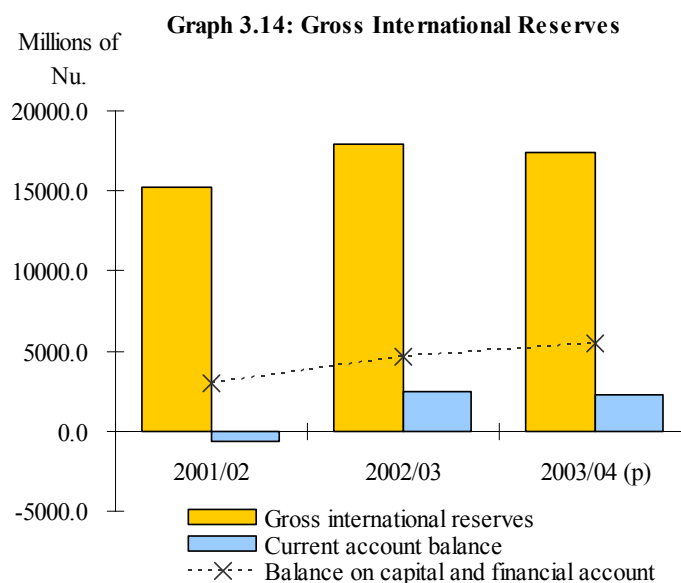
In Bhutan's capital and financial account, total financial inflows for FY 2003/2004 increased by 17.4 percent from the last year, owing to greater disbursements of concessional loans (after deducting repayment of principal amounts) by 9 percent to Nu.4,934.6 million. Meanwhile, FDI inflows grew by 33.1 percent to Nu.157 million, and other loans recorded an inflow of Nu.363.3 million (commercial loan from the IFC).

In conclusion, after provisions for errors and omission, Bhutan's BOP recorded an overall surplus of Nu.373 million for the FY 2003/2004 driven by the combined grant and financial account inflows.

Graph 3.13: Bhutan: Capital and Financial Account

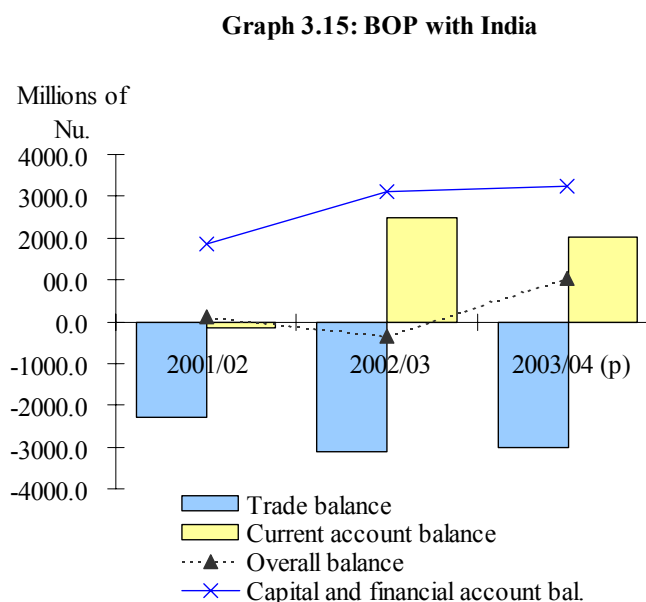


Corresponding to this increase in the overall BOP is the improvement in the country's international reserves to USD 383.1 million from USD 373 million in 2002/2003. Rupee reserves increased by 31 percent to Nu.4,362.8 million, whereas convertible currency reserve levels fell by 4.8 percent to USD 287.2 million from USD 301.7 million in 2002/2003.



3.1.1. Balance of Payments with India

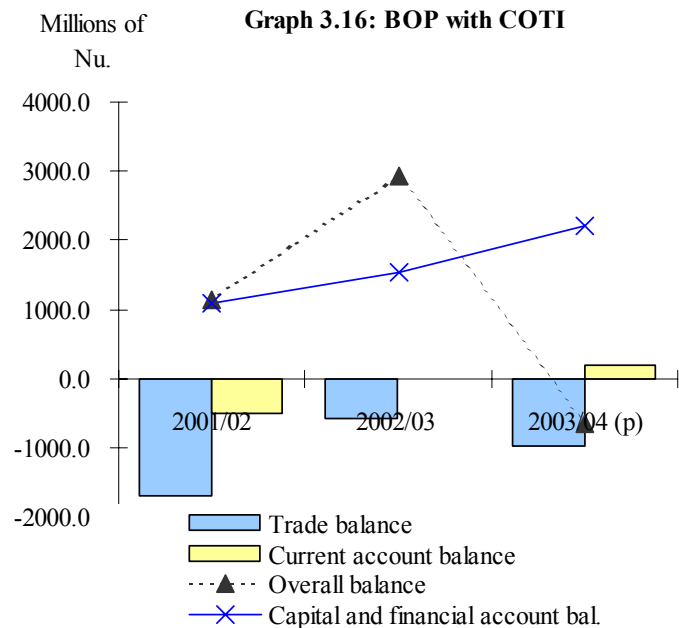
Imports from India grew by 19.3 percent to Nu.9,789.5 million in 2003/2004, out-sizing exports, which grew by 32.8 percent to Nu.6,768.8 million. Due to the better performance of exports, the trade deficit narrowed slightly from Nu.3,111.3 million in 2002/2003 to Nu.3,020.7 million. As such, the trade deficit as a percentage of GDP also fell from 11.2 percent to 9.5 percent for FY 2003/2004. And heavy inflows in the invisibles account, especially from current transfer receipts from grants, helped to counter the trade deficit, resulting in a current account balance surplus of Nu.2,027.6 million (6.4 percent of GDP).



With a lower trade deficit, and higher inflows of financial aid in the form of concessional hydropower project-related loans from the GOI, Bhutan's BOP with India was positive with an overall balance of Nu.1,032.7 million in contrast to a negative balance of Nu.333.7 million in the previous year.

3.1.2. Balance of Payments with Countries Other Than India

COTI imports picked up and grew by 54.9 percent to Nu.1,363.9 million, after a sudden reduction in 2002/2003 by 56 percent. And despite a 25.1 percent increase in the export of goods to COTI, import payments were nonetheless 3.5 times greater than export earnings of Nu.388.6 million. Under the services account, due to the fall in transportation and government services payments, combined with better tourism, transportation, and insurance receipts, the net outflow on services was reduced by 55.3 percent to Nu.165.7 million as of 2003/2004. In terms of income transactions however, even though earnings from foreign investments were lower during 2003/2004, they were still sufficient to meet income payments of Nu.120.7 million, thereby recording a net inflow of Nu.66.3 million. Similarly, overall current transfers growing by over 50 percent were steered by huge grant aid in excess of transfer payments. In the end, the current account balance registered a surplus of Nu.192.7 million from a deficit of Nu.11.4 million in 2002/2003. In relation to nominal GDP, the current account surplus with COTI stood at 0.6 percent for the fiscal year under review.



And the capital and financial account with COTI for 2003/2004 remained steady, with a growth in overall inflows by 43.6 percent, out of which, net foreign concessional loans grew by 18.7 percent to Nu.1,676 million. However, in spite of the current account and capital and financial account surpluses, after providing for possible errors and omissions, the overall balance was negative for 2003/2004 at Nu.659.7 million, down from a positive balance of Nu.2,935.2 million in 2002/2003.

At this point, it is essential to note that BOP figures are conclusively estimates, and that large inflows in the current transfers and financial account for both India and other countries must be treated with caution.

Box 3.1

Policy Measures during FY 2003/2004

- **January 2004:** Bhutan signed the SAFTA Agreement (South Asia Free Trade Agreement) during the SAARC Summit in Nepal. Members have agreed to lower import tariffs to between zero and five percent, among SAARC countries, broadening the scope for trade in the region. The treaty will come into force in 2006, and members are expected to begin tariff reductions on a mutually-agreed timetable; for Bangladesh, Bhutan, Nepal and the Maldives, it is a 10-year period.
- **February 2004:** Bhutan became a member of BIMST-EC (Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation). By joining BIMST-EC, Bhutan hopes to expand new markets for Bhutanese products, attract FDI, develop its services sectors, and promote economic growth in the region. Member countries (Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal, and Bhutan) signed an agreement to begin negotiations to establish a Free Trade Area by 2017.
- **April 2004:** In its continued efforts towards boosting the private sector, the RGOB begins work on developing the Pasakha Industrial Estate, by allotting land to new industries. A new sub-station to support power needs of the estate will be completed by 2005.
- During the year, the MTI also commenced works to revise FDI Regulations in order to formulate a transparent set of regulations that will facilitate the development of the private sector. Meanwhile, the Royal Monetary Authority is also redrafting the Foreign Exchange Regulations of Bhutan, 1997, to include provisions on all current and capital account transactions. This is scheduled for completion in 2005.

3.2. External Debt and Debt Service

The stock of external debt outstanding grew substantially by 30.5 percent during FY 2003/2004 to USD 529.2 million. Of this figure, 40.8 percent consisted of convertible currency outstanding loans, amounting to USD 216 million, a 22.2 percent increase over the previous year. The remaining 59.2 percent of outstanding debt are Rupee loans of Rs./Nu.14,222.3 million, which is a 29.7 percent increase from last year's outstanding balance of Rs./Nu.10,963.7 million. The growth in total outstanding debt is largely attributed to the increased disbursements in the loan portfolio, and the introduction of a new convertible currency commercial loan during the year from the IFC. Rupee loan disbursements increased only slightly by 4.5 percent over 2002/2003 to Rs./Nu.3,346.2 million towards the Tala hydroelectric project.

Corresponding to the growth in total debt, the ratio of outstanding debt to GDP grew considerably from 70 percent in 2002/2003 to 75.4 percent in the current period. Meanwhile, total debt as a percentage of gross international reserves has also increased from 108.7 percent in 2002/2003 to 138.1 percent in 2002/2003.

Table 3.5: External Debt Indicators

Item	End of period			
	2000/01	2001/02	2002/03	2003/04 (p)
Debt Outstanding (in millions)				
Total (USD)	236.8	291.8	405.5	529.2
Convertible Currency (USD)	106.9	129.9	176.8	216.0
Indian Rupees (Rs.)	6024.4	7803.6	10963.7	14222.3
Debt Outstanding/GDP (%) ¹⁾	51.5	57.9	70.0	75.4
Debt Service Ratio (%) ²⁾	4.7	4.8	5.0	4.1

Source: Department of Aid and Debt Management. 1) GDP (2000/01=2000). 2) Debt service payments in percent of exports of goods and services.

Until 2002/2003, all external debt for Bhutan related to soft loans or concessional debt. The only commercial loan had been procured by the Government in 1988/1989 to purchase an airplane, and repayments on this loan were completed in 1998/1999. However, during 2003/2004, external commercial debt (non-sovereign) was revived with the IFC disbursement of a convertible currency loan to Bhutan's private tourism sector. Notably, 62.8 percent of all cumulative loans (both concessional and commercial convertible currency and Rupee) have been disbursed to the power sector, while another 24 percent have been shared by the communications, agricultural, education, industry, financial, and health sectors of the economy (in that order).

Bhutan's largest creditor remains the GOI (Rupee loans), with an outstanding Rupee debt of Rs./Nu.14,222.3 million (USD 313.2 million), followed by the ADB, World Bank, and the Austrian Government, with outstanding debt figures of USD 82.4 million, USD 52.5 million and USD 50.6 million, respectively.

Expenditure on Rupee debt, i.e., interest and principal repayments, are met in Rupees, whereas convertible currency loans are serviced by drawing on the country's convertible foreign exchange reserves. Total debt service payments on convertible currency loans amounted to USD 5.4 million for FY 2003/2004, of which 54.8 percent, or USD 3 million, were spent on principal repayments. The convertible currency debt service ratio decreased only marginally from 23.9 percent to 23.5 percent at the end of June 2004. Meanwhile, on the Rupee side, debt service on the Chukha hydropower loan amounted to Rs./Nu.108.3 million, of which Rs./Nu.20.8 million were spent on interest and Rs./Nu.87.6 million on principal repayments during 2003/2004. The Rupee debt service ratio also declined slightly from 2 to 1.4 percent for the period under review.

3.3. Exchange Rate Developments

The Ngultrum is pegged at par to the Indian Rupee, and therefore, follows changes in the exchange rate developments of the rupee. Bhutan continues to benefit in terms of exchange rate stability as India's foreign exchange reserves continue to accumulate at unprecedented levels and growth remains robust.

The Ngultrum continued its appreciation against the US Dollar into the beginning of the second quarter of the review year, 2003/2004. From a monthly average of Nu.46.23 per US Dollar at the start of the review year, the Ngultrum averaged 45.51 per US Dollar at the end, appreciating by 1.6 percent. During the year, the Ngultrum reached a 47-month high rate of Nu.43.93 per USD in April 2004.

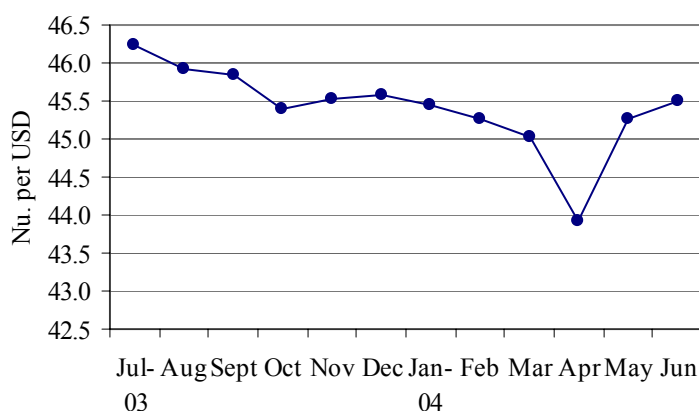
Between June 2003 and June 2004, the exchange rate vis-à-vis the US Dollar appreciated by 2.7 percent.

The Ngultrum averaged 45.41 per USD in 2003/2004 as against Nu.47.93 per USD in 2002/2003, reflecting an appreciation of 5.6 percent.

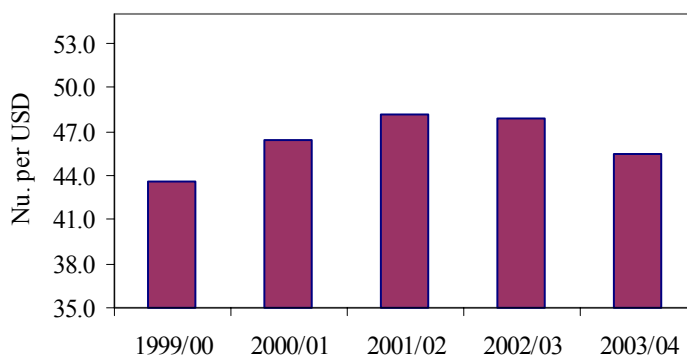
Among other major currencies, the Japanese Yen appreciated by 8 percent against the US Dollar between June 2003 and June 2004. The Yen averaged 110.86 per US Dollar in 2003/2004 as against 119.83 in the previous year.

The Euro appreciated against the US Dollar by 4.1 percent between June 2003 and June 2004, as against an appreciation of 22.1 percent over the previous corresponding period.

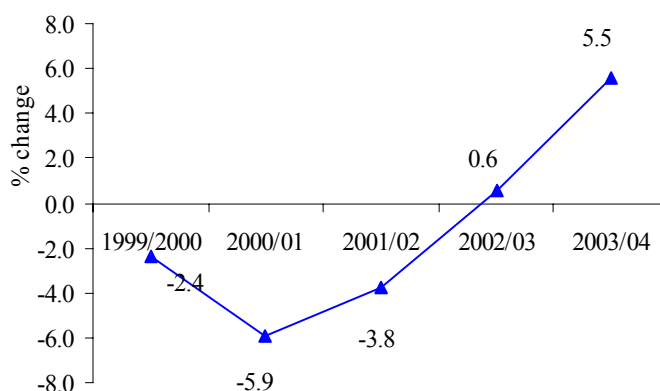
Graph 3.17
Monthly Movements, FY 2003/2004



Graph 3.18
Exchange Rate (BTN/US Dollar)
(Fiscal Year Average)



Graph 3.19
Appreciation/Depreciation of BTN vis-à-vis USD



Box 3.2

Exchange Rate Developments in India, 2003/04

Excess supply conditions dominated the foreign exchange market during the major part of 2003/04, reflecting sustained expansion of the current account surplus in the balance of payments and surge in capital inflows. Large scale purchases by the Reserve Bank to absorb excess supplies in the foreign exchange market assuaged the strong upward pressures on the exchange rate. Despite these interventions, the Indian Rupee appreciated by 9.3 percent against the US Dollar during 2003/04. This was counterbalanced by the weakening of the Rupee against other major currencies in tandem with the US Dollar. Consequently, the depreciation of the Rupee in terms of the nominal effective exchange rate was relatively muted.

In cross-country trade, the Rupee weakened against both the Euro and the Pound Sterling, reflecting the movements of the Rupee against the US Dollar and movements of the US Dollar vis-à-vis the other major international currencies. While the US Dollar depreciated against the Euro, Pound Sterling and Japanese Yen by 11.4 percent, 14.3 percent and 11.7 percent, respectively, the Indian Rupee depreciated against these three currencies by 3.2 percent, 6.0 percent and 4.3 percent, respectively, over the year.

Higher exports, remittances and foreign institutional investments (FIIs) resulted in strong supplies. Despite robust imports, demand for credit was deflected from the domestic market by an increasing recourse to relatively low cost external commercial borrowings and trade credits.

Although steady inflows from foreign funds and other sources continued into the second quarter, uncertainties in the foreign exchange market and the RBI's net market purchases of USD 7.8 billion kept the rupee range-bound (Rs.45.71 – Rs.46.49).

Sustained US Dollar demand from corporates and importers amidst fears of slowdown in inflows on account of tightening of the external commercial borrowings (ECB) guidelines drove down the Rupee by 59 paise or 1.3 percent against the US Dollar between November 14 and end-November 2003. However, it bounced back against the US Dollar in early December 2003 and the undertone in foreign exchange trading remained firm throughout the month on sustained investment flows from FIIs, steady inward remittances and a positive sovereign rating assigned by Standard & Poor's.

Liberalization of the ECB regime, the impact of large export receivables, sustained FII inflows and upgrading of the country's long-term foreign currency rating by the Moody's Investor Services buoyed up the Rupee in the last quarter of 2003/04, causing it to appreciate sharply by 5 percent against the US Dollar.

The Rupee came under pressure during May 2004 and reached Rs.45.96 per US Dollar on May 17, 2004 because of turbulence in the equity market, cash dollar shortage and rising global oil prices. FIIs sold heavily in the Indian equity market on that day. The RBI assured the market that it would continue to sell Dollars through the banks to augment supply in the foreign exchange market or would intervene directly to meet any demand-supply mismatches at the prevailing market rates.

The depreciation continued in June-July 2004 on account of slowdown in capital inflows and higher demand for foreign exchange by corporates.

Source: Annual Report 2003-04, Reserve Bank of India

4. GOVERNMENT FINANCE

The Royal Government continued to focus on poverty reduction through investment in major sectors of the economy and infrastructure development, with the overarching objective to bring about sustainable, balanced, and equitable development in the country. Presented in the revised budget for 2003/2004 as of April 2004, the total outlay increased by 25.5 percent to Nu.12,479.6 million over the 2002/2003 actual outlay of Nu.9,945.3 million. Meanwhile domestic revenue exceeded current expenditure by Nu.593.2 million. And the overall budget deficit for 2003/2004 improved by 35.6 percent over 2002/2003 to Nu.1,861.1 million.

Box 4.1

Focus of the Financial Year 2003/2004 Budget

Social Sector

- Initiative towards human resource development through investment in health and education.
- Emphasis on the consolidation and improvement in the quality of health services.

Communications

- Investments in rural telecommunications.
- Expansion of rural electrification along with rural telecommunication networks in the country.

Human Settlements

- Effort to promote balanced regional development.
- The provision of basic urban amenities including road access, electricity, telecommunications, water supply and sanitation facilities, and other public amenities.
- Ensuring proper development of urban centers with adequate infrastructure and social facilities.

Energy

- Expand rural electrification and electricity exports to India.
- Completion of the construction of the Basochu II hydropower project.

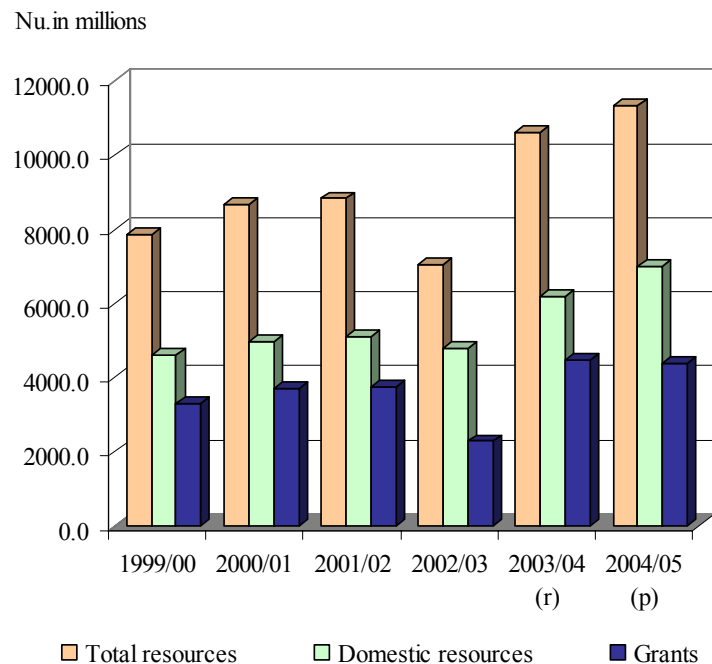
Agriculture

- Effort to enhance agricultural productivity through integrated rural development programs.
- Encourage the development of agro-based business.

4.1. Revenue and Grants

According to the 2003/2004 revised budget, total resources, including revenues and grants, increased by 50.5 percent to Nu.10,618.5 million over the previous year's total of Nu.7,054.3 million. Of total resources, government revenue receipts increased by about 29 percent to Nu.6,162.3 million. Tax revenues improved by 14 percent over the previous year, and constituted around 54 percent of total domestic revenue. The composition of tax collection included corporate tax, sales tax, and business tax.

Graph 4.1
Composition of Resources



According to the National Revenue Report for the year

2003/2004, revenue from CIT amounted to Nu.1,015.4 million, of which the CHPCL continued to be the highest contributor (Nu.585.1 million), followed by the PCAL (Nu.87.6 million). Direct BIT from tour operators, contractors and other businesses amounted to Nu.404 million. During the year, PIT contributions totaled Nu.113.5 million, an improvement of about 13 percent from the previous year. And the collection from BST reached Nu.495.5 million, of which the taxes on goods and services contributed about 82 percents to the collection.

On the other hand, non-tax revenue added Nu.2,365.3 million to overall domestic revenue, registering an increase of 27.4 percent over 2002/2003. Of this, dividends and transfer of profits from public enterprises alone contributed Nu.1,951.5 million, improving by more than 21 percent over the last year's collection.

4.2. Foreign Grants

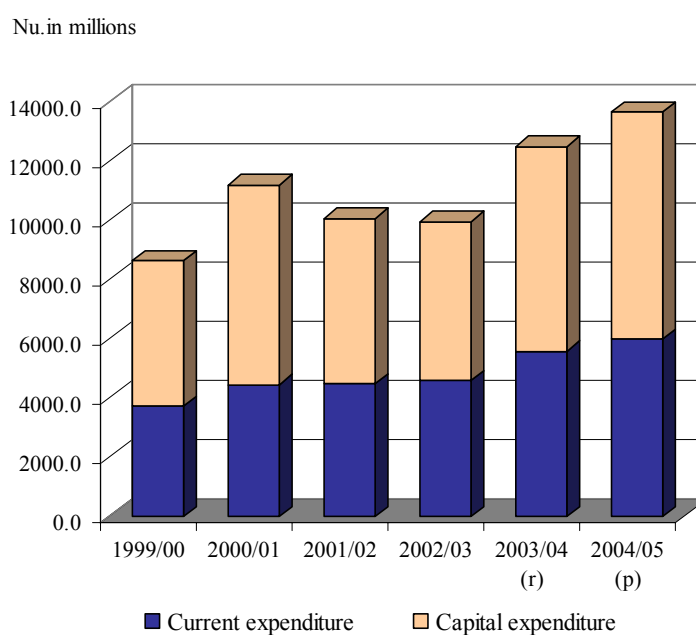
Foreign grants, which finance a major portion of development expenses, grew from Nu.2,269.1 million in 2002/2003 to Nu.4,456.2 million in the review year, by about 96.4 percent. Grants from the GOI improved substantially by 146 percent from the previous year, while grants from other sources increased by 62 percent in the same period. As a consequence, the budget deficit decreased from Nu.2,891 million to Nu.1,861.1 million in this revised budget.

4.3. Expenditure

Total expenditure as at the end of the financial year 2003/2004 stood at Nu.12,479.6 million, 25.5 percent higher than the previous year. This increase in total expenditure was mainly attributed to increased current expenditures, in particular, the interest subsidy to the DACL, membership fees to the IFC, and new appointments in the civil service. Consequently, current expenditure increased by about 22 percent over the previous year to Nu.5,569.1 million, or 17.5 percent of the estimated GDP and 44.6 percent of the total expenditure.

According to the most recent data available, the highest share of current expenditure was incurred on providing general public services, followed by social services and economic services at Nu.2,950 million, Nu.1,726 million, and Nu.898 million, respectively. In the social sector, education claimed the highest share of expenditure at Nu.1,046.8 million, followed by the health sector at Nu.650.1 million. The share of general public services, social services, and the economic services of overall current expenditure were estimated at about 53 percent, 31 percent, and 16 percent, respectively.

Graph 4.2
Composition of Total Expenditure



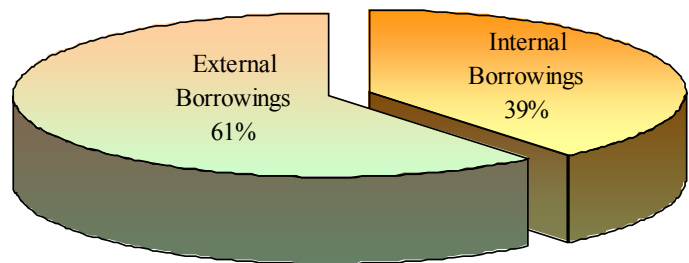
The sectoral budget allocation for capital expenditure showed an increase of about 22 percent, which is Nu.1,205 million higher than the previous year's expenditure of Nu.5,364.4 million. In the sectoral composition of the capital expenditure, the highest share was allocated to economic services, followed by general public services, and social services at Nu.3,453 million, Nu.2,313 million, and Nu.804 million, respectively. Capital expenditure is estimated at about 21 percent of estimated GDP, while the ratio of capital expenditure to total expenditure is estimated at 54 percent for 2003/2004.

4.4. Financing the Deficit

As per the April 2004 revised estimates, the overall fiscal deficit for the review year stood at Nu.1,861.1 million, which is 5.8 percent of estimated GDP. Total expenditure and total resources as a percentage of GDP were estimated at 39 and 33 percent, respectively. 60.5 percent (Nu.1,125.8 million) of the fiscal deficit were met through external borrowings from international development partners, and the remaining resource gap of Nu.735.4 million was financed from domestic borrowings.

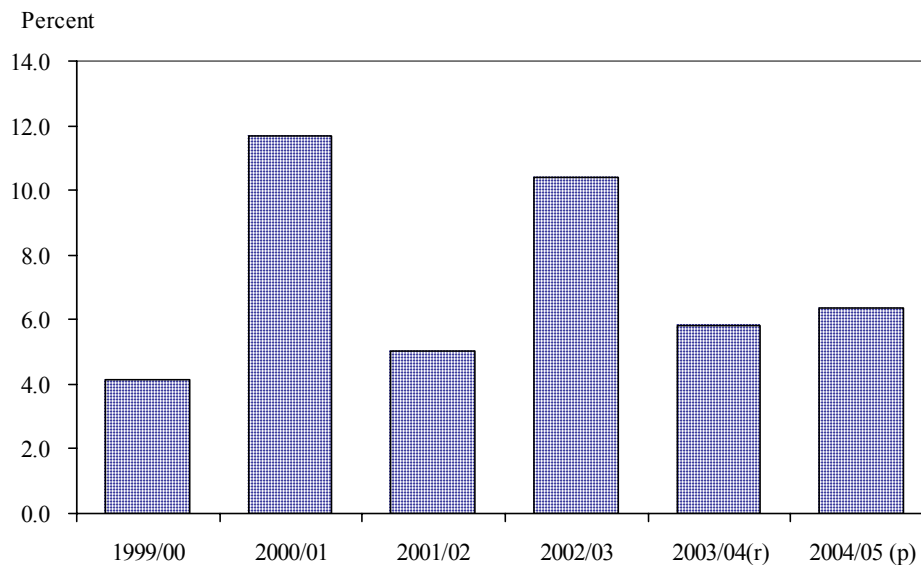
Graph 4.3

Deficit Financing for the 2003/2004 (r) Budget



Graph 4.4

Fiscal Balance (% of GDP)



Box 4.2

Summary of the Financial Year 2004/2005 Budget

The Government's expenditure policy for the financial year 2004/2005 continues to rest on the policy of fiscal sustainability. The proposed budget for the financial year stands at Nu.13,621.7 million, an increase of 9.2 percent from the revised estimates of the 2003/2004 budget. A major portion of the budget is allocated for capital expenditure (1), constituting 56.2 percent of the total outlay.

The planned outlay continues to focus on rural electrification, the construction of feeder and farm roads, and the provision of infrastructure in the educational sector. Other developmental expenditure under budget provisions includes low-income housing, the construction of the hangar for new airplanes, construction of roads (including the Thimphu-Babesa expressway project), and the population census program. While, the current expenditure for the year has been kept at 7.1 percent higher than the revised 2003/2004 budget, expenditure on the wage bill accounts for around 38 percent of the total current expenditure, followed by the maintenance of infrastructure (8 percent), interest payments (6 percent), and about 4 percent as subsidies to corporations. The plan continues to emphasize the long-standing policy of the RGOB towards the social services sectors of health and education, which receive the largest allocation from the budget, followed by agriculture, roads, and general public services.

On the resources front, domestic revenue (2) is expected to finance 51.2 percent of total expenditure. According to the DRC, of total domestic revenue, non-tax revenue will contribute 38 percent, followed by direct and indirect taxes at 36 percent and 26 percent, respectively. Total revenue is projected to increase by 13.2 percent from the revised estimates of the 2003/2004 budget, and most of the growth is projected to accrue from non-tax revenue. Among various sources of tax revenue, corporate income tax is foreseen as the largest contributor, at about 18 percent of the total domestic revenue, while the tax to GDP ratio is estimated around 11 percent.

In comparison to the revised budget estimates of 2003/2004, total grant receipts are expected to decline from Nu.4,456.2 million to Nu.4,375.1 million. Grants from India are projected to improve from Nu.2,287.2 million to Nu.2,725.4 million, as India continues to remain Bhutan's most important development partner, contributing 62.3 percent of the total grants for the period.

In terms of sectoral allocation of public finance, the economic sector will receive the largest share of funds at Nu.5,363.6 million, or 39 percent of total outlay, followed by the general public services and social services sectors.

The budget deficit for the year 2004/2005, projected at Nu.2,269.8 million, is roughly 22 percent higher than the 2003/2004 estimates. This total resource gap represents 6.3 percent of projected GDP (3). Of this amount, 60.7 percent will be financed through external borrowings and the rest through internal sources.

(1) Capital expenditure includes net lending and repayments. (2) In the revenue estimation, the other revenue receipts are considered part of domestic revenue. (3) Projected GDP has been taken at Nu.35,751.2 million from the Ninth Plan Document.

5. WORLD ECONOMY¹⁰

Over the past year, global recovery has become increasingly well established. Between mid-2003 and mid-2004, global output growth (year-to-year change in real GDP) has averaged 5 percent – well in excess of the 4 percent historical trend – with strong growth in industrial countries and exceptionally rapid expansion in emerging markets, notably China. While global output growth in the first quarter was much stronger than earlier expected, the momentum of the recovery slowed thereafter. While some slowdown was both inevitable and desirable following three quarters of exceptionally rapid expansion, GDP growth in several major countries – including the United States and Japan – fell below expectations, raising concerns of an emerging “soft patch”. GDP growth in China also eased – a welcome development, given concerns about incipient overheating – although recent data suggest a soft landing is not yet assured.

Global output growth is expected at 5.0 percent in 2004, falling to 4.3 percent in 2005, after 3.0 percent and 3.9 percent in 2002 and 2003, respectively.

In advanced economies, the expansion continues to be led by the United States. However, second-quarter GDP growth was weaker than expected, and employment growth has slowed. While this emergent “soft patch” is most likely to be temporary, growth forecasts have been marked downward in both 2004 and 2005, and much continues to depend on a solid rebound in employment. In Japan, the upturn has also been strong, amid increasing signs that its long-standing problems – deflation and financial and corporate sector weaknesses – are easing. While growth slowed sharply in the second quarter, recent data suggest the near-term outlook remains solid. However, there are some downside risks, with the key concerns including a further increase in oil prices and an eventual hard landing in China. The recovery is also taking root in the Euro Area with the 2004 forecast marked up significantly, but it remains heavily dependent on external demand. Final domestic demand – especially in Germany – has remained relatively weak. Looking forward, given the Euro Area’s past history of slow adjustment to shocks, and with employment likely to strengthen only gradually, the pace of the expansion is expected to remain moderate.

Output growth in advanced economies is expected at 3.6 percent in 2004, falling to 2.9 percent in 2005, after 1.6 percent and 2.1 percent in 2002 and 2003, respectively.

Other emerging market and developing countries continue to experience a generally strong recovery, with GDP growth forecasts for 2004 revised upward markedly in all major regions. In developing Asia, GDP growth is projected to remain between 7 and 8 percent in 2004, led by booming activity in China – fuelled by very rapid investment and credit growth – and in India, where – despite recent adverse weather conditions – growth is being underpinned by the global expansion and supportive monetary conditions.

¹⁰ The overview is presented on the basis of the World Economic Outlook, September 2004, International Monetary Fund.

Output growth in other emerging market and developing countries is expected at 6.6 percent in 2004, falling to 5.9 percent in 2005, after 4.8 percent and 6.1 percent in 2002 and 2003, respectively. Output growth in Bhutan is expected at 7.3 percent in 2004, increasing to 7.6 percent in 2005, after 6.7 percent and 6.5 percent in 2002 and 2003, respectively, which is quite similar to the output growth in developing Asia.

After falling to unusually low levels in mid-2003, inflation (year-to-year percentage change in consumer prices) across the world has turned up, with earlier concerns about deflation being replaced by fears that inflation is making a comeback. Inflationary risks vary across countries and regions, but in most appear moderate, given substantial excess capacity in many countries, generally moderate wage settlements relative to productivity growth, strong corporate profitability, particularly in the United States, providing scope for firms to absorb price pressures, and reasonably well-anchored inflationary expectations. Nevertheless, central banks will need to be vigilant to ensure that the second-round effects of higher headline inflation (due to higher oil prices) are well-contained, a task that will be easier in those countries where central bank credibility is well established.

Consumer prices (year-to-year changes) in advanced economies are expected at 2.1 percent in 2004 and 2.1 percent in 2005, after 1.5 percent and 1.8 percent in 2002 and 2003, respectively. Consumer prices in other emerging market and developing economies are expected at 6.0 percent in 2004, falling to 5.5 percent in 2005, after 6.0 percent and 6.1 percent in 2002 and 2003, respectively. In line with rising inflation in India, consumer prices in Bhutan are expected at 3.0 percent in 2004, increasing to 4.0 percent in 2005, after 2.7 percent and 1.8 percent in 2002 and 2003, respectively. In other words, the inflationary climate in Bhutan might heat up substantially in the near future.

Table 5.1: Summary Overview of the *World Economic Outlook* Projections

Percentage change on the previous year

Indicator	Actual		Projections	
	2002	2003	2004	2005
World Output¹⁾	3.0	3.9	5.0	4.3
Advanced economies	1.6	2.1	3.6	2.9
Other emerging market and developing countries	4.8	6.1	6.6	5.9
Memorandum items:				
Developing Asia	6.6	7.7	7.6	6.9
Bhutan	6.7	6.5	7.3	7.6
Consumer Prices				
Advanced economies	1.5	1.8	2.1	2.1
Other emerging market and developing countries	6.0	6.1	6.0	5.5
Memorandum items:				
India	4.3	3.8	4.7	5.0
Bhutan	2.7	1.8	3.0	4.0

Source: World Economic Outlook, September 2004, International Monetary Fund, p. 3, p. 208, and p. 216.- 1) Real GDP.

6. MACROECONOMIC INDICATORS FOR THE SAARC REGION

Selected economic statistics of SAARC member countries have been compiled in Table 6.1, based on information available with their respective central banks, to give a comparative overview of economic conditions in the region.

Within the region, India, Maldives, and Bhutan continue to enjoy relatively high growth as measured by the real GDP. In 2003/2004, there was a GDP growth of 8.5 percent in the Maldivian economy, followed by India where the growth more than doubled to 8.2 percent. Inflation is also among the lowest in Maldives and Bhutan, with even a deflation of 2.9 percent recorded for Maldives. Inflation in Bhutan, as measured on a half-yearly basis, has been lower compared to India (1.2 percent against 3.5 percent, respectively, in 2003/2004). However, the new and improved quarterly CPI of the NSB recorded Bhutanese inflation at 4.6 percent in the first quarter of 2004, which also reflects a closer picture to conditions in India.

On the fiscal front, budget deficit as a percent of GDP has been comparatively higher for Sri Lanka, Bhutan, and India (7.6, 5.8, and 4.8 percents respectively, in 2003/2004). While the ratio of total revenue and grants to GDP is also, comparatively, the highest for Bhutan, Sri Lanka, and for Maldives, the percent of total expenditure and net lending to GDP in these three countries are also the highest.

Bhutan's external debt has been steadily rising to account for 75.4 percent of its GDP in 2003/2004, the highest among the member countries. Next to Bhutan, Sri Lanka's debt to GDP ratio was 64.1 percent, followed by Nepal with 49.5 percent. India lies on the other extreme with a debt to GDP ratio of 17.6 percent in 2003/2004. However, Bhutan's debt service ratio is one of the lowest in the region, having been around 5 percent within the last four years and declining to 4.1 percent in 2003/2004, second only to Maldives (3.9 percent in 2003).

Table 6.1: Selected Economic Indicators for the SAARC Region

Statistics / Indicators *)	1999/00	2000/01	2001/02	2002/03 (p)	2003/04 (p)
I. Growth in Real GDP					
a) Bangladesh (1995/96 prices)	6.1	5.4	4.4	5.3	5.5
b) Bhutan (1980 prices) 1/	7.7	5.5	7.1	6.7 (r)	6.5
c) India (1993/94 prices)	6.1	4.4	5.8 (p)	4.0 (q)	8.2 (re)
d) Maldives (1995 prices)	7.2	4.8	3.5	6.5	8.5
e) Nepal (1994/95 prices)	6.1	4.7	-0.3	2.7	3.5
f) Pakistan (1980/81 prices)	3.9	1.8	3.1	5.1	6.4
g) Sri Lanka (1996 prices)	4.3	6.0	-1.5	4.0	5.9
II. Inflation: CPI Percent Change 2/					
a) Bangladesh (1995/96=100)	..	1.7	3.6	5.0	5.6
b) Bhutan (1979=100)	3.6	3.6	2.7	1.8	1.2
c) India (1982=100; industrial workers)	4.8	2.5	5.2	4.1	3.5
d) Maldives (1995=100)	3.0	-1.2	0.7	0.9	-2.9
e) Nepal (1995/96=100)	3.5	2.4	2.9	4.8	4.0
f) Pakistan (1990/91=100)	5.1	2.5	4.4	1.9	8.5
g) Sri Lanka (1995-1997=100)	0.6	8.1	13.4	6.6	1.0
III. Government Budget (as percent of GDP) 3/					
Total Revenue and Grants					
a) Bangladesh	10.5	10.7	11.4	11.2	11.4
b) Bhutan	42.4	40.7	36.3	25.4	33.3
c) India	9.4	9.2	8.8	9.4	9.5 (re)
d) Maldives	32.1	32.3	33.0	33.2	-
e) Nepal	12.8	13.5	13.5	14.9	14.9
f) Pakistan 4/	16.3	16.2	17.2	17.7 (pa)	18 (re)
g) Sri Lanka	18.3	17.2	22.9	17	16.2
Expenditure and Net Lending					
a) Bangladesh	14.5	14.8	14.9	14.6	14.8
b) Bhutan	46.5	52.4	41.3	35.8	39.1
c) India	15.4	15.6	15.9	16.8	17.1 (re)
d) Maldives	36.1	36.7	37.7	38.1	-
e) Nepal	17.5	19.4	19.0	18.5	18.6
f) Pakistan	22.5	21.0	22.8	22.2	21.9
g) Sri Lanka	25.2	26.7	27.5	25.4	23.7
Overall Budget Balance					
a) Bangladesh	-4.5	-4.1	-3.1	-3.4	-3.4
b) Bhutan	-4.1	-11.7	-5.0	-10.4	-5.8
c) India	-5.4	-5.7	-6.2	-5.9	-4.8 (re)
d) Maldives	-4.1	-4.4	-4.7	-4.9	-
e) Nepal	-4.7	-5.9	-5.4	-3.6	-3.7
f) Pakistan	-6.6	-5.2	-5.2	-4.5	-3.9
g) Sri Lanka	-6.9	-9.5	-14	-8.5	-7.6
IV. Trade and Balance of Payments 5/					
Exports Growth Rate (US\$ values)					
a) Bangladesh	7.9	12.6	-7.6	9.5	15.9
b) Bhutan	9.2	-12.9	4.1	8.9	39.7
c) India	10.8	21	-1.6	20.3	20.4
d) Maldives	-4.3	18.8	1.4	20.1	14.9
e) Nepal		11.7	-20.1	-14.1	12.5
f) Pakistan	8.8	9.1	2.3	19.1	13.8
g) Sri Lanka	-3.9	19.8	-12.8	-2.4	9.2

Statistics / Indicators *)	1999/00	2000/01	2001/02	2002/03 (p)	2003/04 (p)
Imports Growth Rate (US\$ values) 6/					
a) Bangladesh	4.8	11.4	-8.7	13.1	13.0
b) Bhutan	14.0	-8.3	9.8	1.7	29.6
c) India	17.2	1.7	1.7	19.4	25.4
d) Maldives	13.6	-3.4	1.3	-0.5	20.2
e) Nepal		6.7	-15.1	6.6	18.4
f) Pakistan	-0.1	6.3	-7.5	20.1	20.1
g) Sri Lanka	1.5	22.4	-18.4	2.2	9.3
Trade Balance (US\$ million)					
a) Bangladesh	-1865	-2011	-1768	-2215	-2319
b) Bhutan	-71	-70	-83	-77	-88.0
c) India	-17841	-14370	-12703	-12910	-16706
d) Maldives	-262	-233	-236	-212	262.3
e) Nepal	-758	-767	-697	-901	-1106
f) Pakistan	-1412	-1269	-294	-444	-1212
g) Sri Lanka	-1369	-1798	-1157	-1406	-1539
Current Account (percent of GDP)					
a) Bangladesh	-0.9	-2.3	0.3	0.3	0.3
b) Bhutan	5.7	1.6	-2.7	8.9	7.0
c) India	-1.0	-0.8	0.2	0.8	1.4
d) Maldives	-13.4	-8.2	-9.4	-5.6	-
e) Nepal	4.5	4.9	4.3	2.6	2.4
f) Pakistan	-0.3	0.5	4.0	5.1	2.0
g) Sri Lanka	-3.6	-6.4	-1.4	-1.4	-0.6
Capital and Financial Account (percent of GDP)					
a) Bangladesh	0.9	2.4	1.7	1.6	0.5
b) Bhutan	9.7	6.7	12.1	16.7	17.1
c) India	2.3	2.2	2.2	2.4	3.7
d) Maldives	8.2	3.8	5.1	9.5	-
e) Nepal	3.7	-5.4	-7.5	-2.6	-4.2
f) Pakistan	-5.7	-0.9	-1.5	-0.2	-1.3
g) Sri Lanka	-1.7	-3.1	1.3	2.0	2.8
V. External Debt (end of period)					
Total External Debt (percent of GDP)					
a) Bangladesh	33.8	31.7	33.4	33.0	31.7
b) Bhutan	40.9	51.5	57.9	70.0	75.4
c) India	22.1	22.6	21.1	20.2	17.6
d) Maldives	31.5	28.5	29.0	34.9	-
e) Nepal	50.2	48.8	52.1	49.1	49.5
f) Pakistan	51.8	52.1	51.0	43.1	37.2
g) Sri Lanka 7/	63.5	61.0	60.3	62.4	64.1
Debt Service Ratio (percent of X G & S)					
a) Bangladesh	9.5	8.8	9.9	9.4	7.5
b) Bhutan	4.9	4.7	4.9	5.0	4.1
c) India	16.2	17.2	13.9	15.1	18.3
d) Maldives	3.9	4.2	4.3	4.3	3.9
e) Nepal	6.0	6.2	8.1	9.7	-
f) Pakistan	31.6	32.7	36.7	22.8	32.5
g) Sri Lanka	15.2	14.7	13.2	13.2	11.6

Statistics / Indicators *)	1999/00	2000/01	2001/02	2002/03 (p)	2003/04 (p)
VI. Exchange Rate Per US Dollar 8/					
a) Bangladesh	50.3	53.9	57.4	57.9	58.8
b) Bhutan	43.6	46.4	48.2	47.9	45.4
c) India	43.6	46.4	48.2	47.9	45.4
d) Maldives	11.8	11.8	12.8	12.8	12.8
e) Nepal	68.9	73.6	76.5	78.0	73.9
f) Pakistan	51.6	58.2	61.6	58.6	57.6
g) Sri Lanka	73.0	83.6	93.1	96.7	97.3
VII. Monetary Aggregates (end of period)					
Narrow Money (M1) Annual Growth					
a) Bangladesh	15.3	12.4	8.1	10.7	13.9
b) Bhutan	28.7	21.3	12.1	37.6	13.9
c) India	10.6	11.0	11.4	12.0	21.8
d) Maldives	14.5	11.1	-5.9	13.9	11.6
e) Nepal	19.4	15.7	9.3	8.6	12.6
f) Pakistan	14.9	3.0	15.2	26.2	24.0
g) Sri Lanka	12.8	9.1	3.2	14.0	16.0
Broad Money (M2) Annual Growth					
a) Bangladesh	18.6	16.6	13.1	15.6	13.8
b) Bhutan	21.4	5.5	17.6	29.7	4.1
c) India 9/	14.6	16.8	14.1	12.7	16.6
d) Maldives	3.6	4.1	9.0	19.3	14.6
e) Nepal	21.8	15.2	4.4	9.8	13.5
f) Pakistan	9.4	9.0	15.4	18.0	19.6
g) Sri Lanka	13.4	12.9	13.6	13.4	15.3
Reserve Money (M0) Annual Growth					
a) Bangladesh	15.7	10.9	24.3	3.3	7.8 (r)
b) Bhutan	10.9	-4.8	27.9	34.9	17.0
c) India	8.2	8.1	11.4	9.2	18.3
d) Maldives 10/	7.2	5.0	8.0	18.8	-1.9
e) Nepal	16.8	15.7	11.9	2.5	14.8
f) Pakistan	25.1	7.1	9.6	14.5	15.4
g) Sri Lanka	8.2	4.7	7.0	12.3	11.9
Income Velocity of Money (GDP/M2)					
a) Bangladesh	3.17	2.91	2.77	2.64	2.56
b) Bhutan	2.08	2.26	2.20	1.93	2.13
c) India	1.83	1.71	1.61	1.5	1.49
d) Maldives	2.37	2.41	2.30	2.06	-
e) Nepal	2.04	1.92	1.89	1.84	1.77
f) Pakistan	2.7	2.7	2.5	2.2	2.3
g) Sri Lanka	2.74	2.79	2.76	2.69	2.65
Money Multiplier (M2/M0)					
a) Bangladesh	4.38	4.61	4.19	4.69	4.95
b) Bhutan	1.80	2.00	1.84	1.77	1.57
c) India	3.99	4.32	4.40	4.70	4.60
d) Maldives	1.77	1.76	1.78	1.78	2.08
e) Nepal	3.05	3.04	2.84	3.04	3.00
f) Pakistan	2.81	2.86	3.01	3.1	3.22
g) Sri Lanka	4.26	4.60	4.88	4.92	5.08

- (p) provisional (r) revised (q) quick estimates (re) revised estimates (pa) provisional actual X G&S: Export of goods & services. *) Data on Maldives and Sri Lanka are on a calendar year basis. For example, entry under 2003/04 is for CY 2003.
- 1/ GDP data for Bhutan is on a calendar year basis. For example, entry under 2003/04 is for CY 2003.
- 2/ End of period; Point-to-point, except for Nepal and Maldives which are annual averages, and Bhutan which is biannual average (January to June). The base year for Bangladesh has been revised.
- 3/ For Bhutan, all fiscal data for 2003/04 are as of April 2004.
- 4/ Consolidated federal and provincial governments; excluding grants.
- 5/ Trade data for Bhutan upto 2001/02 are on a calendar year basis. E.g.- Entry under 2001/02 is for CY 2001.
- 6/ Import values are fob except for Bhutan which is cif.
- 7/ Including banking sector external liabilities.
- 8/ Data on exchange rates from IFS, IMF. Represents the period average for July-June end.
- 9/ Data for 2002/2003 is adjusted for mergers in the banking system since May 3, 2002.
- 10/ Excludes Maldives Monetary Authority Certificate of Deposits.

Sources:	
Bangladesh	: Annual Report 2003/2004, Bangladesh Bank; Bangladesh Bank website; IMF Document: Staff Report for the 2003 Article IV Consultation.
Bhutan	: Royal Monetary Authority of Bhutan; National Statistical Bureau; Dept. of Revenue and Customs, and Dept. of Aid and Debt Management, Ministry of Finance.
India	: Annual Report 2003-04, Reserve Bank of India (RBI); Handbook of Statistics on the Indian Economy, RBI 2003-04.
Maldives	: Annual Report 2002, Maldives Monetary Authority (MMA); MMA website; Quarterly Economic Bulletin, June 2004, MMA.
Nepal	: Macroeconomic Indicators of Nepal, October 2004, Nepal Rastra Bank (NRB); Economic Report 2002/03, NRB; IMF Document : Nepal - Statistical Appendix (to Staff Report for the 2003 Article IV Consultation).
Pakistan	: Annual Report 2003-2004, State Bank of Pakistan.
Sri Lanka	: Annual Report 2003, Central Bank of Sri Lanka.

7. ANNUAL AUDITED ACCOUNTS OF THE RMA FOR 2003/2004

In accordance with Part 10, Section 46(3) of the RMA Act, 1982, the audited financial statements for the year ended June 30, 2004, consisting of the Statement of Condition for the Banking and Issue Divisions and the Income and Expenditure Statement, audited by M/s P.K Mitra & Co., a chartered accountancy firm from Kolkatta, India, are appended in this issue of the Annual Report (*Annexes X and XI*).

During the year, the total assets of the RMA (Banking Division) registered a growth of 5.5 percent from Nu.10.9 billion, as at the end of June 2003, to Nu.11.5 billion as at June 30, 2004. About 96 percent of the total assets of the Banking Division consisted of foreign assets.

During the year, the RMA's operating surplus transferable to the Royal Government declined by about 28 percent to Nu.51.4 million from Nu.71.5 million in the previous year. This significant decline in the operating surplus has resulted largely from a fall in the interest income on investment due to a sharp drop in world interest rates. Total interest income declined by Nu.17.1 million or more than 8 percent, as compared to last year. Interest expenditure, mainly on account of the use of central bank policy instruments – the RMA Bills and the CRR – decreased by 12 percent during the year, due to a downward revision of interest rates on both the RMA Bills and CRR.

During the year, there has been a depletion of capital and reserves of the Authority from Nu.1.3 billion at the end of the previous financial year to Nu.980.3 million at the end of June 2004, mainly due to a significant decrease in the revaluation reserves as a result of a constant appreciation of the Ngultrum vis-a- vis the US dollar.

With regard to Ngultrum notes and coins in circulation, their growth recorded at the end of June 2004, was 16.7 percent, up from Nu.1.8 billion at the end of the previous financial year to Nu.2.1 billion as at the end of June 2004. It may be noted that the amount of foreign assets in relation to Ngultrum and coins in circulation works out to be slightly more than six times larger.

II. STATISTICAL SECTION

TABLE 1. GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ACTIVITY

At Current Prices in Millions of Ngultrum

Sector	Year											Share of GDP in 2003 (%)
	1980	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(e)	
1. Agriculture, livestock, and forestry	621	3427	3898	4538	5369	6058	6630	7773	8471	9371	10595	32.7
1.1 Agriculture proper	310	1815	2043	2254	2506	2893	3175	3878	4214	4611	5211	16.1
1.2 Livestock production	139	704	806	910	1238	1374	1487	1625	1770	1788	2002	6.2
1.3 Forestry and logging	172	909	1049	1374	1625	1790	1968	2270	2487	2972	3382	10.5
2. Mining and quarrying	7	172	193	270	309	262	326	341	401	501	612	1.9
3. Manufacturing	36	875	1089	1444	1520	1622	1762	1719	1973	2038	2445	7.6
4. Electricity	3	574	1059	1102	1730	1941	2318	2462	2666	3039	3097	9.6
5. Construction	89	787	931	1040	1466	1687	2113	2901	3945	5360	6431	19.9
6. Wholesale and retail trade, restaurants and hotels	122	647	731	904	1014	1160	1282	1465	1627	1579	1768	5.5
7. Transport, storage, and communications	48	638	688	856	1023	1370	1637	1881	2232	2329	2772	8.6
8. Financing, insurance, real estate, and business services	70	468	503	442	729	1004	1042	1345	1601	1801	2089	6.5
9. Community, social & personal services (Government administration and defense)	120	709	751	1014	1363	1437	1873	1968	2137	2241	2554	7.9
Less : Imputed bank service charges	-20	-148	-231	-203	-527	-458	-442	-528	-736	-478	-479	
Gross Domestic Product	1095	8151	9611	11406	13996	16081	18541	21328	24317	27779	31884	100.0

Source : National Statistical Bureau. Figures of past years have been revised in 2001 and in 2004.

TABLE 2. GROSS DOMESTIC PRODUCT AT FACTOR COST BY KIND OF ACTIVITY

At 1980 Prices in Millions of Ngultrum

Sector	Year											Growth from 2002 to 2003 (%)
	1980	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(e)	
1. Agriculture, livestock, and forestry	621	1081	1124	1198	1234	1269	1335	1395	1439	1477	1536	4.0
1.1 Agriculture proper	310	579	585	601	625	647	679	712	742	761	793	4.2
1.2 Livestock production	139	228	243	256	260	263	280	290	294	299	309	3.3
1.3 Forestry and logging	172	275	296	341	349	359	377	394	404	417	434	4.1
2. Mining and quarrying	7	33	35	46	44	51	56	48	57	65	72	10.8
3. Manufacturing	36	233	270	292	292	298	309	290	317	318	350	10.1
4. Electricity	3	259	325	343	354	367	401	398	447	545	556	2.0
5. Construction	89	222	243	243	267	322	399	475	556	695	763	9.8
6. Wholesale and retail trade, restaurants and hotels	122	170	178	203	218	225	232	237	254	240	248	3.3
7. Transport, storage, and communications	48	242	245	271	309	350	382	405	440	442	491	11.1
8. Financing, insurance, real estate, & business services	70	245	263	256	320	349	339	421	458	426	462	8.5
9. Community, social & personal services (Government administration and defense)	120	293	330	335	361	363	410	418	441	449	477	6.2
Less : Imputed bank service charges	-20	-61	-95	-116	-106	-90	-88	-104	-143	-105	-105	
Gross Domestic Product	1095	2716	2918	3070	3291	3503	3775	3982	4266	4551	4849	6.5

Source : National Statistical Bureau. Figures of past years have been revised in 2001 and in 2004. 1) The average rate of growth of Gross Domestic Product from 1993 to 2003 is 6.6%.

TABLE 3. SALES OF MAJOR INDUSTRIES

Millions of Ngultrum

Industry	Period												
	2001	2002					2003					2004	
		I	II	III	IV	Total	I	II	III	IV	Total	I	II
(1) Army Welfare Project	283.8	71.0	58.9	52.7	72.3	255.0	58.9	47.4	29.7	54.3	190.4	58.9	48.9
Exports to India	74.0	20.6	20.2	11.6	14.0	66.3	12.0	8.1	3.2	5.5	28.8	4.5	3.9
Exports to Countries other than India	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales within Bhutan	209.8	50.4	38.7	41.1	58.4	188.6	46.9	39.3	26.5	48.9	161.6	54.4	44.9
(2) Bhutan Board Products Limited	294.1	101.3	86.1	101.4	-	288.8	-	288.8	202.70	-	491.5	-	-
Exports to India	255.8	-	80.3	-	-	80.3	-	-	-	-	-	-	-
Exports to Countries other than India	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales within Bhutan	38.3	-	5.8	-	-	5.8	-	-	-	-	-	-	-
(3) Bhutan Carbide & Chemicals Ltd.	675.9	155.4	186.4	185.6	180.2	707.5	165.5	176.4	176.8	184.6	703.4	169.9	179.8
Exports to India	509.4	155.4	186.4	185.6	177.4	704.7	163.8	169.8	175.1	178.3	687.0	157.9	178.0
Exports to Countries other than India	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales within Bhutan	166.4	-	-	-	2.8	2.8	1.8	6.6	1.77	6.30	16.4	12.0	1.8
(4) Bhutan Fruit Products Limited	111.6	42.7	36.6	21.0	33.6	133.9	33.4	41.7	25.2	22.2	122.4	32.3	77.2
Exports to India	87.0	37.4	28.6	13.6	28.4	107.9	30.7	31.8	19.0	17.4	98.9	27.9	69.4
Exports to Countries other than India	6.9	0.6	1.5	1.4	0.7	4.2	1.3	1.7	1.0	0.9	4.9	1.1	0.7
Sales within Bhutan	17.7	4.7	6.6	6.0	4.5	21.8	1.4	8.2	5.2	3.9	18.6	3.2	7.1
(5) Bhutan Polythene Company Ltd.	46.9	8.7	15.2	11.2	11.6	46.7	6.4	15.9	6.5	-	28.8	10.9	-
Exports to India	11.5	3.8	4.3	1.1	2.3	11.5	3.5	2.7	3.9	-	10.1	0.0	-
Exports to Countries other than India(*)	-	-	-	-	9.3	-	-	-	-	-	-	-	-
Sales within Bhutan	35.3	4.9	10.9	10.0	-	25.9	2.9	13.2	2.54	-	18.6	10.9	-
(6) Penden Cement Authority Ltd.	763.9	187.0	222.7	164.6	240.0	814.3	246.8	236.0	183.9	229.4	896.1	234.3	222.3
Exports to India	316.5	60.3	67.7	52.1	78.0	258.1	68.8	76.3	44.2	65.4	254.7	68.8	58.2
Exports to Countries other than India	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales within Bhutan	447.4	126.7	155.0	112.5	162.0	556.1	178.0	159.7	139.7	164.0	641.4	165.5	164.1

TABLE 3. SALES OF MAJOR INDUSTRIES, CONTINUED

Millions of Ngultrum

Industry													
	2001	2002					2003					2004	
		I	II	III	IV	Total	I	II	III	IV	Total	I	II
(7) Bhutan Ferro Alloys Limited	579.0	163.1	158.7	161.8	159.6	643.2	167.1	170.5	165.0	155.6	658.1	172.1	197.7
Exports to India	579.0	163.1	158.7	161.8	159.6	643.2	167.1	170.5	165.0	155.6	658.1	172.1	197.7
Exports to Countries other than India	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales within Bhutan	-	-	-	-	-	-	-	-	-	-	-	-	-
(8) Bhutan Agro Industries Limited	27.9	5.2	10.8	6.3	5.2	27.7	4.5	7.8	5.3	8.5	26.1	7.7	11.7
Exports to India	13.3	2.0	2.5	1.6	2.0	8.2	1.1	1.4	0.9	3.5	6.9	2.4	5.6
Exports to Countries other than India	1.8	-	0.7	-	-	0.7	-	-	-	0.7	0.7	0.2	-
Sales within Bhutan	12.7	3.2	7.7	4.7	3.2	18.8	3.5	6.4	4.3	4.3	18.5	5.0	6.13
(9) Eastern Bhutan Coal Company	141.0	35.0	32.4	19.2	46.9	133.4	51.0	22.4	11.2	26.0	110.7	-	-
Exports to India	8.3	-	-	9.9	12.2	22.1	7.8	2.0	0.3	8.5	18.5	-	-
Exports to Countries other than India	50.5	10.0	10.0	2.0	7.6	29.7	8.8	0.1	5.6	-	14.5	-	-
Sales within Bhutan	82.2	25.0	22.3	7.3	27.0	81.7	34.4	20.3	5.3	17.6	77.6	-	-
(10) Druk Satair Corporation Limited	98.3	31.7	31.5	15.9	26.9	106.0	30.6	39.0	23.0	25.8	118.4	32.4	39.9
Exports to India	74.6	22.9	25.4	12.2	23.5	83.9	24.1	31.0	19.6	19.9	94.7	27.1	31.1
Exports to Countries other than India	8.9	1.3	0.4	0.2	0.2	2.1	-	1.5	0.7	0.5	2.6	0.4	0.6
Sales within Bhutan	14.9	7.5	5.7	3.6	3.2	20.0	6.5	6.6	2.7	5.3	21.1	4.9	8.2
(11) Druk Plaster & Chemicals Limited												5.0	10.0
Exports to India												5.0	10.0
Exports to Countries other than India												-	-
Sales within Bhutan												-	-
TOTAL	3022.4	699.9	839.2	638.3	776.3	2944.4	764.2	757.1	626.6	706.4	2854.2	723.5	787.6
Exports to India	1929.4	465.5	574.0	449.4	497.4	1986.2	478.8	493.7	431.3	454.0	1857.7	465.7	554.1
Exports to Countries other than India	68.1	11.9	12.6	3.7	17.8	36.7	10.1	3.3	7.3	2.0	22.7	1.8	1.3
Sales within Bhutan	1024.9	222.4	252.7	185.2	261.1	921.4	275.3	260.1	188.0	250.3	973.8	256.0	232.2

Source : Respective Industry. - (-) Nil. -(1) Alcoholic beverages. -(2) Particle boards. -(3) Calcium carbide. -(4) Processed vegetables and fruits. -(5) High Density Polythene (HDPE) Pipe. (*) Deemed export.-(6)Cement.-(7) Ferro Silicon.-(8) Processed vegetables and fruits -(9) Coal . -(10) Gypsum dust & Gypsum boulders. Note: Data for several industries are currently unavailable as of June 2004.

TABLE 4. SALES FROM POWER PROJECT OPERATIONS

(Millions of Nu.)

	Total Sales				Domestic Sale				Export			
	Total	Basochu	Chukha	Kurichhu	Total	Basochu ¹	Chukha ²	Kurichhu ³	Total	Basochu ⁴	Chukha ⁵	Kurichhu ⁶
2000	2307.4		2307.4		117.8		117.8		2189.6		2189.6	
2001	2237.9		2175.1	62.8	140.5		140.2	0.3	2097.4		2034.9	62.5
2002	2594.1	91.1	2132.6	370.5	192.0	36.3	149.5	6.2	2402.2	54.8	1983.1	364.3
2003	2875.0	107.3	2337.3	430.4	199.8	35.7	151.3	12.8	2675.2	71.7	2186.0	417.5
Jan	56.8	2.5	44.3	10.0	16.7	2.5	14.0	0.3	40.1	0.0	30.3	9.8
Feb	53.5	2.0	33.0	18.5	19.0	2.0	13.0	4.0	34.5	0.0	20.0	14.5
Mar	55.4	1.5	35.8	18.1	19.0	1.5	13.9	3.6	36.4	0.0	21.9	14.5
Apr	156.5	2.4	122.5	31.6	15.0	1.9	12.7	0.4	141.4	0.5	109.8	31.2
May	167.4	2.6	129.0	35.8	15.1	1.9	12.8	0.4	152.3	0.7	116.2	35.4
Jun	327.7	11.4	271.9	44.5	14.5	2.9	11.1	0.5	313.2	8.4	260.7	44.0
Jul	421.3	19.3	355.1	47.0	16.1	3.5	12.1	0.5	405.2	15.8	343.0	46.4
Aug	426.8	19.4	359.2	48.2	15.8	3.5	11.7	0.6	411.0	15.9	347.5	47.7
Sep	413.2	19.1	347.2	46.9	15.7	3.5	11.5	0.6	397.5	15.6	335.7	46.2
Oct	409.0	16.1	337.9	55.0	17.3	4.6	12.1	0.6	391.7	11.6	325.8	54.3
Nov	249.1	7.1	197.6	44.4	17.3	4.4	12.3	0.6	231.8	2.7	185.3	43.8
Dec	138.2	4.1	103.8	30.4	18.2	3.5	14.0	0.6	120.0	0.5	89.8	29.7
2004												
Jan	90.2	3.0	64.7	22.5	18.1	3.0	14.5	0.6	72.1	0.0	50.2	21.9
Feb	65.2	2.3	42.4	20.5	16.5	2.3	13.6	0.6	48.7	0.0	28.8	19.9
Mar	95.8	2.7	63.2	29.9	17.0	2.2	13.8	0.9	78.8	0.4	49.4	29.0
Apr	160.4	2.9	114.7	42.9	16.4	2.2	13.1	1.1	144.0	0.7	101.6	41.7
May	241.0	6.4	177.7	56.9	17.3	3.1	12.7	1.4	223.7	3.2	165.0	55.5
Jun	374.4	14.4	296.8	63.1	18.0	4.1	12.3	1.6	356.4	10.3	284.6	61.5
Jul	383.4	18.9	344.1	20.4	17.6	4.0	12.7	0.8	365.8	14.8	331.4	19.6
Aug	418.6	18.7	336.1	63.8	18.6	3.9	12.9	1.7	400.1	14.8	323.2	62.0
Sep	468.2	43.5	359.6	65.1	19.7	5.2	12.6	1.9	448.5	38.3	347.0	63.2
Percentage change on the previous year												
2004												
Jan	58.8	21.5	46.1	124.2	8.6	21.8	3.7	135.6	79.7	2.0	65.6	123.8
Feb	21.9	17.7	28.4	10.8	-13.1	16.6	4.3	-84.8	41.1	230.8	44.1	36.9
Mar	72.8	72.9	76.7	65.1	-10.7	47.9	-0.3	-75.2	116.5	1440.5	125.7	100.1
Apr	2.5	20.1	-6.4	35.7	9.3	14.8	3.2	177.0	1.8	42.0	-7.5	33.9
May	44.0	144.4	37.8	58.9	14.1	60.8	-0.4	238.0	46.9	393.9	42.0	56.8
Jun	14.2	27.2	9.2	41.9	23.7	40.7	10.1	237.0	13.8	22.5	9.1	39.8

Source: Basochu, Chukha, and Kurichhu Hydropower Corporations. 1) Domestic sale of power is set at Nu.0.5 per unit. 2) Domestic sale of power is set at Nu. 0.3 per unit. 3) Domestic sale of power is set at Nu.0.3 per unit. 4) Basochu Project does not export power directly to India. It sells its surplus power to CHPC at Nu.1.5 per unit. 5) Chukha Project power export sale is set at Nu.1.5 per unit. 6) Kurichhu Project power export sale is set at Nu. 1.75 per unit.

TABLE 5. TOURIST ARRIVALS AND REVENUES (*)

Number of Tourists and Revenues in Millions of US Dollars

Period	2000		2001		2002		2003		2004	
	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue
Jan	65	0.1	185	0.2	55	0.1	192	0.2	89	0.1
Feb	223	0.2	355	0.4	269	0.2	98	0.1	358	0.4
Mar	1066	1.3	553	0.8	862	1.1	654	0.8	831	1.1
Apr	995	1.4	1632	2.3	683	1.1	1215	1.8	1304	2.0
May	415	0.6	276	0.4	296	0.4	397	0.5	448	0.6
June	187	0.2	146	0.1	79	0.1	176	0.2	314	0.3
July	162	0.2	129	0.1	114	0.1	112	0.1		
Aug	307	0.3	252	0.2	213	0.2	198	0.2		
Sept	683	1.0	868	1.5	760	1.2	612	0.9		
Oct	2247	3.7	1308	2.1	1474	2.4	1456	2.2		
Nov	996	1.5	517	0.8	643	0.9	862	1.1		
Dec	213	0.2	172	0.2	151	0.1	289	0.3		
Total	7559	10.5	6393	9.2	5599	8.0	6261	8.3	3344	4.3

Source : Department of Tourism. -(*) Convertible currency paying tourists. Revenue: Gross revenues inclusive of tour operator revenue and government tax.

TABLE 6. SUMMARY OF BUDGETARY OPERATIONS

Millions of Ngultrum

Item	Period					
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (r)
Total Revenue	3,656.9	4,585.4	4,975.8	5,078.2	4,785.3	6,162.3
Tax	1,265.8	1,977.1	1,916.9	2,675.6	2,928.3	3,350.3
Non-tax	2,220.0	2,355.5	2,704.9	2,376.1	1,833.6	1,864.4
Others	171.1	252.8	354.0	26.5	23.4	947.6
Grants	3,262.6	3,274.1	3,711.0	3,748.5	2,269.1	4,456.2
From India	1,928.5	1,927.1	2,551.2	2,531.8	929.3	2,287.2
Others	1,334.1	1,347.1	1,159.8	1,216.7	1,339.7	2,169.0
Total Revenue and Grants	6,919.5	7,859.5	8,686.7	8,826.7	7,054.3	10,618.5
Expenditure (1)	7,224.4	8,624.1	11,177.6	10,052.1	9,945.3	12,479.6
Current	3,178.3	3,702.1	4,435.6	4,467.9	4,580.9	5,569.1
Capital (1)	4,046.1	4,921.9	6,742.0	5,584.2	5,364.4	6,910.5
Budget surplus or Deficit (-)	-304.9	-764.5	-2,490.9	-1,225.4	-2,891.0	-1,861.1
Financing Transactions (2)	304.9	764.5	2,490.9	1,225.4	2,891.0	1,861.1
External borrowings (Net of Principal repayments)	553.6	606.6	1,056.7	1,396.7	1,537.3	1,125.8
Internal Resource gap (3)	-248.7	158.0	1,434.2	-171.3	250.0	735.4
Internal borrowings (Net of principal repayments)	-	-	-	500.0	-	-
Cash and bank balances (4)	-248.7	158.0	1,434.2	-671.3	1,103.6	-
Others	-	-	-	-	-	-

*) These figures pertain to revised budget estimates for 2003/2004 as of September '03, December '03 and April '04. Quarterly updates for the 3rd and 4th Quarter of the Budget is unavailable till the year-end (June 2005).

Source- Dept of National Budget and Accounts (Figures may not add due to rounding). (1) Includes lending to public and joint sector corporations, net of principal repayment (2) Financing transactions by definition must equal the budget deficit or surplus on revenue/grant/expenditure which they finance. Negative financing transactions depicts net repayment of borrowings or increase in cash or bank balances (3) The Internal Resource Gap is that part of the budget deficit/surplus that has to be met from internal resources (Govt Cash and Bank balances or borrowings). A negative resource gap means net repayments of internal borrowings or an increase in Cash or Bank balance (4) Includes use + or repayment - or overdraft.

Others: other receipts.

TABLE 7. SUMMARY OF THE CONSUMER PRICE INDEX (*)

Third Quarter of 2003 = 100

Item	Weight in percent % ¹⁾	Period										
		2000		2001		2002		2003			2004	
		H1	H2	H1	H2	H1	H2	H1	Q3	Q4	Q1	Q2
		Index										
Food	31.7	95.3	95.9	96.2	98.0	98.4	99.9	99.8	100.0	101.4	101.9	101.1
Non-food	68.3	85.3	90.0	92.1	94.4	95.5	97.0	97.4	100.0	102.3	104.7	104.7
Total	100.0	91.2	93.5	94.5	96.5	97.0	98.7	98.8	100.0	102.0	103.8	103.6
		Percentage change on the previous year										
Food	31.7	0.6	1.3	0.9	2.2	2.3	2.0	1.4	-	-	-	-
Non-food	68.3	8.9	9.6	8.0	4.9	3.7	2.7	2.0	-	-	-	-
Total	100.0	3.6	4.4	3.6	3.3	2.7	2.3	1.8	-	-	-	-

Source : National Statistical Bureau. -(*) The new index refers to the average prices during the respective quarters. However, prior to Q3, 2003, no quarterly price indices were calculated and therefore, for Q3 and Q4, 2003 and Q1 and Q2, 2004, year-on-year rates of change of the CPI cannot be computed. The indices prior to Q3, 2003 represent half-yearly averages. The quarterly index and the half-yearly index cannot be directly compared because of a different periodicity and a considerable break in continuity (i.e., the expenditure basket has been completely changed). -1) 2003 Household Income and Expenditure Survey. Includes rent.

TABLE 8.THIMPHU FOOD PRICE INDEX^(*)

Third Quarter of 2003 = 100

Item	Weight in % ¹⁾	Period									
		2002				2003				2004	
		Q1	Q2	Q3	Q4	Q1	Q2 ⁺⁾	Q3 ⁺⁾	Q4	Q1	Q2
		Index									
Cereals and its Products	26.2	100.6	99.0	101.2	99.8	99.5	100.0	100.0	102.2	102.9	101.8
Vegetables, Fruits, and Pulses	12.2	101.0	109.5	86.0	99.4	98.7	100.9	100.0	100.0	100.0	99.6
Edible Oil and Fats ²⁾	12.0							100.0	99.3	99.3	100.0
Milk, Cheese, and Eggs ²⁾	14.0							100.0	102.9	100.3	100.4
Meat and Fish ²⁾	15.0							100.0	100.0	99.6	100.4
Non-Alcoholic Beverages ²⁾	12.0							100.0	105.5	102.7	101.2
Other Food Items	14.0	105.5	107.6	107.4	99.6	100.1	100.0	100.0	102.7	103.7	103.3
Total Food		102.4	103.8	100.1	99.6	99.6	100.2	100.0	101.5	101.0	100.8
		Percentage change on the previous year									
Cereals and its Products	26.2	(0.4)	(2.6)	0.0	(1.3)	(1.1)	1.0	(1.1)	2.5	3.4	1.8
Vegetables, Fruits, and Pulses	12.2	(12.0)	(15.2)	(6.3)	4.1	(2.2)	(7.9)	16.3	0.6	1.3	(1.3)
Edible Oil and Fats ²⁾	12.0										
Milk, Cheese, and Eggs ²⁾	14.0										
Meat and Fish ²⁾	15.0										
Non-Alcoholic Beverages ²⁾	12.0										
Other Food Items	14.0	(2.6)	0.1	0.6	(6.8)	(5.1)	(7.1)	(6.9)	3.1	3.6	3.3
Total Food		(3.3)	(3.8)	(1.1)	(2.4)	(2.8)	(3.5)	(0.1)	1.8	1.5	0.6

Source: National Statistical Bureau. - (*) The index refers to the average prices during the quarter. -+) Between Q2 and Q3 2003 there is a severe break in continuity. As a result, the data comparability across the break is rather limited and has to be considered with due caution. -1) 2003 Household Income and Expenditure Survey. -2) These items were not covered in the previous index, which was based on the 1979 Expenditure Survey.

TABLE 9. INDIAN WHOLESALE PRICE INDEX OF ALL COMMODITIES

1993-94 = 100

Period	Year											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Index											
January	98.7	100.0	116.2	122.0	128.3	134.8	140.9	145.9	158.6	161.0	167.8	178.7
February	99.2	100.0	116.9	122.2	128.8	134.2	141.4	146.4	158.6	160.8	169.4	179.8
March	99.3	100.0	116.9	122.2	128.8	134.4	141.7	149.5	159.1	161.9	171.6	179.8
April	100.0	107.5	119.3	123.7	130.9	136.9	142.4	151.7	159.9	162.3	173.1	180.9
May	100.0	108.3	120.2	124.5	130.8	138.2	142.8	151.8	160.3	162.8	173.4	182.1
June	100.0	110.0	120.7	125.1	131.4	139.8	143.3	152.7	160.8	164.7	173.5	185.2
July	100.0	111.1	121.8	127.0	131.6	140.9	143.7	153.1	161.2	165.6	173.4	
August	100.0	111.8	121.8	127.8	132.0	140.6	144.6	153.4	161.7	167.1	173.7	
September	100.0	111.9	121.9	128.1	132.9	140.8	145.3	154.7	161.7	167.4	175.6	
October	100.0	112.7	122.2	127.8	133.3	142.0	146.9	157.9	162.5	167.5	176.1	
November	100.0	113.2	122.5	128.0	133.1	142.6	147.0	158.2	162.3	167.8	176.9	
December	100.0	114.5	122.1	128.5	133.7	142.1	146.1	158.2	161.8	167.2	176.8	
	Percentage change on the previous year											
January	7.5	1.3	16.2	5.0	5.2	5.1	4.5	3.5	8.7	1.5	4.2	6.5
February	7.6	0.8	16.9	4.5	5.4	4.2	5.4	3.5	8.3	1.4	5.3	6.1
March	7.0	0.7	16.9	4.5	5.4	4.3	5.4	5.5	6.4	1.8	6.0	4.8
April	7.0	7.5	11.0	3.7	5.8	4.6	4.0	6.5	5.4	1.5	6.7	4.5
May	5.8	8.3	11.0	3.6	5.1	5.7	3.3	6.3	5.6	1.6	6.5	5.0
June	4.7	10.0	9.7	3.6	5.0	6.4	2.5	6.6	5.3	2.4	5.3	6.7
July	3.5	11.1	9.6	4.3	3.6	7.1	2.0	6.5	5.3	2.7	4.7	
August	2.6	11.8	8.9	4.9	3.3	6.5	2.8	6.1	5.4	3.3	3.9	
September	1.7	11.9	8.9	5.1	3.7	5.9	3.2	6.5	4.5	3.5	4.9	
October	0.9	12.7	8.4	4.6	4.3	6.5	3.5	7.5	2.9	3.1	5.1	
November	1.2	13.2	8.2	4.5	4.0	7.1	3.1	7.6	2.6	3.4	5.4	
December	1.4	14.5	6.6	5.2	4.0	6.3	2.8	8.3	2.3	3.3	5.7	

Source: Reserve Bank of India.

TABLE 10. ROYAL MONETARY AUTHORITY OF BHUTAN - MONEY AND BANKING STATISTICS(*)

Millions of Ngultrum

End of Period	Assets							
	Total	Foreign Assets			Claims on Deposit Money Banks	Claims on Govt.	Claims on Private Sector	Claims on Non-Monetary Financial Institutions
		Total	Rupee	Convertible Foreign Currency				
1992	2241.9	2027.2	21.7	2005.5	43.7	171.0	0.0	0.0
1993	3126.2	2944.7	59.3	2885.4	107.8	73.7	0.0	0.0
1994	3595.1	3533.2	24.6	3508.6	6.9	0.0	0.0	55.0
1995	4395.0	4337.2	27.6	4309.5	2.8	50.0	0.0	5.0
1996	5602.5	5284.8	25.1	5259.7	307.8	0.0	4.9	5.0
1997	6126.7	6064.6	25.5	6039.0	2.5	51.0	3.7	5.0
1998	9218.6	8022.4	26.9	7995.5	1193.0	0.0	3.1	0.0
1999	10030.6	8840.5	82.3	8758.2	1187.5	0.0	2.6	0.0
2000	11253.8	10357.6	87.8	10269.8	892.7	0.0	3.5	0.0
2001	11011.2	10716.1	1215.5	9500.6	293.2	0.0	1.9	0.0
2002	12321.9	11998.7	913.4	11085.3	194.3	127.0	1.9	0.0
2003								
Jan	12381.6	12113.4	945.1	11168.3	139.4	127.0	1.8	0.0
Feb	12148.8	12061.8	936.4	11125.4	85.4	0.0	1.6	0.0
Mar	12174.4	12081.3	946.1	11135.3	91.5	0.0	1.6	0.0
Apr	12894.5	12777.9	1640.8	11137.1	115.1	0.0	1.6	0.0
May	12825.6	12649.2	1156.1	11493.1	174.7	0.0	1.7	0.0
Jun	12527.3	12322.7	863.6	11459.1	147.5	56.0	1.1	0.0
Jul	12556.1	12277.1	889.4	11387.6	221.7	56.0	1.3	0.0
Aug	12556.9	12379.2	913.5	11465.7	120.1	56.0	1.5	0.0
Sep	12288.6	12093.3	679.1	11414.2	137.6	56.0	1.6	0.0
Oct	11495.6	11319.6	600.6	10719.0	118.4	56.0	1.7	0.0
Nov	11763.1	11592.7	610.6	10982.1	113.1	56.0	1.3	0.0
Dec	12223.5	11862.3	987.3	10875.0	303.5	56.0	1.8	0.0
2004								0.0
Jan	13482.7	12847.4	1703.1	11144.3	577.1	56.0	2.2	0.0
Feb	14239.5	12674.1	1701.3	10972.8	1507.5	56.0	2.0	0.0
Mar	13834.6	12727.5	1722.3	11005.2	1104.5	0.0	2.6	0.0
Apr	14464.3	13656.0	2901.3	10754.7	806.0	0.0	2.3	0.0
May	13969.4	13439.1	1466.0	11973.1	528.2	0.0	2.2	0.0
Jun	13477.6	13191.1	1822.4	11368.7	248.7	37.0	0.8	0.0

Note: Since September 2001 there has been a reclassification in the Rupee and Convertible Foreign Currency

TABLE 10. CONTINUED
Royal Monetary Authority of Bhutan

Millions of Ngultrum

End of Period	Liabilities									
	Total	Reserve Money		Foreign Liabilities			Govt. Deposits	RMA Bills Outstanding	Capital Account	Other Items (Net)
		Total	Of which: Currency Outside Banks	Total	Rupee	Others				
1992	2241.9	1256.5	345.0	0.0	0.0	0.0	20.2	0.0	0.0	965.2
1993	3126.3	1364.9	346.0	0.0	0.0	0.0	25.4	0.0	0.0	1736.0
1994	3595.1	1286.8	347.5	616.8	616.8	0.0	29.8	600.0	40.2	1021.5
1995	4395.0	2149.7	432.4	161.1	161.1	0.0	28.6	550.0	88.1	1417.6
1996	5602.6	2328.5	422.5	250.0	250.0	0.0	333.7	1000.0	78.9	1611.5
1997	6126.7	2545.5	720.9	250.0	250.0	0.0	27.9	681.1	48.1	2574.2
1998	9218.6	3954.1	768.8	250.0	250.0	0.0	1207.3	560.0	150.1	3097.2
1999	10030.6	4972.5	969.2	0.0	0.0	0.0	1233.5	486.5	172.5	3165.6
2000	11253.9	6021.6	1269.6	0.0	0.0	0.0	918.2	410.0	220.6	3683.5
2001	11011.2	6160.7	1609.9	0.0	0.0	0.0	337.9	410.0	161.0	3941.7
2002	12321.9	6982.1	1652.1	0.0	0.0	0.0	141.3	1100.0	277.8	3820.7
2003										
Jan	12381.6	7177.2	1651.5	0.0	0.0	0.0	134.7	1100.0	280.3	3689.4
Feb	12148.8	7140.4	1750.2	0.0	0.0	0.0	130.3	1100.0	127.6	3650.5
Mar	12174.5	7398.5	1711.4	0.0	0.0	0.0	138.0	900.0	132.6	3605.4
Apr	12894.5	8618.3	1613.8	0.0	0.0	0.0	138.7	400.0	146.2	3591.4
May	12825.6	8030.8	1607.9	0.0	0.0	0.0	147.8	900.0	153.8	3593.2
Jun	12527.3	8123.0	1699.0	0.0	0.0	0.0	174.3	700.0	93.5	3436.6
Jul	12556.8	8291.7	1688.2	0.0	0.0	0.0	196.8	600.0	93.5	3374.9
Aug	12556.9	8440.6	1567.0	0.0	0.0	0.0	165.3	600.0	149.5	3201.4
Sep	12288.6	8209.3	1679.0	0.0	0.0	0.0	167.4	500.0	148.3	3263.6
Oct	11495.6	7680.9	1671.6	0.0	0.0	0.0	160.1	300.0	166.3	3188.4
Nov	11763.1	8038.4	1691.3	0.0	0.0	0.0	150.4	100.0	177.7	3296.6
Dec	12223.5	8368.4	1802.3	0.0	0.0	0.0	356.8	0.0	174.3	3324.0
2004					0.0	0.0				
Jan	13482.7	9280.2	1786.2	0.0	0.0	0.0	610.2	100.0	181.1	3311.1
Feb	14239.5	9477.6	1811.5	0.0	0.0	0.0	1262.2	100.0	177.4	3222.3
Mar	13834.6	9381.6	1865.4	0.0	0.0	0.0	1124.4	100.0	108.7	3119.9
Apr	14464.3	10375.2	1830.4	0.0	0.0	0.0	813.4	200.0	124.8	2950.9
May	13969.4	9826.5	1901.3	0.0	0.0	0.0	539.5	200.0	130.9	3272.5
Jun	13477.6	9503.9	2015.2	0.0	0.0	0.0	291.7	200.0	144.9	3337.1

(*) Excluding Rupees in circulation. Money and Banking Statistics revised from 30 June, 1994.

TABLE 11. AUCTIONS/TAP SALES OF RMA BILLS(*)

Auction/Tap Sale No.	Auction/Tap Sale date	Maturity in Days	Bids, millions of Nu.		Discount Rate (%)
			Received	Accepted	
R077	1-Feb-00	92	535.0	150.0	6.0
R078	6-Mar-00	91	535.0	110.0	6.0
R079	21-Mar-00	90	570.0	250.0	8.5
R080	3-May-00	90	570.0	150.0	8.5
R081	5-Jun-00	91	540.0	110.0	8.5
R082	19-Jun-00	91	500.0	250.0	8.5
R083	1-Aug-00	92	500.0	150.0	8.5
R084	4-Sep-00	92	500.0	110.0	8.5
R085	18-Sep-00	91	500.0	150.0	9.5
R086	1-Nov-00	90	500.0	150.0	8.5
R087	4-Dec-00	91	671.0	110.0	7.5
R088	18-Dec-00	91	705.0	150.0	5.5
R089	30-Jan-01	90	520.0	150.0	6.5
R090	5-Mar-01	91	660.0	110.0	5.9
R091	19-Mar-01	91	500.0	150.0	6.0
R092	30-Apr-01	91	550.0	150.0	6.0
R093	4-Jun-01	91	700.0	110.0	5.0
R094	18-Jun-01	91	600.0	150.0	4.9
R095	31-Jul-01	90	650.0	150.0	4.0
R096	3-Sep-01	91	500.0	110.0	3.8
R097	17-Sep-01	91	500.0	150.0	5.4
R098	29-Oct-01	91	300.0	150.0	5.0
R099	3-Dec-01	91	160.0	110.0	5.0
R100	18-Dec-01	90	150.0	150.0	5.0
R101	29-Jan-02	91	770.0	650.0	5.0
R102	4-Mar-02	91	110.0	110.0	5.0
R103	18-Mar-02	92	150.0	150.0	5.0
R104	29-Apr-02	91	650.0	650.0	4.5
R105	3-Jun-02	91	110.0	110.0	4.5
R106	18-Jun-02	93	150.0	150.0	4.5
R107	29-Jul-02	92	665.0	665.0	4.5
R108	2-Sep-02	91	110.0	110.0	4.5
R109	19-Sep-02	91	150.0	150.0	4.0
R110	29-Oct-02	91	500.0	500.0	4.0
R111	2-Dec-02	91	300.0	300.0	4.0
R112	19-Dec-02	91	450.0	300.0	4.0
R113	27-Jan-03	91	500.0	500.0	4.0
R114	5-Mar-03	91	400.0	200.0	4.0
R115	20-Mar-03	91	400.0	200.0	4.0
R116	30-Apr-03	91	600.0	300.0	4.0
R117	28-May-03	91	275.0	200.0	3.5
R118	25-Jun-03	91	400.0	200.0	3.5
R119	30-Jul-03	91	350.0	200.0	3.5
R120	27-Aug-03	91	400.0	200.0	3.5
R121	24-Sep-03	91	200.0	100.0	3.5
R124	31-Dec-03	91	200.0	100.0	3.5
R127	31-Mar-04	91	200.0	100.0	3.5
R128	28-Apr-04	91	100.0	100.0	3.5
R131	28-Jul-04	91	100.0	100.0	3.5
R132	25-Aug-04	91	100.0	100.0	3.5
R134 (**)	27-Oct-04	91	100.0	100.0	3.5
R135 (**)	24-Nov-04	91	100.0	100.0	3.5

(*) Starting from October 29, 2001, Auctions were discontinued and Tap Sales were introduced.

TABLE 12. BANK OF BHUTAN-MONEY AND BANKING STATISTICS

Millions of Ngultrum

End of Period	Assets								
	Total	Reserves with RMA	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector
			Total	Rupee	Others				
1992	2238.9	827.9	212.6	22.6	190.0	2.5	770.1	0.0	425.8
1993	2726.4	1001.2	434.3	129.3	305.0	6.5	795.6	0.0	488.8
1994	2984.1	1416.4	278.5	84.9	193.6	4.6	560.8	238.9	485.0
1995	3921.7	2382.4	252.5	35.4	217.0	1.5	534.6	229.2	521.5
1996	4962.5	2085.3	1545.4	1326.8	218.5	100.0	483.7	187.7	560.5
1997	5743.1	2903.5	1391.5	1153.7	237.9	200.6	449.1	213.3	585.0
1998	6613.3	2672.1	2732.1	2549.8	182.3	50.0	411.4	166.6	581.2
1999	6909.0	3418.1	2395.9	1925.0	470.9	50.0	372.1	135.2	537.7
2000	7813.5	4134.0	2495.2	2070.5	424.6	50.0	332.6	121.7	680.0
2001	9137.7	4342.5	3027.0	2074.7	952.3	250.0	315.2	110.0	1093.0
2002	11300.5	4555.6	4189.8	3002.6	1187.2	853.8	252.0	110.2	1339.2
2003									
Jan	10785.2	4553.1	3478.8	2321.1	1157.7	991.0	252.1	100.4	1409.9
Feb	10504.7	4554.8	3003.9	1852.6	1151.3	1167.6	252.2	101.6	1424.6
Mar	11037.2	4604.8	3210.4	1958.9	1251.5	1415.6	252.2	112.3	1442.0
Apr	12394.7	5641.1	3928.1	1848.0	2080.1	1021.5	252.1	106.3	1445.6
May	12444.8	5570.9	3710.6	1795.1	1915.5	1314.6	252.1	106.9	1489.7
Jun	12313.7	5253.6	3612.9	1755.8	1857.1	1538.0	257.2	119.7	1532.2
Jul	12674.3	5565.5	3617.9	1849.6	1768.3	1611.4	245.7	141.7	1492.1
Aug	12934.6	5729.3	3519.1	1793.3	1725.8	1797.6	249.2	105.8	1533.6
Sep	12776.3	5643.0	4040.4	2328.0	1712.3	1129.8	228.1	128.9	1606.2
Oct	12365.3	4824.4	3558.0	1847.1	1710.9	2028.4	270.9	90.0	1593.5
Nov	12338.8	4926.3	4122.5	2283.5	1839.0	1193.4	271.1	98.7	1726.9
Dec	11602.3	4900.7	3937.9	1978.8	1959.1	671.6	252.0	119.2	1721.0
2004									
Jan	12505.3	5783.1	4003.5	1873.0	2130.5	671.6	260.1	64.9	1722.1
Feb	11622.1	4841.9	4023.3	1902.2	2121.2	671.6	260.2	82.7	1742.3
Mar	11867.9	4719.3	4274.7	2004.3	2270.5	671.6	290.8	69.4	1842.2
Apr	13007.5	6378.1	3777.0	1956.0	1821.0	671.6	286.9	94.3	1799.7
May	12342.4	5699.7	3739.1	2027.5	1711.6	671.6	287.0	100.7	1844.2
Jun	11498.0	5070.5	3430.0	2001.4	1428.6	699.5	268.5	159.0	1870.6

TABLE 12. CONTINUED
Bank of Bhutan

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Credit from RMA	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
1992	2238.9	495.9	691.1	55.0	357.2	357.2	0.0	200.3	0.0	533.9	-94.4
1993	2726.4	487.1	1054.9	65.2	567.8	567.8	0.0	311.3	0.0	329.6	-89.5
1994	2984.1	696.5	1266.8	84.2	0.0	0.0	0.0	139.5	0.0	323.6	473.4
1995	3921.7	889.9	1822.1	104.3	0.0	0.0	0.0	344.0	0.0	371.0	390.4
1996	4962.5	1651.6	1370.5	95.0	0.0	0.0	0.0	458.8	0.0	371.1	1015.5
1997	5743.1	1329.8	2787.1	96.4	0.0	0.0	0.0	183.6	0.0	399.3	946.8
1998	6613.3	1638.3	2842.8	183.2	0.0	0.0	0.0	257.3	0.0	410.7	1281.1
1999	6909.0	2151.4	2860.9	356.1	0.0	0.0	0.0	630.3	0.0	451.3	459.0
2000	7813.5	1998.1	3744.7	158.7	0.0	0.0	0.0	330.1	0.0	513.8	1068.0
2001	9137.7	2554.8	3407.8	209.3	973.4	973.4	0.0	731.6	0.0	654.7	606.2
2002	11300.5	4672.4	3203.2	441.9	0.0	0.0	0.0	775.5	0.0	865.8	1341.8
2003											
Jan	10785.2	4119.1	3023.7	431.5	0.0	0.0	0.0	845.9	0.0	779.5	1585.5
Feb	10504.7	3507.6	3106.7	410.2	324.1	324.1	0.0	759.8	0.0	784.1	1612.3
Mar	11037.2	3446.6	3116.5	602.5	1014.6	1014.6	0.0	422.7	0.0	804.4	1629.9
Apr	12394.7	3868.6	3273.7	1315.1	380.3	380.3	0.0	653.0	0.0	803.7	2100.2
May	12444.8	4156.6	3530.3	1181.1	1408.6	1408.6	0.0	1029.6	0.0	812.6	326.0
Jun	12498.3	3863.6	3536.1	1159.0	184.6	184.6	0.0	869.9	0.0	853.9	2031.2
Jul	12674.3	4925.9	3670.1	1117.2	135.1	135.1	0.0	1128.4	0.0	854.0	843.6
Aug	12934.6	4378.2	3720.9	1095.8	1013.3	1013.3	0.0	990.5	0.0	852.9	883.1
Sep	12776.3	5618.9	3789.8	1069.1	0.0	0.0	0.0	900.0	0.0	915.1	483.3
Oct	12365.3	5066.0	3325.9	1075.9	130.6	130.6	0.0	767.2	0.0	927.7	1072.0
Nov	12338.8	5199.9	3498.9	1058.5	0.0	0.0	0.0	676.2	0.0	931.9	973.3
Dec	11602.3	4093.8	3519.8	1002.1	0.0	0.0	0.0	924.9	0.0	1034.7	1027.1
2004											
Jan	12505.3	4558.0	3425.1	1139.8	0.0	0.0	0.0	913.8	0.0	946.8	1521.8
Feb	11622.1	4267.7	3316.3	1113.5	0.0	0.0	0.0	1043.3	0.0	944.6	936.8
Mar	11867.9	3925.1	3291.4	1191.5	719.3	719.3	0.0	686.6	0.0	973.9	1080.2
Apr	13007.5	5949.8	3270.6	1102.2	842.8	842.8	0.0	834.2	0.0	977.8	30.1
May	12342.4	5076.6	3359.9	688.3	739.1	739.1	0.0	792.8	0.0	985.1	700.7
Jun	11498.0	4569.0	3209.3	560.7	1061.6	1061.6	0.0	901.3	0.0	1010.5	185.5

(1) Demand Deposits include Saving Deposits. Money and Banking Statistics revised from 30 June 1994. From January 2001 rupee liabilities are shown separate and are not included in Other Liabilities anymore.

* Rupee liability includes the rupee liability of BOB and is imputed from Jan 2001 onwards.

TABLE 13. BHUTAN NATIONAL BANK - MONEY AND BANKING STATISTICS

Millions of Ngultrum

End of Period	Assets								
	Total	Reserves with RMA	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector
			Total	Rupee	Others				
1997	914.5	104.8	135.7	77.6	58.1	0.0	0.0	10.4	663.6
1998	1292.2	228.7	335.9	213.6	122.3	0.0	0.0	7.5	720.1
1999	2736.3	256.8	1659.3	1299.6	359.7	0.0	0.0	5.0	815.2
2000	3705.3	535.5	2221.0	1552.9	668.1	0.0	0.0	5.0	943.8
2001	3975.2	581.1	2053.6	1088.3	965.3	120.0	0.0	7.4	1213.1
2002	4854.7	1917.8	1115.2	651.0	464.3	120.0	0.0	7.6	1694.1
2003									
Jan	4876.2	1840.1	1174.2	681.6	492.5	120.0	0.0	7.6	1734.3
Feb	4984.2	1814.4	1265.1	688.9	576.3	120.0	0.0	7.6	1777.1
Mar	5135.1	1823.4	1367.4	738.1	629.2	120.0	0.0	7.6	1816.7
Apr	5073.4	1642.6	1441.2	739.8	701.4	120.0	0.0	7.6	1862.0
May	5359.4	1641.2	1598.0	704.5	893.4	120.0	0.0	7.6	1992.7
Jun	5310.4	1603.6	1572.3	732.2	840.1	120.0	0.0	7.6	2007.0
Jul	5115.0	1462.5	1396.1	704.9	691.2	120.0	0.0	7.6	2128.8
Aug	5143.8	1560.8	1268.7	669.4	599.3	120.0	0.0	7.6	2186.8
Sep	4886.9	1301.1	1207.0	640.0	567.1	120.0	0.0	7.6	2251.2
Oct	5212.8	1433.3	987.8	605.9	381.9	500.7	0.0	7.6	2283.4
Nov	5330.3	1510.3	943.2	579.5	363.7	500.7	0.0	7.6	2368.5
Dec	5361.7	1441.8	966.0	609.8	356.2	541.6	0.0	7.6	2404.7
2004									
Jan	5405.1	1441.1	950.1	604.5	345.6	541.6	0.0	7.6	2464.7
Feb	5831.4	1780.1	999.2	592.3	406.9	541.6	0.0	7.6	2502.8
Mar	5938.5	1844.8	935.6	495.1	440.6	541.6	0.0	7.6	2608.9
Apr	6050.8	1814.5	1003.5	529.5	474.0	541.6	0.0	7.6	2683.6
May	6073.6	1992.8	819.8	491.0	328.8	541.6	0.0	7.6	2711.8
Jun	6200.1	2002.4	888.8	552.2	336.6	569.5	0.0	7.6	2731.9

TABLE 13. CONTINUED
Bhutan National Bank

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Credit from RMA	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
1997	914.5	117.4	572.2	0.0	0.0	0.0	0.0	25.4	0.0	139.7	59.9
1998	1292.2	222.1	755.7	4.7	0.0	0.0	0.0	64.9	0.0	157.7	87.1
1999	2736.3	603.6	1506.9	16.7	0.0	0.0	0.0	283.9	0.0	181.8	143.4
2000	3705.3	671.3	2070.7	22.2	0.0	0.0	0.0	301.1	0.0	242.2	397.8
2001	3975.2	683.4	2220.6	30.0	0.0	0.0	0.0	556.2	0.0	303.3	181.7
2002	4854.7	650.4	3057.6	29.6	0.0	0.0	0.0	640.0	0.0	328.5	148.6
2003											
Jan	4876.2	671.8	3116.5	58.1	0.0	0.0	0.0	660.7	0.0	330.6	38.4
Feb	4984.2	711.5	3043.8	68.4	0.0	0.0	0.0	723.3	0.0	332.0	105.4
Mar	5135.1	751.4	3026.3	48.5	0.0	0.0	0.0	1048.7	0.0	335.7	-75.5
Apr	5073.4	712.6	2923.1	57.0	0.0	0.0	0.0	1190.3	0.0	340.3	-149.9
May	5359.4	1342.3	2584.5	46.9	0.0	0.0	0.0	871.1	0.0	347.9	166.7
Jun	5310.4	1231.1	2734.7	31.5	0.0	0.0	0.0	779.7	0.0	346.5	186.9
Jul	5115.0	1014.4	2730.6	30.1	0.0	0.0	0.0	817.2	0.0	340.8	182.0
Aug	5143.8	1076.1	2661.8	69.0	0.0	0.0	0.0	854.8	0.0	341.8	140.3
Sep	4886.9	1126.8	2219.3	58.1	0.0	0.0	0.0	920.3	0.0	357.8	204.7
Oct	5212.8	1181.1	2505.9	50.7	0.0	0.0	0.0	967.0	0.0	362.3	145.9
Nov	5330.3	1162.1	2528.8	49.6	0.0	0.0	0.0	1032.9	0.0	367.9	189.1
Dec	5361.7	873.8	2510.0	44.3	0.0	0.0	0.0	1026.0	0.0	700.0	207.6
2004									0.0		
Jan	5405.1	940.9	2891.3	53.7	0.0	0.0	0.0	1018.5	0.0	707.3	-206.6
Feb	5831.4	926.0	3166.4	41.2	0.0	0.0	0.0	1054.0	0.0	714.0	-70.3
Mar	5938.5	910.1	3226.3	72.6	0.0	0.0	0.0	944.0	0.0	709.6	76.0
Apr	6050.8	959.0	3273.3	74.1	0.0	0.0	0.0	951.7	0.0	712.7	80.0
May	6073.6	939.6	3302.3	38.2	0.0	0.0	0.0	939.5	0.0	723.3	130.8
Jun	6200.1	1152.8	3281.6	43.7	0.0	0.0	0.0	859.1	0.0	752.5	110.5

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

TABLE 14. DEPOSIT MONEY BANKS - MONEY AND BANKING STATISTICS *)

Millions of Ngultrum

End of Period	Assets								
	Total	Reserves with RMA	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector
			Total	Rupee	Others				
1997	6657.6	3008.3	1527.3	1231.3	295.9	200.6	449.1	223.8	1248.6
1998	7905.5	2900.8	3068.0	2763.4	304.6	50.0	411.4	174.0	1298.3
1999	9645.2	3674.9	4055.1	3224.6	830.6	50.0	372.1	140.2	1352.9
2000	11518.7	4669.5	4716.1	3623.4	1092.7	50.0	332.6	126.7	1623.8
2001	13112.9	4923.6	5080.6	3163.0	1917.6	370.0	315.2	117.4	2306.1
2002	16155.2	6473.4	5305.0	3653.6	1651.4	973.8	252.0	117.8	3033.3
2003									
Jan	15661.3	6393.1	4652.9	3002.7	1650.2	1111.0	252.1	108.0	3144.2
Feb	15488.9	6369.1	4269.0	2541.5	1727.5	1287.6	252.2	109.2	3201.8
Mar	16172.2	6428.2	4577.8	2697.0	1880.7	1535.6	252.2	119.9	3258.7
Apr	17468.1	7283.7	5369.3	2587.8	2781.5	1141.5	252.1	113.9	3307.6
May	17804.1	7212.0	5308.6	2499.7	2808.9	1434.6	252.1	114.5	3482.4
Jun	17624.1	6857.2	5185.2	2488.0	2697.3	1658.0	257.2	127.2	3539.2
Jul	17789.3	7028.1	5014.0	2554.5	2459.5	1731.4	245.7	149.3	3620.9
Aug	18078.3	7290.1	4787.8	2462.6	2325.1	1917.6	249.2	113.3	3720.4
Sep	17663.2	6944.1	5247.4	2968.0	2279.4	1249.8	228.1	136.5	3857.4
Oct	17578.0	6257.7	4545.8	2453.0	2092.8	2529.1	270.9	97.6	3876.9
Nov	17669.1	6436.6	5065.7	2863.0	2202.7	1694.1	271.1	106.3	4095.4
Dec	16964.0	6342.4	4903.9	2588.6	2315.3	1213.3	252.0	126.8	4125.7
2004									
Jan	17910.4	7224.3	4953.6	2477.5	2476.1	1213.3	260.1	72.5	4186.8
Feb	17453.4	6622.0	5022.5	2494.5	2528.1	1213.3	260.2	90.3	4245.1
Mar	17806.5	6564.0	5210.4	2499.4	2711.0	1213.3	290.8	77.0	4451.1
Apr	19058.3	8192.5	4780.5	2485.5	2295.0	1213.3	286.9	101.9	4483.2
May	18416.0	7692.4	4558.9	2518.6	2040.4	1213.3	287.0	108.3	4556.0
Jun	17698.1	7072.8	4318.8	2553.6	1765.2	1269.0	268.5	166.6	4602.4

*)Bank of Bhutan and Bhutan National Bank.

TABLE 14. CONTINUED
Deposit Money Banks

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Credit from RMA	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
1997	6657.6	1447.2	3359.3	96.4	0.0	0.0	0.0	209.1	0.0	539.0	1006.6
1998	7905.5	1860.4	3598.4	187.9	0.0	0.0	0.0	322.2	0.0	568.4	1368.3
1999	9645.2	2754.9	4367.8	372.9	0.0	0.0	0.0	914.2	0.0	633.1	602.3
2000	11518.7	2669.5	5815.4	180.9	0.0	0.0	0.0	631.2	0.0	756.1	1465.7
2001	13112.9	3238.2	5628.3	239.3	973.4	973.4	0.0	1287.8	0.0	958.0	787.9
2002	16155.2	5322.8	6260.8	471.5	0.0	0.0	0.0	1415.4	0.0	1194.3	1490.4
2003											
Jan	15661.3	4790.9	6140.2	489.6	0.0	0.0	0.0	1506.6	0.0	1110.1	1623.9
Feb	15488.9	4219.1	6150.5	478.5	324.1	324.1	0.0	1483.0	0.0	1116.0	1717.7
Mar	16172.2	4198.0	6142.8	651.0	1014.6	1014.6	0.0	1471.4	0.0	1140.1	1554.3
Apr	17468.1	4581.2	6196.8	1372.0	380.3	380.3	0.0	1843.3	0.0	1144.0	1950.4
May	17804.1	5498.9	6114.7	1228.0	1408.6	1408.6	0.0	1900.7	0.0	1160.5	492.7
Jun	17808.8	5094.7	6270.8	1190.5	184.6	184.6	0.0	1649.6	0.0	1200.4	2218.1
Jul	17789.3	5940.3	6400.7	1147.3	135.1	135.1	0.0	1945.6	0.0	1194.8	1025.6
Aug	18078.3	5454.3	6382.7	1164.8	1013.3	1013.3	0.0	1845.3	0.0	1194.7	1023.4
Sep	17663.2	6745.7	6009.1	1127.2	0.0	0.0	0.0	1820.3	0.0	1272.9	688.0
Oct	17578.0	6247.1	5831.8	1126.6	130.6	130.6	0.0	1734.2	0.0	1290.0	1217.8
Nov	17669.1	6362.0	6027.7	1108.1	0.0	0.0	0.0	1709.1	0.0	1299.8	1162.4
Dec	16964.0	4967.5	6029.8	1046.4	0.0	0.0	0.0	1950.9	0.0	1734.7	1234.7
2004											
Jan	17910.4	5498.8	6316.4	1193.5	0.0	0.0	0.0	1932.4	0.0	1654.2	1315.2
Feb	17453.4	5193.7	6482.7	1154.7	0.0	0.0	0.0	2097.3	0.0	1658.6	866.5
Mar	17806.5	4835.1	6517.7	1264.0	719.3	719.3	0.0	1630.6	0.0	1683.5	1156.2
Apr	19058.3	6908.8	6543.9	1176.4	842.8	842.8	0.0	1785.8	0.0	1690.5	110.1
May	18416.0	6016.1	6662.2	726.4	739.1	739.1	0.0	1732.3	0.0	1708.3	831.5
Jun	17698.1	5721.7	6490.9	604.4	1061.6	1061.6	0.0	1760.4	0.0	1763.0	296.1

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

TABLE 15. MONETARY SURVEY

Millions of Ngultrum

End of Period	Assets									
	Total	Foreign Assets(Net)			Domestic Credit					
		Total	Rupee	Converti-ble Foreign Currency	Total	Claims on Govt. (Net)	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
1992	3031.5	1882.5	-313.0	2195.5	1149.0	-46.9	770.1	0.0	425.8	0.0
1993	3839.2	2811.2	-379.2	3190.4	1028.0	-256.4	795.6	0.0	488.8	0.0
1994	4369.8	3194.9	-507.3	3702.2	1174.9	-164.7	560.8	238.9	485.0	55.0
1995	5397.8	4428.5	-98.0	4526.6	969.2	-321.1	534.6	229.2	521.5	5.0
1996	7129.4	6580.1	1101.9	5478.2	549.3	-692.5	484.7	187.7	564.4	5.0
1997	9286.6	7341.8	1006.8	6335.0	1944.8	14.7	449.1	223.8	1252.3	5.0
1998	11250.9	10840.4	2540.3	8300.1	410.5	-1479.4	411.4	174.0	1301.4	3.0
1999	12665.8	12895.6	3306.9	9588.8	-229.9	-2097.7	372.1	140.2	1352.5	3.0
2000	15661.0	15073.7	3711.2	11362.5	587.3	-1499.4	332.6	126.7	1624.3	3.0
2001	16312.7	14823.3	3405.1	11418.2	1489.4	-1255.7	315.2	117.4	2308.7	3.7
2002	20252.7	17303.7	4567.0	12736.7	2949.0	-455.9	252.0	117.8	3031.5	3.7
2003										
Jan	19869.0	16766.3	3947.8	12818.5	3102.7	-403.3	252.1	108.0	3142.2	3.7
Feb	19245.8	16006.7	3153.8	12853.0	3239.0	-325.7	252.2	109.2	3199.6	3.7
Mar	19203.0	15644.5	2628.5	13016.0	3558.6	-73.8	252.2	119.9	3256.6	3.7
Apr	20601.6	17766.8	3848.2	13918.6	2834.8	-840.4	252.1	113.9	3305.4	3.7
May	19785.9	16549.2	2247.2	14302.0	3236.7	-614.0	252.1	114.5	3480.3	3.7
Jun	21323.0	17508.0	3351.6	14156.3	3815.0	-109.8	257.2	127.2	3536.6	3.7
Jul	20818.9	17156.6	3308.8	13847.8	3662.3	-354.9	245.7	149.3	3618.5	3.7
Aug	20201.2	16153.7	2362.9	13790.8	4047.5	-36.9	249.2	113.3	3718.2	3.7
Sep	20882.4	17340.7	3647.1	13693.6	3541.7	-681.9	228.1	136.5	3855.3	3.7
Oct	20672.7	15734.8	2923.1	12811.7	4937.9	690.9	270.9	97.6	3874.8	3.7
Nov	20023.0	15658.5	2473.6	13184.8	4364.6	-109.4	271.1	106.3	4092.9	3.7
Dec	20233.9	16766.2	3575.9	13190.3	3467.8	-1038.5	252.0	126.8	4123.8	3.7
2004										
Jan	21049.2	17801.0	4180.6	13620.4	3248.2	-1273.3	260.1	72.5	4185.2	3.7
Feb	20204.0	17696.6	4195.8	13500.9	2507.4	-2090.2	260.2	90.3	4243.3	3.7
Mar	20498.2	17218.6	3502.4	13716.2	3279.6	-1541.8	290.8	77.0	4450.0	3.7
Apr	21082.1	17593.7	4544.0	13049.7	3488.3	-1386.0	286.9	101.9	4481.8	3.7
May	21154.0	17258.9	3245.5	14013.5	3895.0	-1058.5	287.0	108.3	4554.4	3.7
Jun	20740.5	16448.2	3314.3	13133.9	4292.3	-746.0	268.5	166.6	4599.5	3.7

Note: Since September 2001 there has been a reclassification in the Rupee and Convertible Foreign Currency Assets.

TABLE 15. CONTINUED
Monetary Survey

Millions of Ngultrum

End of Period	Liabilities									
	Total	Broad Money(M2)						Quasi-Money	Money Market Instrument (RMA Bill)	Other Items (Net)
		Total	Money(M1, Narrow Money)							
			Total	Currency Outside Banks	Demand Deposits	NMFI Deposits				
1992	3031.5	1586.9	840.9	345.0	495.9	0.0	746.1	0.0	1444.6	
1993	3839.3	1953.3	833.1	346.0	487.1	0.0	1120.2	0.0	1886.0	
1994	4369.7	2395.0	1044.0	347.5	696.5	0.0	1351.0	600.0	1374.7	
1995	5397.8	3257.8	1331.5	432.4	889.9	9.1	1926.4	550.0	1589.9	
1996	7129.5	3563.8	2098.3	422.5	1651.6	24.2	1465.5	1000.0	2565.7	
1997	9286.6	5652.2	2196.5	720.9	1447.2	28.4	3455.7	10.6	3623.8	
1998	11250.9	6578.3	2792.0	768.8	1860.4	162.8	3786.3	134.1	4538.5	
1999	12665.8	8643.4	3902.7	969.2	2754.9	178.6	4740.7	26.2	3996.2	
2000	15661.0	10035.4	4039.0	1269.6	2669.5	100.0	5996.3	115.3	5510.4	
2001	16312.7	10802.1	4934.5	1609.9	3238.2	86.4	5867.6	5.2	5505.5	
2002	20252.8	13875.7	7143.4	1648.3	5322.8	172.3	6732.3	11.1	6366.0	
2003										
Jan	19869.0	13307.9	6678.2	1651.5	4790.9	235.7	6629.7	11.1	6550.0	
Feb	19245.8	12714.3	6085.3	1750.2	4219.1	116.1	6629.0	11.1	6520.3	
Mar	19203.0	12851.1	6057.3	1711.4	4198.0	148.0	6793.8	9.1	6342.8	
Apr	20601.6	13874.7	6305.8	1613.8	4581.2	110.8	7568.9	-243.4	6970.3	
May	19785.9	14586.9	7244.2	1607.9	5498.9	137.4	7342.7	8.9	5190.1	
Jun	21323.0	14370.0	6908.7	1699.0	5094.7	115.0	7461.3	6.6	6946.4	
Jul	20818.9	15332.3	7784.3	1688.2	5940.3	155.9	7548.0	5.3	5481.3	
Aug	20201.2	14700.7	7153.3	1567.0	5454.3	132.0	7547.4	5.3	5495.1	
Sep	20882.4	15668.3	8532.0	1679.0	6745.7	107.3	7136.3	4.4	5209.7	
Oct	20672.7	14954.0	7995.7	1671.6	6247.1	76.9	6958.3	2.7	5716.0	
Nov	21023.0	15305.2	8169.4	1691.3	6362.0	116.1	7135.8	0.9	5716.9	
Dec	20233.9	13933.4	6857.3	1802.3	4967.5	87.4	7076.1	0.0	6300.5	
2004										
Jan	21049.2	14958.3	7448.4	1786.2	5498.8	163.3	7509.9	0.9	6090.0	
Feb	20204.0	14689.1	7051.7	1811.5	5193.7	46.5	7637.4	0.9	5514.0	
Mar	20498.2	14614.4	6832.7	1865.4	4835.1	132.2	7781.7	0.9	5883.0	
Apr	21082.1	16557.1	8836.8	1830.4	6908.8	97.6	7720.3	1.8	4523.2	
May	21154.0	15473.5	8084.8	1901.3	6016.1	167.4	7388.6	1.8	5678.7	
Jun	20740.5	14966.0	7870.7	2015.2	5721.7	133.7	7095.3	1.8	5772.8	

TABLE 16. ROYAL INSURANCE CORPORATION OF BHUTAN - FINANCIAL STATISTICS

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt. Enterprises	Claims on Private Sector	Claims on DMBs	Claims on NMFIs	Real Estate
			Total	Rupee	Others					
1992	675.3	0.6	0.0	0.0	0.0	20.1	498.6	115.5	0.0	40.5
1993	791.3	18.2	0.0	0.0	0.0	21.7	614.5	94.6	0.0	42.3
1994	868.1	9.6	0.4	0.0	0.4	22.4	667.1	150.3	18.3	0.0
1995	1012.2	24.5	0.6	0.0	0.6	41.5	670.4	262.0	13.1	0.0
1996	1169.3	61.7	1.4	0.0	1.4	41.5	728.4	321.8	14.3	0.0
1997	1426.9	20.0	0.6	0.0	0.6	30.1	720.7	655.5	0.0	0.0
1998	1701.0	167.9	2.1	0.0	2.1	14.9	680.6	835.5	0.0	0.0
1999	2022.8	84.9	55.8	53.1	2.7	41.2	669.9	1171.0	0.0	0.0
2000	956.9	45.5	52.1	51.0	1.1	17.3	842.1	0.0	0.0	0.0
2001	1077.4	30.6	55.4	50.0	5.4	17.3	974.0	0.0	0.0	0.0
2002	1259.1	44.2	8.7	2.7	6.0	18.2	1138.0	50.0	0.0	0.0
2003										
Jan	1272.9	44.4	8.5	2.7	5.8	18.2	1151.7	50.0	0.0	0.0
Feb	1296.1	54.0	8.5	2.7	5.8	18.2	1165.4	50.0	0.0	0.0
Mar	1285.1	77.5	8.5	2.7	5.8	18.2	1180.8	0.0	0.0	0.0
Apr	1301.3	68.1	8.5	2.7	5.8	18.2	1181.4	25.0	0.0	0.0
May	1322.0	57.9	9.9	0.0	9.9	18.2	1181.0	55.0	0.0	0.0
Jun	1358.5	92.1	8.8	0.0	8.8	18.2	1184.4	55.0	0.0	0.0
July	1306.1	31.0	8.8	0.0	8.8	25.1	1191.2	50.0	0.0	0.0
Aug	1312.3	16.9	8.8	0.0	8.8	25.1	1211.5	50.0	0.0	0.0
Sep	1307.0	53.2	3.2	0.0	3.2	25.1	1225.5	0.0	0.0	0.0
Oct	1339.2	30.7	3.2	0.1	3.2	25.1	1240.2	40.0	0.0	0.0
Nov	1420.7	42.6	8.8	0.1	8.8	25.1	1244.1	100.0	0.0	0.0
Dec	1468.7	131.7	4.9	0.1	4.8	25.1	1237.0	70.0	0.0	0.0
2004										
Jan	1401.4	79.4	5.9	0.1	5.8	25.1	1261.0	30.0	0.0	0.0
Feb	1415.2	84.3	5.9	0.1	5.8	25.1	1279.9	20.0	0.0	0.0
Mar	1391.7	45.8	4.1	0.1	4.0	25.1	1296.7	20.0	0.0	0.0
Apr	1410.7	63.6	3.1	0.1	3.0	25.1	1298.9	20.0	0.0	0.0
May	1431.6	73.5	4.1	0.1	4.0	25.1	1308.9	20.0	0.0	0.0
Jun	1459.1	103.4	3.7	0.1	3.6	25.1	1307.0	20.0	0.0	0.0

TABLE 16. CONTINUED
Royal Insurance Corporation of Bhutan

Millions of Ngultrum

End of Period	Liabilities								
	Total	General Insu - rance Reserve Fund	Life Fund	GEPF Fund	Group Insur - ance Fund	Credit from DMBs	UTB Fund	Capital Ac - counts	Other Items (Net)
1992	675.3	61.2	23.8	505.8	0.0	0.0	0.0	12.0	72.5
1993	792.0	73.6	70.0	589.0	0.0	0.0	0.0	12.0	47.4
1994	868.1	72.4	23.8	690.8	60.7	0.0	0.0	43.8	-23.4
1995	1012.2	41.6	0.0	765.1	71.0	0.0	0.0	45.1	89.3
1996	1169.3	43.6	0.0	886.8	80.7	0.0	0.0	63.0	95.2
1997	1426.9	12.3	33.5	1112.1	94.1	0.0	0.0	79.9	95.0
1998	1701.0	14.6	48.5	1363.5	106.4	0.0	0.0	82.6	85.3
1999	2022.8	21.9	34.4	1474.6	122.3	0.0	0.0	463.5	-94.0
2000	956.9	0.0	45.0	509.4	120.0	90.0	0.0	408.6	-216.1
2001	1077.4	0.0	44.1	360.2	153.3	595.0	0.0	156.8	-232.0
2002	1259.1	0.0	55.8	47.8	168.0	673.6	0.0	193.6	120.3
2003									
Jan	1272.9	0.0	57.9	51.8	168.0	673.6	0.0	204.5	117.1
Feb	1296.1	0.0	58.2	52.9	168.0	673.6	0.0	218.2	125.3
Mar	1285.1	0.0	58.3	54.6	168.0	673.6	0.0	247.4	83.3
Apr	1301.3	0.0	57.7	55.2	168.0	673.6	0.0	253.1	93.7
May	1322.0	0.0	58.1	0.0	168.0	673.6	0.0	266.5	155.8
Jun	1358.5	0.0	56.9	56.0	185.6	673.6	0.0	247.3	139.1
Jul	1306.1	0.0	59.0	56.2	191.1	636.3	0.0	249.5	114.1
Aug	1312.3	0.0	60.9	57.1	185.5	636.3	0.0	259.2	113.3
Sep	1307.0	0.0	61.4	58.0	193.2	636.3	0.0	260.1	98.0
Oct	1339.2	0.0	62.6	58.9	184.4	636.3	0.0	269.6	127.4
Nov	1420.7	0.0	55.7	60.0	196.2	636.3	0.0	263.8	208.7
Dec	1468.7	0.0	71.6	65.9	188.6	636.3	0.0	269.4	236.9
2004									
Jan	1401.4	0.0	77.2	69.8	190.0	549.0	0.0	255.8	259.6
Feb	1415.2	0.0	77.1	70.4	191.5	549.0	0.0	261.9	265.3
Mar	1391.7	0.0	77.4	70.4	192.9	549.0	0.0	262.3	239.7
Apr	1410.7	0.0	78.3	71.4	203.9	549.0	0.0	258.7	249.4
May	1431.6	0.0	77.0	68.8	203.5	549.0	0.0	266.8	266.4
Jun	1459.1	0.0	79.1	70.1	199.6	549.0	0.0	276.3	285.0

TABLE 17. BHUTAN DEVELOPMENT FINANCE CORPORATION - FINANCIAL STATISTICS

Millions of Ngultrum

End of Period	Assets										
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on DMBs (1)	Claims on other NMFIs
			Total	Rupees	Others						
1992	124.7	3.3	0.0	0.0	0.0	0.0	0.0	2.3	103.6	0.0	15.6
1993	175.2	3.8	0.0	0.0	0.0	0.0	0.0	2.8	147.5	0.0	21.2
1994	297.3	22.7	0.0	0.0	0.0	0.0	4.9	0.0	230.0	0.0	39.7
1995	349.9	19.0	0.0	0.0	0.0	0.0	4.8	0.0	301.5	9.0	15.5
1996	425.8	25.0	0.0	0.0	0.0	0.0	2.0	0.0	377.6	21.2	0.0
1997	470.5	28.2	0.0	0.0	0.0	0.0	1.8	0.0	406.1	34.4	0.0
1998	513.3	28.3	0.0	0.0	0.0	0.0	1.8	0.0	422.1	61.1	0.0
1999	566.5	28.7	0.0	0.0	0.0	0.0	1.4	0.0	450.4	86.1	0.0
2000	696.5	46.9	0.0	0.0	0.0	0.0	1.4	0.0	500.1	148.1	0.0
2001	789.6	39.3	0.0	0.0	0.0	0.0	0.9	0.0	643.4	106.0	0.0
2002	959.9	47.0	0.0	0.0	0.0	0.0	0.9	0.0	909.0	3.0	0.0
2003											
Jan	1,066.5	131.8	0.0	0.0	0.0	0.0	0.9	0.0	933.8	0.0	0.0
Feb	1,043.5	53.8	0.0	0.0	0.0	0.0	0.9	0.0	968.8	20.0	0.0
Mar	1,050.7	48.9	0.0	0.0	0.0	0.0	0.9	0.0	1,001.0	0.0	0.0
Apr	1,072.3	23.6	0.0	0.0	0.0	0.0	0.9	0.0	1,047.9	0.0	0.0
May	1,173.6	96.3	0.0	0.0	0.0	0.0	0.9	0.0	1,076.5	0.0	0.0
Jun	1,181.7	89.0	0.0	0.0	0.0	0.0	0.9	0.0	1,091.9	0.0	0.0
Jul	1,186.0	33.7	0.0	0.0	0.0	0.0	0.9	0.0	1,126.5	25.0	0.0
Aug	1,185.3	17.4	0.0	0.0	0.0	0.0	0.9	0.0	1,141.9	25.0	0.0
Sep	1,211.0	50.2	0.0	0.0	0.0	0.0	0.9	0.0	1,144.9	15.0	0.0
Oct	1,214.0	38.1	0.0	0.0	0.0	0.0	0.9	0.0	1,160.0	15.0	0.0
Nov	943.5	17.0	0.0	0.0	0.0	0.0	0.9	0.0	917.6	8.0	0.0
Dec	1,223.9	93.1	0.0	0.0	0.0	0.0	0.9	0.0	1,114.9	15.0	0.0
2004											0.0
Jan	1,225.0	86.1	0.0	0.0	0.0	0.0	0.9	0.0	1,123.0	15.0	0.0
Feb	1,221.9	54.7	0.0	0.0	0.0	0.0	0.9	0.0	1,151.3	15.0	0.0
Mar	1,224.7	21.9	0.0	0.0	0.0	0.0	0.9	0.0	1,186.9	15.0	0.0
Apr	1,236.9	34.6	0.0	0.0	0.0	0.0	0.9	0.0	1,191.4	10.0	0.0
May	1,236.7	25.0	0.0	0.0	0.0	0.0	0.9	0.0	1,200.8	10.0	0.0
Jun	1,231.0	29.2	0.0	0.0	0.0	0.0	0.9	0.0	1,191.0	10.0	0.0

TABLE 17. CONTINUED
Bhutan Development Finance Corporation

Millions of Ngultrum

End of Period	Liabilities							
	Total	Foreign Liabilities	Credit from RMA	Credit from DMBs	Credit from other NMFIs	Grants	Capital Account	Other Items Net
1992	124.7	37.3	50.0	0.0	0.0	7.9	34.4	-4.8
1993	175.2	75.3	20.7	24.3	0.0	14.3	39.9	0.8
1994	297.3	94.9	50.0	0.0	0.0	0.0	155.6	-3.3
1995	349.9	104.7	0.0	0.0	0.0	0.0	169.0	76.3
1996	425.8	141.9	0.0	0.0	0.0	0.0	230.3	53.5
1997	470.5	165.2	0.0	0.0	0.0	0.0	233.2	72.1
1998	513.3	168.9	0.0	0.0	0.0	50.0	242.5	51.9
1999	566.5	186.5	0.0	0.0	0.0	50.0	267.2	62.8
2000	696.5	285.9	0.0	0.0	0.0	50.0	254.5	106.2
2001	789.6	267.4	0.0	0.0	0.0	50.0	346.2	126.0
2002	959.9	349.2	0.0	0.0	0.0	50.0	395.8	164.8
2003								
Jan	1,066.5	344.5	0.0	0.0	100.0	50.0	399.4	172.5
Feb	1,043.5	335.0	0.0	0.0	100.0	50.0	403.3	155.2
Mar	1,050.7	335.0	0.0	0.0	100.0	50.0	400.5	165.2
Apr	1,072.3	349.1	0.0	100.0	0.0	50.0	405.1	168.1
May	1,173.6	342.6	0.0	200.0	0.0	50.0	404.0	177.0
Jun	1,181.7	342.6	0.0	200.0	0.0	50.0	393.0	196.1
Jul	1,186.0	341.7	0.0	200.0	0.0	50.0	400.8	193.6
Aug	1,185.3	335.7	0.0	200.0	0.0	50.0	408.7	190.8
Sep	1,211.0	349.3	0.0	100.0	100.0	50.0	408.7	203.0
Oct	1,214.0	349.3	0.0	100.0	100.0	50.0	420.8	193.9
Nov	943.5	335.8	0.0	0.0	0.0	50.0	390.1	167.6
Dec	1,223.9	342.8	0.0	100.0	100.0	50.0	438.8	192.3
2004								
Jan	1,225.0	341.9	0.0	100.0	100.0	50.0	432.7	200.4
Feb	1,221.9	335.9	0.0	100.0	100.0	50.0	431.1	204.8
Mar	1,224.7	335.9	0.0	100.0	100.0	50.0	429.1	209.7
Apr	1,236.9	336.0	0.0	100.0	100.0	50.0	429.6	221.4
May	1,236.7	331.5	0.0	100.0	100.0	50.0	434.4	220.8
Jun	1,231.0	331.5	0.0	93.6	95.0	50.0	448.0	212.9

Money and Banking Statistics revised from 30 June 1994.

TABLE 18. FINANCIAL SECTOR INVESTMENT BY ECONOMIC ACTIVITY

Economic Sector/Source	<i>Millions of Nu.</i>											<i>End of June</i>	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
Agriculture	10.2	112.9	117.1	148.1	157.6	182.5	168.3	201.9	229.6	247.3	222.4		
Bank of Bhutan	4.9	4.5	8.2	6.5	4.6	3.7	3.1	3.2	6.2	6.3	4.3		
Royal Insurance Corporation of Bhutan	0.0	0.0	0.0	0.0	0.6	0.6	0.7	0.6	0.3	0.2	1.8		
Bhutan Development Finance Corporation	5.2	108.3	108.9	141.6	152.5	178.1	164.5	198.0	223.1	240.8	216.3		
Bhutan National Bank	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Manufacturing	793.7	857.6	1,029.0	1,096.2	898.4	715.1	588.0	785.2	974.2	1,290.0	1,484.6		
Bank of Bhutan	264.5	382.4	334.6	331.4	291.3	257.0	240.3	222.4	253.8	350.1	499.3		
Royal Insurance Corporation of Bhutan	240.5	163.3	317.0	392.4	237.6	182.1	111.3	202.7	256.9	280.5	238.6		
Bhutan Development Finance Corporation	97.5	116.9	167.0	145.1	141.4	100.8	71.2	138.3	180.7	210.5	203.8		
Bhutan National Bank	191.2	195.0	210.4	227.3	228.1	175.2	165.3	221.8	282.7	448.9	542.9		
Building & Construction	550.3	526.8	555.9	583.1	610.1	565.1	620.3	718.8	1,113.4	1,641.3	2,175.7		
Bank of Bhutan	91.6	86.0	83.0	84.1	86.5	91.5	99.1	142.0	233.2	341.5	447.5		
Royal Insurance Corporation of Bhutan	290.7	280.2	274.8	262.0	268.1	269.6	279.7	273.9	331.5	394.2	440.2		
Bhutan Development Finance Corporation	7.8	0.0	54.3	84.4	5.8	23.1	28.4	41.3	140.8	296.3	354.6		
Bhutan National Bank	160.2	160.6	143.8	152.6	249.7	180.9	213.1	261.6	408.0	609.3	933.4		
Trade & Commerce	365.0	415.2	314.2	383.3	370.6	467.6	427.0	512.3	719.3	960.0	1,395.3		
Bank of Bhutan	196.3	198.8	184.7	268.5	223.9	234.5	259.1	249.9	296.9	338.0	478.9		
Royal Insurance Corporation of Bhutan	119.3	134.3	90.1	70.2	62.5	105.3	62.8	118.0	152.0	317.8	488.5		
Bhutan Development Finance Corporation	5.1	39.2	0.0	0.0	75.1	113.3	89.2	3.7	58.2	81.5	116.0		
Bhutan National Bank	44.3	42.9	39.4	44.6	9.1	14.6	15.9	140.7	212.3	222.6	311.9		
Transport	663.6	617.7	581.6	597.6	610.5	668.1	598.3	712.0	729.2	795.7	771.7		
Bank of Bhutan	587.7	552.9	521.4	515.5	519.4	465.5	405.5	404.2	411.4	462.8	447.5		
Royal Insurance Corporation of Bhutan	47.2	45.4	46.5	63.2	51.3	69.4	68.1	160.9	151.2	120.2	68.2		
Bhutan Development Finance Corporation	0.7	0.9	0.0	0.0	0.0	46.0	36.9	24.0	12.5	11.2	12.0		
Bhutan National Bank	28.0	18.5	13.7	18.9	39.8	87.1	87.8	122.9	154.2	201.5	244.0		
Personal & Other Loans	269.7	233.9	246.9	254.2	328.0	479.3	691.0	1,628.1	1,141.0	2,507.1	1,439.3		
Bank of Bhutan	102.7	120.2	113.8	105.9	54.8	101.7	138.8	1,002.8	372.7	1,683.9	436.8		
Royal Insurance Corporation of Bhutan	47.2	25.5	63.1	57.2	70.0	52.1	154.1	124.1	156.1	46.0	44.1		
Bhutan Development Finance Corporation	34.8	11.6	0.0	0.0	47.6	23.6	26.5	181.3	202.8	250.3	266.0		
Bhutan National Bank	85.0	76.6	70.0	91.1	155.7	301.9	371.6	319.8	409.3	526.9	692.4		
Total	2,652.5	2,764.1	2,844.7	3,062.5	2,975.1	3,077.6	3,092.8	4,558.3	4,906.7	7,441.4	7,489.0		

TABLE 19. OVERALL BALANCE OF PAYMENTS ESTIMATES

Millions of Ngultrum

Item	Period							
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
A. Current Account	653.5	1487.6	384.2	1049.6	343.5	-652.2	2467.5	2220.3
Exports, f.o.b.	3553.8	4274.2	4460.0	4987.9	4615.8	4994.8	5405.9	7157.5
Imports, c.i.f.	-4697.2	-5226.1	-6913.7	-8075.2	-7875.0	-8990.2	-9086.9	-11153.4
Trade Balance	-1143.4	-951.9	-2453.7	-3087.3	-3259.1	-3995.5	-3681.0	-3996.0
Services ¹	157.4	-334.0	-12.8	-498.3	-184.5	-218.0	-801.5	-379.7
Credit	575.9	568.2	758.1	772.0	1444.3	1416.6	1194.0	1421.1
Debit	-418.5	-902.3	-770.9	-1270.4	-1628.7	-1634.6	-1995.5	-1800.8
Income	-7.2	395.5	408.9	-170.1	119.3	-139.8	-598.8	-740.1
Credit	193.2	526.0	511.1	605.7	803.8	523.1	561.4	436.3
Debit	-200.3	-130.5	-102.2	-775.8	-684.4	-662.9	-1160.3	-1176.5
Current Transfers	1646.7	2378.1	2441.8	4805.4	3667.7	3701.0	7548.8	7336.2
Credit	2887.9	3913.9	5167.7	6784.1	5613.2	5988.2	9810.7	9719.8
<i>Of Which Grants</i>	2662.5	3280.4	5146.2	6184.0	5252.1	5338.2	9100.8	9122.9
Debit	-1241.2	-1535.8	-2725.9	-1978.7	-1945.4	-2287.3	-2261.9	-2383.6
B. Capital and Financial Account	194.1	167.3	1151.7	1793.6	1428.6	2947.4	4645.5	5454.9
Foreign Direct Investment	-	-	45.2	0.0	0.0	101.2	117.9	157.0
Portfolio Investment	-	-	-	0.0	-881.4	0.0	0.0	0.0
Foreign Aid (Loans net) ²	204.8	257.8	1404.6	1793.6	2310.0	2846.2	4527.5	4934.6
Other Loans	-10.8	-90.6	-298.2	0.0	0.0	0.0	0.0	363.3
C. Net Errors and Omissions	905.3	1546.8	1985.5	-1310.1	-1535.9	-1052.6	-4511.5	-7302.2
D. Overall Balance³	1111.7	1766.5	1847.4	1533.1	236.2	1242.7	2601.4	373.0

¹In all prior BOP publications (data till 2000/2001), Services, Income and Transfer Receipts and Payments (also known as 'Invisibles') were grouped as Service Transfer Receipts and Service Transfer Payments. This format has now been altered to match IMF BOP Standards. Therefore, from 1995/1996, Invisibles are thereafter classified under Net Services, Income and Current Transfers. Kindly refer to the BOP Guide included in the text.

²As above, in all prior BOP publications (data till 2000/2001), the Grant component was included in the Capital and Financial Account under Net Foreign Aid. From 1995/1996 onwards, as per IMF standards, Grants are treated as a Current Transfer receipt.

³Overall Balance is the Change in Reserves.

TABLE 20. BALANCE OF PAYMENTS ESTIMATES WITH INDIA

Millions of Ngultrum

Item	Period							
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
A. Current Account	273.3	42.4	-921.4	1537.5	448.6	-154.5	2478.9	2027.6
Exports, f.o.b.	3227.0	4041.9	4181.0	4711.2	4377.0	4700.5	5095.3	6768.8
Imports, c.i.f.	-3068.2	-3684.7	-4919.3	-6065.7	-6231.3	-6988.8	-8206.6	-9789.5
Tala	-	-28.3	-1114.4	-1479.1	-1363.7	-568.1	-1786.6	-2073.4
Other	-3068.2	-3656.5	-3804.9	-4586.7	-4867.5	-6420.7	-6380.8	-7663.3
Trade Balance	158.8	357.2	-738.3	-1354.5	-1854.3	-2288.3	-3111.3	-3020.7
Services ¹	114.5	-314.8	-183.1	-684.6	-332.8	-311.9	-430.9	-214.0
Credit	236.1	218.8	251.3	170.0	625.4	669.9	596.5	770.2
Debit	-121.6	-533.7	-434.4	-854.6	-958.2	-981.8	-1027.4	-984.2
Income	-85.8	34.6	106.5	-532.4	-381.4	-393.8	-712.7	-806.5
Credit	53.7	99.8	166.1	187.7	247.1	195.5	362.9	249.3
Debit	-139.5	-65.3	-59.6	-720.1	-628.5	-589.3	-1075.6	-1055.8
Current Transfers	727.0	1400.7	1567.5	4109.0	3017.2	2839.5	6733.8	6068.8
Credit	1378.0	2621.6	3893.0	5509.4	4220.4	3988.4	7672.6	6987.4
<i>Of which Grants</i>	1378.0	2460.4	3812.1	5098.0	4092.3	3586.6	7250.9	6954.0
<i>Of Which Budgetary Grants</i>	947.6	1045.1	1928.5	2188.0	2551.2	1565.3	1431.8	2287.2
Debit	-651.0	-1220.9	-2325.5	-1400.4	-1203.2	-1148.9	-938.8	-918.7
B. Capital and Financial Account	58.0	-94.3	968.5	1572.5	1707.9	1863.2	3116.0	3258.6
Foreign Aid (Loans net) ²	-13.9	-94.3	1218.5	1572.5	1707.9	1863.2	3116.0	3258.6
Other Loans	71.8	0.0	-250.0	0.0	0.0	0.0	0.0	0.0
C. Net Errors and Omissions	476.9	611.0	977.5	-2522.7	-1711.1	-1596.7	-5928.7	-4253.6
D. Overall Balance³	808.1	559.1	1024.5	587.3	445.4	112.0	-333.7	1032.7

¹ and ² Kindly refer to Overall Balance of Payments Estimates.

³ Overall Balance is the Change in Reserves.

TABLE 21. BALANCE OF PAYMENTS ESTIMATES WITH COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

Item	Period							
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
A. Current Account	-261.0	10.0	-368.4	-487.9	-105.2	-497.7	-11.4	192.7
Exports, f.o.b.	326.8	232.2	279.0	276.6	238.9	294.3	310.6	388.6
Imports, c.i.f.	-1629.0	-1541.4	-1994.4	-2009.5	-1643.7	-2001.4	-880.3	-1363.9
Trade Balance	-1302.3	-1309.1	-1715.4	-1732.8	-1404.8	-1707.1	-569.7	-975.3
Services ¹	42.9	-19.2	170.4	186.3	148.4	93.9	-370.6	-165.7
Credit	339.8	349.4	506.8	602.0	818.9	746.7	597.6	650.9
Debit	-296.9	-368.6	-336.5	-415.8	-670.5	-652.8	-968.1	-816.6
Income	78.7	360.9	302.4	362.3	500.7	254.0	113.9	66.3
Credit	139.5	426.2	345.0	418.0	556.7	327.6	198.5	187.0
Debit	-60.8	-65.3	-42.6	-55.7	-56.0	-73.5	-84.7	-120.7
Current Transfers	919.7	977.4	874.3	696.3	650.6	861.5	815.0	1267.4
Credit	1509.8	1292.3	1274.6	1274.6	1392.8	1999.8	2138.1	2732.3
<i>Of Which Grants</i>	1284.5	820.0	1334.1	1086.0	1159.8	1751.6	1849.9	2169.0
Debit	-590.2	-314.8	-400.4	-578.3	-742.2	-1138.3	-1323.1	-1464.9
B. Capital and Financial Account	136.1	261.6	183.3	221.1	-279.3	1084.2	1529.4	2196.3
Foreign Direct Investment	-	-	45.2	0.0	0.0	101.2	117.9	157.0
Portfolio Investment	-	-	-	0.0	-881.4	0.0	0.0	0.0
Foreign Aid (Loans net) ²	218.7	352.1	186.2	221.1	602.1	983.0	1411.5	1676.0
Other Loans	-82.6	-90.6	-48.2	0.0	0.0	0.0	0.0	363.3
C. Net Errors and Omissions	428.4	935.8	1008.0	1212.6	175.2	544.1	1417.2	-3048.7
D. Overall Balance³	303.6	1207.4	822.9	945.8	-209.2	1130.7	2935.2	-659.7

¹ and ² Kindly refer to Overall Balance of Payments Estimates.

³ Overall Balance is the Change in Reserves.

TABLE 22. GROSS INTERNATIONAL RESERVES (*)

Item	Year							End of Period
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	
1. Rupee reserves	1500.9	2519.3	3106.6	3551.9	3663.9	3330.2	4362.8	
Royal Monetary Authority of Bhutan	41.4	95.3	102.0	89.4	635.7	863.6	1822.4	
Bank of Bhutan	1387.5	1845.7	1813.0	2134.6	1964.7	1734.4	1988.3	
Bhutan National Bank	72.0	578.3	1191.5	1328.0	1063.6	732.1	552.1	
	Millions of US Dollars							
2. Convertible currency reserves	180.5	199.9	221.5	217.0	240.5	301.7	287.2	
Royal Monetary Authority of Bhutan	174.6	193.5	197.7	186.1	202.6	244.4	248.9	
Royal Government	-	-	-	-	-	-	-	
Bank of Bhutan	3.9	3.5	11.3	16.2	18.4	39.6	31.3	
Bhutan National Bank	2.0	2.9	12.6	14.7	19.5	17.7	7.0	
3. Total reserves (1+2)	216.0	258.3	291.1	292.6	315.3	373.0	383.1	
	Months of Imports							
4. Total reserves	21.0	19.3	19.3	21.0	20.6	23.0	18.8	
Rupee reserves	4.9	6.1	6.1	6.8	6.3	4.9	5.3	
Convertible currency reserves	59.4	51.9	59.1	74.5	70.6	192.2	115.0	

(*) Includes reserve tranche position in the Fund. From March 2004, the definition of Gross International Reserves has been revised and backtracked to exclude RICBL's Rupee and Convertible Currency reserves. Note: Months of imports are calculated using gross international reserves figures.

TABLE 23A. COMPOSITION OF TRADE WITH INDIA (IMPORTS)

Millions of Ngultrum

Item	2000	2001	2002	2003	Share of Imports in 2003 in %
Animal Products	209.9	270.6	317.6	368.6	3.6
Cereals, Vegetables, Fruits, Nuts, Coffee, Tea & Spices	502.4	555.6	607.5	745.2	7.3
Vegetables Fats and Oil	168.6	201.0	220.9	174.5	1.7
Prepared foodstuffs	422.2	503.8	545.8	573.9	5.6
Mineral Products	1,227.8	1,512.7	1,434.7	1,860.5	18.1
Products of Chemical Industries	428.0	514.8	456.2	562.5	5.5
Plastics & Rubber Products	150.3	157.7	179.5	261.6	2.5
Raw Hides & Skins	3.5	5.2	5.4	4.0	0.0
Wood and Wood Products	238.8	148.5	96.5	100.5	1.0
Woodpulp Products	148.2	151.4	144.6	179.9	1.8
Textiles	155.3	168.7	180.9	152.2	1.5
Footwear, Headgear and Clothing Accessories	70.6	49.7	64.0	71.1	0.7
Stone, Plaster, Cement and Asbestos Products	80.5	145.4	133.5	155.5	1.5
Precious or Semi-precious Metal & Stone Products	0.3	0.1	0.4	0.4	0.0
Base Metals and Base Metal Products	791.7	969.2	928.3	1,441.8	14.1
Machinery and Mechanical Appliances	966.9	1,014.0	1,528.2	2,785.6	27.1
Transport Vehicles and Equipment	503.9	454.9	562.6	559.0	5.4
Optical, Photographic & Measuring Equipment	76.7	87.9	95.7	201.0	2.0
Miscellaneous Manufactured Articles	85.6	77.5	78.4	61.9	0.6
Works of Art, Antiques & Special Transactions	0.1	0.1	0.5	0.4	0.0
TOTAL	6,231.3	6,988.8	7,581.3	10,260.1	100.0

Mineral imports are inclusive of electricity imports. Source of electricity imports: Chukha and Kurichhu Power Project Authorities, and Department of Energy, Ministry of Trade and Industry.

TABLE 23B. COMPOSITION OF TRADE WITH INDIA (EXPORTS)

Millions of Ngultrum

Item	2000	2001	2002	2003	Share of Exports in 2003 in %
Animal Products	0.3	0.0	0.4	0.0	0.0
Vegetables, Fruits, Nuts, Coffee, Tea & Spices	197.7	279.9	391.1	257.0	4.3
Vegetables Fats & Oil	0.0	0.0	0.0	0.0	0.0
Prepared Foodstuffs	194.4	218.5	208.5	391.3	6.6
Mineral Products	527.4	609.5	534.4	587.6	9.9
Electricity*	2,189.6	2,072.9	2,347.4	2,603.5	43.9
Plastic & Rubber Products	10.8	55.5	84.0	199.3	3.4
Raw Hides & Skins	2.8	2.5	4.0	4.2	0.1
Wood & Wood Products	250.6	241.4	176.5	214.7	3.6
Woodpulp Products	0.2	1.0	0.3	0.4	0.0
Textiles	1.8	1.0	13.2	112.8	1.9
Footwear, Headgear & Clothing Accessories	0.2	0.0	0.0	0.0	0.0
Stone, Plaster, Cement, & Asbestos Products	12.5	14.2	22.5	18.0	0.3
Base Metals & Base Metal Products	450.0	595.1	627.9	882.3	14.9
Machinery & Mechanical Appliances	6.4	0.1	39.2	4.4	0.1
Transport Vehicles & Equipment	1.1	0.4	3.2	0.2	0.0
Optical, Photographic & Measuring Equipment & Parts**	-	-	4.4	2.1	0.0
Miscellaneous Manufactured Articles	45.6	19.4	12.4	18.0	0.3
Products of Chemical Industries	485.5	589.0	667.6	630.0	10.6
Works of Art, Antiques, & Special Transactions	0.0	0.1	0.0	0.0	0.0
TOTAL	4,377.0	4,700.5	5,137.0	5,925.9	100.0

Source: Department of Revenue & Customs.

* Electricity exports for 2002 is taken from Chukha and Kurichhu Sales for that year.

** This category has been eliminated by DRC for 2000.

TABLE 24A. COMPOSITION OF TRADE WITH COUNTRIES OTHER THAN INDIA (IMPORTS)

Millions of Ngultrum

Item	2000	2001	2002	2003	Share of Imports in 2003 in %
Animal Products	2.3	7.0	8.5	8.0	0.6
Vegetables, Fruits, Nuts, Coffee, Cereals, Seeds	3.1	3.4	19.1	4.9	0.4
Vegetable Fats and Oil	6.0	10.3	19.5	50.7	3.8
Whiskies and Processed Food	46.1	77.1	60.4	32.4	2.4
Mineral Oil and Fuel	66.9	1.4	31.6	0.7	0.1
Products of Chemical Industries	9.1	19.1	26.3	26.0	1.9
Medicines and Pharmaceuticals	20.6	24.0	11.1	12.5	0.9
Photographic Film and Materials	0.4	2.1	2.4	0.1	0.0
Plastic and Rubber Products	84.6	131.9	105.4	100.2	7.5
Wood Products	12.5	21.7	10.9	2.2	0.2
Woodpulp Products	38.1	21.3	10.5	21.9	1.6
Textiles	43.9	60.2	81.1	99.2	7.4
Machinery, Mechanical Appliances, Base Metals and Electronic Items	1,268.1	1539.3	1506.2	947.9	70.8
Ceramic and Melamine Products	0.8	13.3	10.9	0.7	0.1
Trekking Equipment, Footwear, Carpets	5.7	13.0	12.7	9.2	0.7
Miscellaneous Manufactured Articles	28.1	30.8	36.1	17.0	1.3
Precious and Semi-precious Metals	0.5	1.1	0.0	2.8	0.2
Tobacco and Cigarettes	5.0	3.3	5.3	2.0	0.2
Personal Effects	1.8	21.1	15.6	0.0	0.0
TOTAL	1,643.7	2001.4	1972.6	1338.4	100.0

TABLE 24B. COMPOSITION OF TRADE WITH COUNTRIES OTHER THAN INDIA (EXPORTS)

Millions of Ngultrum

Item	2000	2001	2002	2003	Share of Exports in 2003 in %
Vegetables & Fruits	117.9	163.9	115.1	166.1	62.9
Processed Food	14.3	14.3	6.5	4.8	1.8
Mineral Products	74.7	92.0	139.3	81.5	30.8
Plastic Products	0.0	0.0	0.0	2.5	1.0
Photographic Film & Photographic Materials	0.0	0.0	0.0	0.0	0.0
Wood Products	0.1	1.1	7.1	1.8	0.7
Woodpulp Products	3.2	7.8	1.5	0.1	0.0
Textiles	14.0	5.0	10.9	0.2	0.1
Coins	0.0	0.0	0.0	0.0	0.0
Base Metals & Base Metal Products	0.0	0.0	2.6	0.1	0.0
Machinery	4.2	0.0	56.7	0.2	0.1
Philatelic Products	0.3	0.0	0.0	0.0	0.0
Handicrafts Products	0.5	2.3	0.4	0.1	0.0
Household items & Personal effects	9.8	7.8	2.4	6.8	2.6
TOTAL	238.9	294.3	341.5	264.2	100.0

Source: Department of Revenue & Customs.

TABLE 25. DIRECTION OF TRADE

Millions of Ngultrum

Item	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports										
India	1,945.8	3,079.0	3,227.0	4,041.9	4,175.6	4,711.2	4,377.0	4,700.5	5,137.0	5,925.9
Bangladesh	127.6	201.1	261.7	179.4	194.7	209.5	164.8	222.4	221.7	223.9
Others	9.2	70.0	65.1	52.9	85.3	67.3	74.1	71.9	119.8	40.3
Total	2,082.7	3,350.1	3,553.8	4,274.2	4,455.6	4,988.0	4,615.8	4,994.7	5,478.6	6,190.1
Imports										
India	2,051.3	2,630.2	2,896.2	3,453.6	3,620.9	5,845.3	6,231.3	6,988.8	7,581.3	10,260.1
Japan	396.9	412.0	602.1	841.6	410.2	260.4	305.2	622.2	322.5	200.2
Germany	61.3	70.8	67.1	45.4	72.0	0.0	28.3	66.0	97.8	69.6
United States	36.8	12.7	23.6	30.2	42.7	22.4	34.3	49.0	60.3	40.1
United Kingdom	77.6	57.5	40.6	19.5	33.2	31.3	205.4	163.4	282.3	22.5
Singapore	38.8	194.0	344.1	140.0	398.3	997.9	251.4	214.6	245.3	198.9
Thailand*							105.8	290.0	242.2	148.8
China*							71.8	15.8	74.1	29.1
Bangladesh*							49.3	64.7	72.8	49.1
Nepal*							24.7	15.0	21.4	20.0
Others	213.6	264.7	551.5	447.6	939.9	677.6	567.6	500.7	553.8	560.1
Total	2,876.4	3,641.9	4,525.2	4,977.9	5,516.4	7,834.9	7,875.0	8,990.2	9,553.9	11,598.5
Share in percent										
Exports										
India	93.4	91.9	90.8	94.6	93.7	94.5	94.8	94.1	93.8	95.7
Bangladesh	6.1	6.0	7.4	4.2	4.4	4.2	3.6	4.5	4.0	3.6
Others	0.4	2.1	1.8	1.2	1.9	1.3	1.6	1.4	2.2	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports										
India	71.3	72.2	64.0	69.4	65.6	74.6	79.1	77.7	79.4	88.5
Japan	13.8	11.3	13.3	16.9	7.4	3.3	3.9	6.9	3.4	1.7
Germany	2.1	1.9	1.5	0.9	1.3	0.0	0.4	0.7	1.0	0.6
United States	1.3	0.3	0.5	0.6	0.8	0.3	0.4	0.5	0.6	0.3
United Kingdom	2.7	1.6	0.9	0.4	0.6	0.4	2.6	1.8	3.0	0.2
Singapore	1.3	5.3	7.6	2.8	7.2	12.7	3.2	2.4	2.6	1.7
Thailand*							1.3	3.2	2.5	1.3
China*							0.9	0.2	0.8	0.3
Bangladesh*							0.6	0.7	0.8	0.4
Nepal*							0.3	0.2	0.2	0.2
Others	7.4	7.3	12.2	9.0	17.0	8.6	7.2	5.6	5.8	4.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Revenue and Customs. *Imports from Thailand, China, Bangladesh and Nepal are now being reported separately from 2000. In previous years, they were grouped as Others.

TABLE 26. CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (*)

	Sector	Creditors	2000/2001		2001/2002		2002/2003		2003/2004		Total ¹	
			USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	Concessional Loans											
	Agriculture		1.2		2.5		5.5		0.8		38.3	
1	Small Farm Dev. Project	IFAD					0.0		0.0		4.2	
2	T/gang Mongar Dev. Project	IFAD					0.0		0.0		3.4	
3	Punakha Wangdi Valley Dev. Proj.	IFAD					0.0		0.0		2.6	
4	1st Eastern Zone Agricultural Proj.	IFAD					0.0		0.0		3.5	
5	2nd Eastern Zone Agricultural Proj.	IFAD	0.6		1.4		4.6		0.8		7.4	
6	Forestry I	World Bank					0.0		0.0		5.3	
7	Forestry II	World Bank					0.0		0.0		0.8	
8	Forestry III	World Bank	0.5		1.1		0.9		0.0		5.2	
9	Chirang Hill Irrigation Project	ADB					0.0		0.0		1.1	
10	Highland Lifestock Dev. Proj.	ADB					0.0		0.0		4.8	
	Communications		2.4		3.7		5.7		7.4		32.0	
11	Earth Satellite Station	Mitsui and Co. Ltd.					0.0		0.0		1.7	
12	Air Navigation Project (Paro)	EFIC (Australia)					0.0		0.0		0.8	
13	Rural Access Project	World Bank	1.0		1.0		1.8		1.8		5.5	
14	Urban Development Project	World Bank	0.6		0.8		1.5		3.5		6.4	
15	Road Works Mechanization Proj.	ADB					0.0		0.0		5.0	
16	East West Highway Maintenance	ADB					0.0		0.0		5.2	
17	Urban Infrastructures Improv. Proj.	ADB	0.6		1.3		0.7		0.8		3.7	
18	Road Improvement Project	ADB	0.1		0.6		1.7		1.3		3.7	
	Education		3.6		2.9		2.3		4.3		33.2	
19	Primary Education Project	World Bank					0.0		0.0		4.4	
20	Second Education Project	World Bank	2.8		2.7		1.5		2.2		11.1	
21	Technical and Voc. Edn. Train. Proj.	ADB	0.8				0.0		0.0		4.5	
22	Basic Skills Dev. Proj.	ADB			0.2		0.8		1.3		2.3	
23	Multi Project II	ADB					0.0		0.0		10.1	
24	Education Development Proj.	World Bank							0.8		0.8	
	Health		4.7				5.3		0.0		10.1	
25	Health Care Reform Program	ADB	4.7				5.3		0.0		10.1	
	Financial Sector		0.4		0.7		3.5		0.0		22.8	
26	Technical Assistance	World Bank					0.0		0.0		3.3	
27	Multi Project I	ADB					0.0		0.0		4.3	
28	Bhutan Dev. Finance Corporation	ADB					0.0		0.0		2.4	
29	Financial Sector Dev. Program	ADB					1.5		0.0		4.1	
30	Dev. Finance Loan Project	ADB	0.3		0.7		2.0		0.0		3.9	
31	Bhutan Dev. Finance Corporation	KFAED	0.1				0.0		0.0		4.7	

TABLE 26. CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (*) CONTINUED

			2000/2001		2001/2002		2002/2003		2003/2004		Total ¹	
	Sector	Creditors	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	Industry						0.0		0.0		31.0	
32	Bhutan Calcium Carbide Ltd.	World Bank					0.0		0.0		7.2	
33	Industrial Estates Dev. Project	ADB					0.0		0.0		0.8	
34	Gedu Wood Mfg. Corporation	KFAED					0.0		0.0		5.9	
35	Tala Particle Board Factory Proj.	KFAED					0.0		0.0		10.4	
36	Bhutan Calcium Carbide Ltd.	KFAED					0.0		0.0		6.7	
37	Dungsam Cement Plant	Govt. of India					0.0				0.0	
	Power		3.3	1795.4	13.4	1950.8	10.1	3203.6	13.5	3346.2	56.1	14855.7
38	Rural Electrification Project	ADB					0.0		0.0		6.6	
39	Sustainable Rural Elect. Proj.	ADB	0.1		5.3		2.3		0.9		8.6	
40	Rural Electrification & Network Exp Proj.								0.0		0.0	
41	Basochhu Hydropower Project	Govt. of Austria	3.2		0.4		0.0		0.9		13.7	
40	Bashochhu Hydro. Lower Stage	Govt. of Austria			7.7		7.9		11.7		27.2	
43	Chukha Hydropower Proj.	Govt. of India						0.0		0.0		983.6
44	Kurichhu Hydropower Proj.	Govt. of India		768.0		204.0		162.0		0.0		2240.0
45	Tala Hydroelectric Proj.	Govt. of India		1027.4		1746.8		3041.6		3346.2		11632.1
	Other											
46	Miscellaneous											
	TOTAL (Concessional)		15.6	1795.4	23.1	1950.8	32.6	3203.6	26.0	3346.2	223.5	14855.7
	Commercial Loans		0.0		0.0		0.0		8.0		30.6	
	TOTAL (Concessional + Comm)		15.6	1795.4	23.1	1950.8	32.6	3203.6	34.0	3346.2	254.1	15724.2

Source: Department of Aid and Debt Management. (*) Totals may not add up due to rounding.

(1): Total Disbursements are cumulative from 1981/82 - 2003/04.

TABLE 27. DEBT SERVICING - YEAR-WISE EXPENDITURE ON EXTERNAL DEBT, CONVERTIBLE CURRENCY AND RUPEE (*)

In millions of USD and Rupees	Sector	2000/2001		2001/2002		2002/2003		2003/2004	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
		Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	
	Concessional Loans								
	Agriculture	0.24		0.24		0.28		0.55	
		0.43		0.43		0.58		0.72	
1	Small Farm Dev. Project	0.04		0.03		0.04		0.04	
		0.12		0.12		0.13		0.14	
2	T/gang Mongar Dev. Project	0.03		0.03		0.03		0.03	
		0.08		0.08		0.09		0.09	
3	Punakha Wangdi Valley Dev. Proj.	0.02		0.02		0.02		0.25	
		0.06		0.06		0.07		0.07	
4	1st Eastern Zone Agricultural Proj.	0.04		0.04		0.04		0.04	
				0.00		0.10		0.10	
5	2nd Eastern Zone Agricultural Proj.	0.00		0.01		0.03		0.05	
				0.00		0.00		0.00	
6	Forestry I	0.04		0.04		0.04		0.04	
		0.05		0.05		0.06		0.06	
7	Forestry II	0.01		0.01		0.01		0.01	
		0.01		0.02		0.02		0.02	
8	Forestry III	0.02		0.02		0.03		0.04	
				0.00		0.00		0.11	
9	Chirang Hill Irrigation Project	0.01		0.01		0.01		0.01	
		0.02		0.02		0.02		0.02	
10	Highland Lifestock Dev. Proj.	0.04		0.04		0.04		0.04	
		0.09		0.09		0.10		0.10	
	Communications	0.11		0.13		0.17		0.26	
		0.19		0.19		0.20		0.26	
11	Earth Satellite Station			0.00		0.00		0.00	
				0.00		0.00		0.00	
12	Air Navigation Project (Paro)			0.00		0.00		0.00	
		0.09		0.09		0.09		0.09	
13	Rural Access Project	0.00		0.01		0.02		0.06	
				0.00		0.00		0.00	
14	Urban Development Project	0.00		0.01		0.02		0.05	
				0.00		0.00		0.00	
15	Road Works Mechanization Proj.	0.05		0.04		0.04		0.04	
		0.09		0.09		0.10		0.11	
16	East West Highway Maintenance	0.05		0.05		0.05		0.05	
				0.00		0.00		0.05	
17	Urban Infrastructures Improv. Proj.	0.00		0.01		0.02		0.03	
				0.00		0.00		0.00	
18	Road Improvement Project			0.00		0.01		0.03	
				0.00		0.00		0.00	
	Education	0.18		0.19		0.22		0.31	
		0.30		0.35		0.39		0.40	
19	Primary Education Project	0.03		0.03		0.03		0.03	
		0.08		0.08		0.09		0.09	
20	Second Education Project	0.02		0.03		0.06		0.08	
				0.00		0.00		0.00	
21	Technical and Voc. Edn. Train. Proj.	0.04		0.04		0.04		0.04	
		0.04		0.08		0.09		0.10	
22	Basic Skills Dev. Proj.			0.00		0.00		0.02	
				0.00		0.00		0.00	
23	Multi Project II	0.09		0.09		0.09		0.08	
		0.18		0.19		0.21		0.22	
24	Education Development Project							0.06	
								0.00	
	Health	0.01		0.05		0.07		0.10	
		0.00		0.00		0.00		0.00	
25	Health Care Reform Program	0.01		0.05		0.07		0.10	
				0.00		0.00		0.00	
	Financial Sector	0.21		0.21		0.21		0.23	
		0.57		0.58		0.60		0.72	
26	Technical Assistance	0.02		0.03		0.02		0.03	
		0.03		0.03		0.04		0.04	
27	Multi Project I	0.04		0.03		0.04		0.03	
		0.09		0.09		0.10		0.21	

TABLE 27. DEBT SERVICING - YEAR-WISE EXPENDITURE ON EXTERNAL DEBT, CONVERTIBLE CURRENCY AND RUPEE, CONTINUED

In millions of USD and Rupees	Sector	2000/2001		2001/2002		2002/2003		2003/2004	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
		Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	
28	Bhutan Dev. Finance Corporation	0.02		0.02		0.02		0.02	
		0.04		0.04		0.05		0.05	
29	Financial Sector Dev. Program	0.02		0.02		0.02		0.04	
				0.00		0.00		0.00	
30	Dev. Finance Loan Project	0.01		0.02		0.03		0.04	
				0.00		0.00		0.00	
31	Bhutan Dev. Finance Corporation	0.10		0.09		0.08		0.07	
		0.40		0.41		0.42		0.42	
	Industry	0.14		0.39		0.10		0.08	
		1.14		1.16		1.18		0.85	
32	Bhutan Calcium Carbide Ltd.	0.05		0.05		0.05		0.06	
		0.07		0.07		0.08		0.08	
33	Industrial Estates Dev. Project	0.01		0.01		0.01		0.01	
		0.01		0.01		0.02		0.02	
34	Gedu Wood Mgf. Corporation			0.00		0.00		0.00	
				0.00		0.00		0.00	
35	Tala Particle Board Factory Proj.	0.04		0.30		0.02		0.00	
		0.66		0.67		0.68		0.34	
36	Bhutan Calcium Carbide Ltd.	0.04		0.03		0.02		0.01	
		0.40		0.40		0.41		0.41	
	Power	0.06	33.69	0.11	29.60	0.52	25.16	0.90	20.78
		0.00	87.55	0.00	87.55	0.00	87.55	0.00	87.55
37	Rural Electrification Project	0.06		0.07		0.06		0.07	
				0.00		0.00		0.00	
38	Sustainable Rural Elect. Proj.			0.01		0.06		0.09	
						0.00		0.00	
39	Rural Electrification & Network Exp Proj							0.00	
								0.00	
40	Basochhu Hydropower Project			0.03		0.40		0.75	
				0.00		0.00		0.00	
41	Chukha Hydropower Proj.		33.69		29.60		25.16		20.78
			87.55		87.55		87.55		87.55
42	Kurichhu Hydropower Proj.		0.00		0.00		0.00		0.00
			0.00		0.00		0.00		0.00
43	Tala Hydroelectric Proj.		0.00		0.00		0.00		0.00
			0.00		0.00		0.00		0.00
	Total (for Concessional Loans)	0.95	33.69	1.32	29.60	1.58	25.16	2.43	20.78
		2.63	87.55	2.71	87.55	2.95	87.55	2.96	87.55
	Commercial Loans								
	Commercial Loans	0.00		0.00		0.00		0.00	
		0.00		0.00		0.00		0.00	
	Total (Con. + Comm. Loans)	0.95	33.69	1.32	29.60	1.58	25.16	2.43	20.78
		2.63	87.55	2.71	87.55	2.95	87.55	2.96	87.55
	GRAND TOTAL (I+P)	3.58	121.24	4.03	117.15	4.53	112.71	5.39	108.33

Source: Department of Aid and Debt Management. (*) Totals may not add up due to rounding.

TABLE 28. BHUTAN'S OUTSTANDING EXTERNAL DEBT - FISCAL YEAR POSITION

Item	Rupee/Ngultrum million				US \$ Million			
	2000/2001	2001/2002	2002/2003	2003/2004	2000/2001	2001/2002	2002/2003	2003/2004
1. Government Borrowing								
Concessional	4960.2	6264.1	8471.9	9445.7	106.9	129.9	176.8	208.0
a. World Bank	1282.6	1599.9	2054.6	2384.7	27.6	33.2	42.9	52.5
b. IFAD	579.5	660.0	939.0	922.8	12.5	13.7	19.6	20.3
c. ADB	2197.2	2671.3	3630.7	3743.3	47.4	55.4	75.8	82.4
d. KFAED	300.5	246.6	174.6	95.2	6.5	5.1	3.6	2.1
e. EFIC Australia	17.6	13.7	9.1	4.3	0.4	0.3	0.2	0.1
f. Govt. of Austria	582.9	1072.6	1663.8	2295.4	12.6	22.2	34.7	50.5
2. Commercial Borrowing	0.0	0.0	0.0	363.3	0.0	0.0	0.0	8.0
3. Rupee Debt	6024.4	7803.6	10963.7	14222.3	129.9	161.9	228.7	313.2
a. Chukha Hydropower Project	612.9	525.3	437.8	350.2	13.2	10.9	9.1	7.7
b. Kurichhu Hydropower Project	1874.0	1994.0	2240.0	2240.0	40.4	41.4	46.7	49.3
c. Tala Hydroelectric Project	3537.6	5284.3	8285.9	11632.1	76.3	109.6	172.9	256.1
4. Gross Total	10984.7	14067.7	19435.5	24031.3	236.8	291.8	405.5	529.2
Convertible Currency Debt As a % of Total Debt					106.9 45.2	129.9 44.5	176.8 43.6	216.0 40.8
Rupee Debt As a % of Total Debt	6024.4 54.8	7803.6 55.5	10963.7 56.4	14222.3 59.2				
Exchange Rate Ngultrum to 1 USD	46.4	48.2	47.9	45.4				

Source: Department of Aid and Debt Management.

1. Based on the Fiscal Year period : July to June-end.

2. Outstanding Debt = (Total Disbursement - Principal Repayment).

3. Exchange rate used for conversion is based on the Fiscal Year Average.

TABLE 29. EXTERNAL DEBT OUTSTANDING BY INDIVIDUAL CREDITOR CATEGORIES

Creditor Category	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	<i>(In Millions of USD and Rupees/Ngultrum)</i>									
I. Convertible Currency Debt	80.7	80.2	84.0	90.4	98.7	98.7	106.9	129.9	176.8	216.0
I. Multilateral	72.8	74.5	80.6	85.0	88.3	88.3	94.4	107.7	142.0	157.5
Asian Development Bank	28.3	31.2	36.3	40.4	43.2	43.2	47.4	55.4	75.8	82.4
EFIC (Australia)	0.8	0.8	0.8	0.7	0.5	0.5	0.4	0.3	0.2	0.1
IFAD	9.8	10.9	11.4	12.2	12.7	12.7	12.5	13.7	19.6	20.3
KFAED	14.5	11.1	10.9	9.6	7.9	7.9	6.5	5.1	3.6	2.1
World Bank (IDA)	19.4	20.5	21.3	22.1	24.0	24.0	27.6	33.2	42.9	52.5
II. Bilateral	0.0	0.0	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5
Government of Austria	0.0	0.0	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5
III. Commercial Debt	7.9	5.7	3.4	1.1	0.0	0.0	0.0	0.0	0.0	8.0
West LB Ltd (Druk Air Loan)	7.9	5.7	3.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0
IFC										8.0
II. Rupee Debt	1,734.8	1,256.7	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3
Government of India	1,421.1	1,256.7	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3
State Bank of India	313.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amex Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<i>(In percent of Total Convertible Currency/ Rupee Outstanding Debt)</i>									
Convertible Currency Creditors										
ADB	35.1	38.9	43.2	44.7	43.8	43.8	44.3	42.6	42.9	38.2
EFIC	1.0	1.0	0.9	0.7	0.5	0.5	0.4	0.2	0.1	0.0
Government of Austria	0.0	0.0	0.0	4.7	10.5	10.5	11.8	17.1	19.6	23.4
IFAD	12.2	13.6	13.5	13.5	12.9	12.9	11.7	10.5	11.1	9.4
KFAED	18.0	13.9	13.0	10.7	8.0	8.0	6.1	3.9	2.1	1.0
World Bank	24.0	25.6	25.3	24.4	24.3	24.3	25.9	25.5	24.3	24.3
West LB Ltd.	9.8	7.1	4.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
IFC										3.7
Rupee Creditors										
Government of India	81.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State Bank of India	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amex Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Aid and Debt Management.

TABLE 30. BHUTAN'S DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY

Creditor Category	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
<i>(In Millions of USD)</i>										
I. Multilateral	0.92	1.22	1.26	0.90	0.95	0.94	0.95	1.30	1.18	1.68
	2.41	4.86	2.18	2.45	2.70	2.63	2.63	2.71	2.95	2.96
II. Bilateral	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.40	0.75
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Commercial Debt	0.72	0.55	0.38	0.21	0.04	0.00	0.00	0.00	0.00	0.00
	2.26	2.26	2.26	2.26	1.13	0.00	0.00	0.00	0.00	0.00
IV. Rupee Debt	6.03	4.98	3.85	1.69	1.34	0.88	0.73	0.61	0.52	0.46
	0.45	11.24	0.39	2.46	7.93	2.01	1.89	1.82	1.83	1.93
Total	7.66	6.75	5.49	2.80	2.34	1.82	1.68	1.94	2.10	2.89
	5.12	18.36	4.83	7.16	11.76	4.64	4.51	4.52	4.78	4.88
Total Debt Service	12.79	25.11	10.32	9.96	14.09	6.46	6.19	6.46	6.88	7.77
<i>(Ratios)</i>										
Debt Service Ratio*	14.2	22.7	8.9	8.0	12.1	4.9	4.7	4.9	5.0	4.1
Debt Service/Current Receipts**	14.2	20.8	8.5	6.8	10.2	4.2	4.1	4.2	4.3	3.7
Interest Payments/Current Receipts	8.5	5.6	4.5	1.9	1.7	1.2	1.3	1.3	1.3	1.4
Debt Service/Gross Reserves	10.6	17.3	5.9	4.6	5.5	2.2	2.1	2.0	1.8	2.0

Source: Department of Aid and Debt Management.

*: Debt service payments as a percentage of total exports of goods and services.

** : Current Receipts include receipts from trade, services, income and transfers excluding official and private transfers.

Inconsistencies may occur due to rounding.

TABLE 31. FOREIGN DEBT INDICATORS FOR CONVERTIBLE CURRENCY LOANS

Millions of US Dollars

Items	Period									
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 (p)
Debt Outstanding	80.7	80.2	84.0	90.4	98.7	98.7	106.9	129.9	176.8	216.0
Debt Service Payments	6.3	8.9	6.1	5.8	4.8	3.6	3.6	4.0	4.5	5.4
Principal	4.7	7.1	4.4	4.7	3.8	2.6	2.6	2.7	2.9	3.0
Interest	1.6	1.8	1.6	1.1	1.0	0.9	1.0	1.3	1.6	2.4
Debt Service Ratio (%)	35.6	55.6	32.7	38.4	26.1	17.8	15.7	18.7	23.9	23.5
Interest Payments/Convertible Currency Exports of Goods and Services.	9.2	11.1	8.8	7.3	5.4	4.7	4.2	6.1	8.3	10.6
Principal Repayments/ Convertible Currency Exports of Goods and Services.	26.3	44.6	23.8	31.1	20.8	13.1	11.5	12.5	15.6	12.9
Debt Outstanding/GDP (%)	31.1	28.6	26.3	24.8	26.1	23.2	23.3	25.8	30.5	30.8

Source: Department of Aid and Debt Management.

TABLE 32. RUPEE DEBT INDICATORS

Millions of Indian Rupees

Items	Period									
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04(p)
Debt Outstanding	1,734.8	1,256.7	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3
Chukha Hydel Project	1,171.1	1,078.6	993.8	875.5	788.0	700.4	612.9	525.3	437.8	350.2
Dungsam Cement Project	0.0									
Amex Bank										
Citibank										
GOI Credit Line	250.0	178.2	250.0	250.0						
SBI Overdraft	313.7									
Tala Hydroelectric Project				240.0	877.7	1,470.5	3,537.6	5,284.3	8,285.9	11,632.1
Kurichhu Hydropower Project				350.0	532.2	1,106.0	1,874.0	1,994.0	2,240.0	2,240.0
Debt Service Payments	203.5	556.4	151.4	159.1	394.8	125.8	121.2	117.1	112.7	108.3
Principal	14.3	385.5	13.9	94.3	337.6	87.6	87.6	87.6	87.6	87.6
Interest	189.3	170.9	137.5	64.9	57.3	38.3	33.7	29.6	25.2	20.8
Debt Service Ratio (%)	8.9	17.2	4.4	3.7	8.9	2.6	2.4	2.2	2.0	1.4
Interest Payments/Export of Goods & Services	8.3	5.3	4.0	1.5	1.3	0.8	0.7	0.6	0.4	0.3
Principal Repayments/Exports of Goods & Services	0.6	11.9	0.4	2.2	7.6	1.8	1.8	1.6	1.5	1.2
Debt Outstanding/GDP (%)	21.3	13.1	10.9	12.3	13.7	17.7	28.2	32.1	39.5	44.6

Source: Department of Aid and Debt Management.

TABLE 33. THE ROYAL SECURITIES EXCHANGE OF BHUTAN, INFORMATION ON LISTED COMPANIES, CONTINUED.

Company*/ year of Listing	Year	Paid Up Capital Nu.in Mill	No.of shareholders	Market Price (Nu)		Market Capitalization Nu.in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
DSML 1995	2000	3.8	64	100	100	3.8	(0.7)	-	100.0	(19.7)	(5.1)	-	-	(0.2)
	2001	3.8	64	100	100	3.8	(0.5)	-	100.0	(13.6)	(7.3)	-	-	(0.1)
	2002	3.8	64	100	100	3.8	-	-	-	-	-	-	-	-
	2003	3.8	64	100	100	3.8	2.2	-	100.0	57.9	1.7	-	-	0.6
BNB 1996	2000	59.5	407	700	450	416.5	102.9	195.4	428.5	173.0	4.1	50.0	11.7	0.4
	2001	59.5	405	1,500	439	862.8	78.1	243.8	509.7	131.3	11.1	50.0	9.8	0.3
	2002	59.5	409	2,000	1,100	1,190.0	40.1	269.0	552.1	67.4	29.7	25.0	4.5	0.1
	2003	119.0	5451	2,000	550	654.5	56.9	549.0	561.3	47.8	11.5	30.0	5.3	0.1
BPCL 1997	2000	24.9	78	100	100	24.9	8.1	8.8	135.4	32.6	0.6	35.0	25.9	0.3
	2001	24.9	78	100	100	24.9	6.6	10.4	141.8	26.4	3.8	20.0	14.1	0.2
	2002	24.9	95	300	205	62.3	9.6	12.5	150.2	38.4	6.5	30.0	20.0	0.3
	2003	24.9	104	300	250	62.3	10.4	15.5	162.0	41.8	6.0	30.0	18.5	0.3
STCB 1997	2000	20.0	133	130	130	26.0	29.8	37.0	284.9	148.8	0.9	40.0	14.0	0.5
	2001	20.0	133	130	130	26.0	8.6	40.5	302.7	42.7	3.0	25.0	8.3	0.1
	2002	20.0	127	130	130	26.0	4.4	41.0	304.8	22.2	5.9	20.0	6.6	0.1
	2003	20.0	127	130	130	26.0	10.8	45.8	328.8	54.0	2.4	30.0	9.1	0.2
DSCL 1998	2000	10.1	1201	100	100	10.1	17.4	25.2	265.8	171.8	0.6	50.0	18.8	0.5
	2001	30.4	1201	100	100	30.4	17.0	11.5	136.2	56.0	1.8	15.0	11.0	0.4
	2002	30.4	1200	100	100	30.4	21.2	32.7	207.6	69.7	1.4	-	-	0.3
	2003	30.4	1186	100	100	30.4	29.9	55.4	282.2	98.3	1.0	-	-	0.4
DPOP	2001	10.0	203	100	100	10.0	-	-	-	-	-	-	-	-
	2002		203	100	100	10.0	-	-	-	-	-	-	-	-
	2003		203	100	100	10.0	(0.6)	-	-	(2.9)	(34.1)	-	-	(0.0)
BBCL	2003	115.0	4443	350	100	368.0	(17.4)	-	100.0	(15.1)	(21.2)	-	-	(0.2)

Total Market Capitalization : 3,534.0

Source: Royal Securities Exchange of Bhutan

Formula used :-

1- Book Value = Capital + Reserves/ No. of Shares. 2-EPS = Net Profit/ No. of Shares. 3-PE = Market Price/ EPS. 4-Return on Capital = Net Income/ (Equity + Reserves). 5-Dividend Yield = Dividend X 100/ Book Value Per Share.

(*) BCCL - Bhutan Carbide and Chemicals Ltd.; RICB-Royal Insurance Corporation of Bhutan; PCAL-Penden Cement Authority Ltd.; BFAL-Bhutan Ferro Alloys Ltd.; BBPL-Bhutan Board Products Ltd.; BTCL-Bhutan Tourism Corporation Ltd.; BDL-Bhutan Dairy Ltd.; DPCL-Druk Petroleum Corporation Ltd.; DSML-Druk Stones and Mining Ltd.; BNB-Bhutan National Bank; BPCL-Bhutan Polythene Company Ltd.; STCB-State Trading Corporation of Bhutan; DSCL-Druk Satair Corporation Ltd. DPOP-Druk Plaster of Paris; BBCL-Bhutan Beverages Company Ltd.

TABLE 34. EXCHANGE RATE, NGULTRUM/US DOLLAR

Period Average

Period	Year					
	1999	2000	2001	2002	2003	2004
Jan	42.51	43.55	46.54	48.34	47.93	45.46
Feb	42.46	43.61	46.52	48.69	47.74	45.27
Mar	42.44	43.59	46.62	48.74	47.65	45.02
Apr	42.73	43.64	46.79	48.92	47.38	43.93
May	42.77	43.97	46.92	49.00	47.08	45.25
June	43.14	44.69	47.01	48.96	46.72	45.51
July	43.29	44.78	47.14	48.76	46.23	
Aug	43.46	45.69	47.13	48.59	45.93	
Sept	43.54	45.89	47.65	48.44	45.85	
Oct	43.45	46.35	48.02	48.37	45.39	
Nov	43.40	46.78	48.00	48.38	45.52	
Dec	43.49	46.75	47.92	48.14	45.59	
Calendar year average	43.06	44.94	47.19	48.61	46.58	
Fiscal year average (+)	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	42.59	43.64	46.39	48.21	47.93	45.41

Source : International Financial Statistics, IMF.

TABLE 35. EXCHANGE RATE, JAPANESE YEN / US DOLLAR

Period Average

Period	Year						
	1998	1999	2000	2001	2002	2003	2004
Jan	129.45	113.18	105.16	117.10	132.66	118.65	106.51
Feb	126.00	116.66	109.31	116.04	133.52	119.27	106.55
Mar	128.69	119.78	106.71	121.12	131.20	118.54	108.62
Apr	131.67	119.81	105.48	123.83	131.07	119.79	107.25
May	135.00	122.11	108.11	121.93	126.48	117.26	112.35
June	140.57	120.90	106.23	122.15	123.60	118.26	109.47
July	140.73	119.86	107.90	124.65	118.07	118.69	
Aug	144.65	113.40	108.07	121.61	119.01	118.83	
Sept	134.59	107.57	106.75	118.98	120.37	115.19	
Oct	121.30	105.97	108.36	121.28	123.86	109.58	
Nov	120.58	104.60	108.89	122.31	122.55	109.20	
Dec	117.62	102.68	112.21	127.36	122.27	107.94	
Calendar year average	130.90	113.88	107.77	121.53	125.39	115.93	
Fiscal year average (+)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	126.74	124.33	107.92	114.53	126.23	119.83	114.74

Source : International Financial Statistics, IMF.

Additional Source: Bank of Japan Website.

TABLE 36. EXCHANGE RATE, EURO/US DOLLAR

Period Average

Period	Year				
	2000	2001	2002	2003	2004
January	0.9867	1.0659	1.1324	0.9417	0.7928
February	1.0170	1.0851	1.1494	0.9283	0.7908
March	1.0370	1.0999	1.1419	0.9256	0.8156
April	1.0654	1.1214	1.1290	0.9220	0.8344
May	1.1040	1.1442	1.0906	0.8645	0.8328
June	1.0537	1.1722	1.0470	0.8575	0.8239
July	1.0644	1.1622	1.0080	0.8794	
August	1.1062	1.1108	1.0227	0.8980	
September	1.1469	1.0978	1.0196	0.8915	
October	1.1698	1.1041	1.0196	0.8553	
November	1.1678	1.1259	1.0082	0.8548	
December	1.1149	1.1207	0.9823	0.8139	
Calendar year average	1.0862	1.1175	1.0626	0.8860	
	1999/00	2000/01	2001/02	2002/03	2003/04
Fiscal year average (+)	1.0013	1.1216	1.1176	0.9583	0.8403

Source : IFS, IMF.

Additional Source: European Central Bank Website.

III. ANNEXURES

THE ROYAL MONETARY AUTHORITY OF BHUTAN:

Functions, Restructuring, Future Plans, and Projects in the Pipeline

Functions

In accordance with the RMA Act, 1982, the RMA's core functions, i.e., the central function and the subsidiary functions, can be summarized as follows:

a) **Achievement and Maintenance of Price Stability in the Medium and Longer Term is the Central Function**

In view of the close economic and financial ties between Bhutan and India, an *Exchange Rate Target* was chosen, i.e., the one-to-one peg between the BTN and the INR. Monetary policy, which is aimed at achieving price stability, is confined to the support of the peg, which involves making available sufficient INR on demand, the provision of at least 100 percent reserve backing for all BTN issued, the avoidance of a large BTN liquidity build-up, together with additional confidence-building measures for the BTN, implying, for example, credible RMA and government policies. Please see Section 2.2 for a more detailed description of the RMA's monetary policy framework and the end of this annex for a schematic overview. All the other subsidiary functions, which are also very important, and which complement the central function, are outlined below [b) through h)].

b) **The Bank of Issue**

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

c) **The Bankers' Bank**

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

d) **The Government's Bank**

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

e) The Advisor to the Government

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

f) The Guardian of the Country's External Reserves

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

g) Supervision of Banks and Other Financial Institutions

In general, this activity, which in quite a few countries is carried out by a separate institution, involves insuring that deposit money banks and other financial institutions conduct their business on a sound prudential basis and according to the various laws and regulations in force. It also includes the licensing of financial institutions.

In the "Small Economy Case" and/or countries at a relatively early stage of economic and institutional development, (e.g., in Bhutan and on the Maldives) there is a very good case for making the central bank also responsible for financial institutions' supervision (including all financial institutions) on account of economies of scale and the central bank's financial sector expertise. In larger developing countries, one might think at a later stage of development of creating a separate institution for financial institutions' supervision, or even several separate institutions.

h) Promotion of Financial Sector Development

This refers to the establishment of an effective financial system, with the aid of which financial transactions necessary for the smooth functioning of the economy can be carried out with a minimum amount of cost and time involved. In this connection, the RMA has to be a facilitator of advanced clearing and transfer systems. It also implies that the necessary banking services, as, for example, deposit facilities and loan facilities, are made available. Of importance is also the establishment of a deposit insurance system and the availability of certain specialised institutions, which could be represented, for example, by an industrial development bank, an agricultural

development bank, and micro-finance institutions, and the facilitation of a money market, primary and secondary markets for securities, a foreign exchange market, and a capital market. In other words, the RMA should be heavily involved in financial sector development, which already is the case.

Restructuring

On June 21, 2004, the RMA's Managing Director, MD, issued an office order, in which a new organization structure for the RMA was outlined, commensurate with the requirements of an effective central bank. The new structure has become operational on July 1, 2004. As highlighted in the office order, the underlying rationale for the change is to strengthen the organization structure of the RMA, thereby enhancing the capacity of the Executive Management Team and the RMA's overall effectiveness in central banking, which, in turn, would be for the benefit of the financial sector and, subsequently, the whole country. The restructuring has to be considered a "Very Substantial Move Forward" in the enhancement of Bhutan's central banking capability. Of particular importance is the creation of the positions of Deputy Managing Director I, DMD I, who is responsible for the Operations Department, and Deputy Managing Director II, DMD II, who is responsible for the Policy and Programs Department.

All the functions are carried out under the general supervision of the Board of Directors by the RMA's Executive Management Team, i.e., the MD, DMD I, and DMD II, with the close support of its eleven divisions, which also have been restructured to some degree. Human Resource Development and Internal Audit are directly under the MD, while DMD I, as Head of the Operations Department, is responsible for Banking, Hospitality and Protocol, Issue, and Personnel and Finance, and DMD II, as Head of the Policy and Programs Department, oversees Financial Institutions Supervision, Foreign Exchange and Reserve Management, Information Technology, Library, and Research and Statistics. DMD I and DMD II are Observers in the Board of Directors. For a comprehensive overview of the organization structure, please see the new RMA Organization Chart (on page 4), which became effective as of July 1, 2004.

The basic responsibilities of the eleven Divisions can be summarised, in a nutshell, as follows:

a) Divisions Directly Under the MD

- * The Human Resource Development (HRD) Division is mainly responsible for bridging present and future human resource gaps by matching RMA officials with training opportunities, which it explores, in Bhutan and abroad, and developing a Human Resource Master Plan. The Institute for Financial Sector Development (IFSD) is managed by the HRD Division.

- * The Internal Audit Division is responsible for examining the risks that the RMA faces, reviewing the adequacy of the controls in place to protect it from those risks, and verifying that the controls are working as intended.

b) Divisions Under DMD I, Operations Department

- * The Banking Division maintains the Government accounts, the financial institutions' accounts, the foreign exchange accounts, and the central accounts, and is responsible for transactions pertaining to the Clearing House.
- * The Hospitality and Protocol Division is responsible for the organization of protocol activities, the maintenance of the office building and the premises, the management of the pool vehicles, the management and supervision of security, and the maintenance of "Driglam Namzha".
- * The work of the Issue Division involves the printing of notes and minting of coins, the supply of notes and coins to banks (currency chest) and the public (RMA counters), and dealing with any matters related to "Counterfeit Notes". Furthermore, soiled notes are sorted into re-issuable and non-re-issuable notes, while non-re-issuable notes are destroyed.
- * The Personnel and Finance Division is generally responsible for administrative matters, including, for example, work related to inventory and stores, recruitment, the maintenance of personnel records, leave management, and the maintenance of the administrative accounts.

c) Divisions Under DMD II, Policy and Programs Department

- * The Financial Institutions Supervision Division supervises regularly all financial institutions by means of on-site and off-site inspections on the basis of internationally accepted financial sector practices, licenses new institutions, issues and monitors regulations, and monitors money laundering.
- * The Foreign Exchange and Reserve Management Division drafts, implements, monitors, and enforces Foreign Exchange Regulations, releases foreign exchange, provides information on exchange rates, and manages Bhutan's convertible currency and Rupee reserves (the latter are in the process of being taken over from the two commercial banks) with regard to liquidity, safety, and profitability, in that order.

- * The Information Technology (IT) Division is involved in all aspects of developing and maintaining the RMA's IT system, e.g., IT planning and monitoring, hardware management and support, and applications systems and database development, management, and support.
- * The Library Division provides all the necessary library services, as, for example, cataloguing of the Library's books and periodicals, registration of books and periodicals lent out, ordering of books and periodicals, and development and instalment of a computerized cataloguing system.
- * The Research and Statistics Division is responsible for Research and Statistics, the production and timely finalisation of the Annual Report, Selected Economic Indicators, and the Monthly Statistical Bulletin, advice to the management and government, and the provision of statistical and economic information to management, the government, and the public.

As of December 2004, the total staff strength of the RMA stood at 131 (of which 46 are officer level and above), including an Advisor from the Bundesbank.

Future Plans and Projects in the Pipeline

Concerning the future role of the RMA, it is worth mentioning that the RMA was established as a "transitional central banking institution", which over time was expected to develop into a "full-fledged central bank". After more than 20 years of central banking development, during which the RMA's central banking capacity was gradually built up and the capability of the financial sector was substantially strengthened, the RMA appears to be ready now for take-off as a "full-fledged central bank". In support of the RMA becoming a full-fledged and most effective central bank, the following important steps appear to be necessary in the near future, or are already in the process of preparation and/or implementation:

- a) Revision of Legislation and Regulations. Revision of the RMA Act, which was quite appropriate at its inception, but is now outdated due to new developments and findings in Central Banking all over the world and financial sector developments in Bhutan. For example, improvements appear to be necessary in the following areas, within the framework of "International Best Practices": increased RMA independence (e.g., in financial institutions' supervision), better timing and increased frequency of Board Meetings, streamlining of top management procedures, enhancement of the status of the RMA, clear specification of the Primary Objective, and clear outline of the general monetary policy framework. For revising the RMA Act, technical assistance has already been received from the Bundesbank, the Asian Development Bank, and the International Monetary Fund. In connection with the revision of the RMA Act, there also will be a need to introduce a revised Financial Services Act and revised Foreign Exchange Regulations, both of which have already been drafted, in a co-ordinated manner. A final review of

all three documents will be carried out by the Legal Department of the International Monetary Fund prior to their submission to the Bhutanese authorities for further processing and subsequent approval during 2005.

- b) Further Development of the RMA's Monetary Policy Framework and the strengthening of the monetary policy tools (at present basically applicable to the support of the one-to-one peg between the BTN and the INR).
- c) Further streamlining of the Organisation Structure and Management Procedures, e.g., creation of a Legal Division and a Secretariat in support of top management and the Board, while introducing promotion by merit, functional job descriptions for all organisation units and staff members (in the process of implementation), and clear lines of responsibility.
- d) Further Strengthening of the RMA's Management and Staff Capability through capacity building, e.g., provision of training for management, further development of the capability for the Financial Institutions' Supervision Division to supervise all of Bhutan's financial institutions, and enhancement of the capability of the Internal Audit Division to better enable it to audit the RMA. A considerable effort is required for strengthening Internal Audit, part of which implies the drafting of an Internal Audit Charter, an Internal Audit Leaflet, and an Internal Audit Manual, which was already accomplished during the second half of 2004. To become binding, the Internal Audit Charter has to be submitted to the RMA's Board for approval, making it possible, thereafter, to finalize the Internal Audit Leaflet and the Internal Audit Manual. Furthermore, following "International Best Practices", an Internal Audit Committee needs to be established within the RMA's Board to oversee the activities of the Internal Audit Division. This requires approval by the RMA's Board and the National Assembly within the framework of the revised RMA Act.
- e) Further Improvement of the Computer System. Acquisition of more computers, provision of more computer training, and streamlining of the Local Area Network (LAN) and the web-site. Development of an overall Information Technology Plan, together with a Data-flow System. Establishment of a computerised Time Series Database for economic time series. Efforts in this regard are undertaken with the development of the Integrated Central Banking System (ICBS), the purpose of which is the computerisation of all the RMA's operations in an integrated manner. Global tendering for the project has already been carried out towards the end of 2004. The project is scheduled to start in the beginning of 2005 and due to its magnitude is expected to take several years to complete.
- f) Further Enhancement of Financial Sector Development, e.g., improvement of payment systems, increased competition, improvement of the professional expertise of the staff and management of financial institutions, and further strengthening of financial markets. In that connection, it has to be mentioned that the RMA has plans to establish clearing houses in Paro and Mongar during the first quarter of 2005 for the improvement of the efficiency of

payments and settlements, since both the BNB and the BOB have a branch in each town.

- g) External Communications. The RMA already actively uses various communication channels (e.g., publications, information materials, the website, conferences, meetings, television, and the Kuensel) to inform the general public and the government what it is doing and why for the purpose of enhancing its accountability and to further improve its corporate image. Further communication channels are under consideration, as, for example, Working Papers, the General Data Dissemination System of the IMF, and Press Releases.
- h) The following additional Projects, which are of importance for the further enhancement of the RMA's Central Banking Capability, are in the pipeline:

* Credit Information Bureau

A Task Force has been set up during the second half of 2004 with members from the RMA, and the five financial institutions (BNB, BOB, BDFC, RICB, and NPPF). The Task Force went already on a study tour to India, Sri Lanka, and Thailand and will come up with a proposal for the legal and operational aspects of the CIB. Furthermore, the Task Force will prepare a preliminary study on, and will make a proposal for, the CIB software.

* Printing of New Ngultrum Notes

Efforts have been under way for some time already to have new Ngultrum notes (BTN 5, 10, 20, 50, 100, and 500) printed with a new design and considerably improved security features, the latter of which are very important for reducing the danger of counterfeiting. The tendering process for the printing of the new notes will start in the beginning of 2005, with the delivery of the notes to be expected about one year later. In that connection, it has to be mentioned that the planning process for always having available a sufficient amount of Ngultrum notes for issue is constantly being refined.

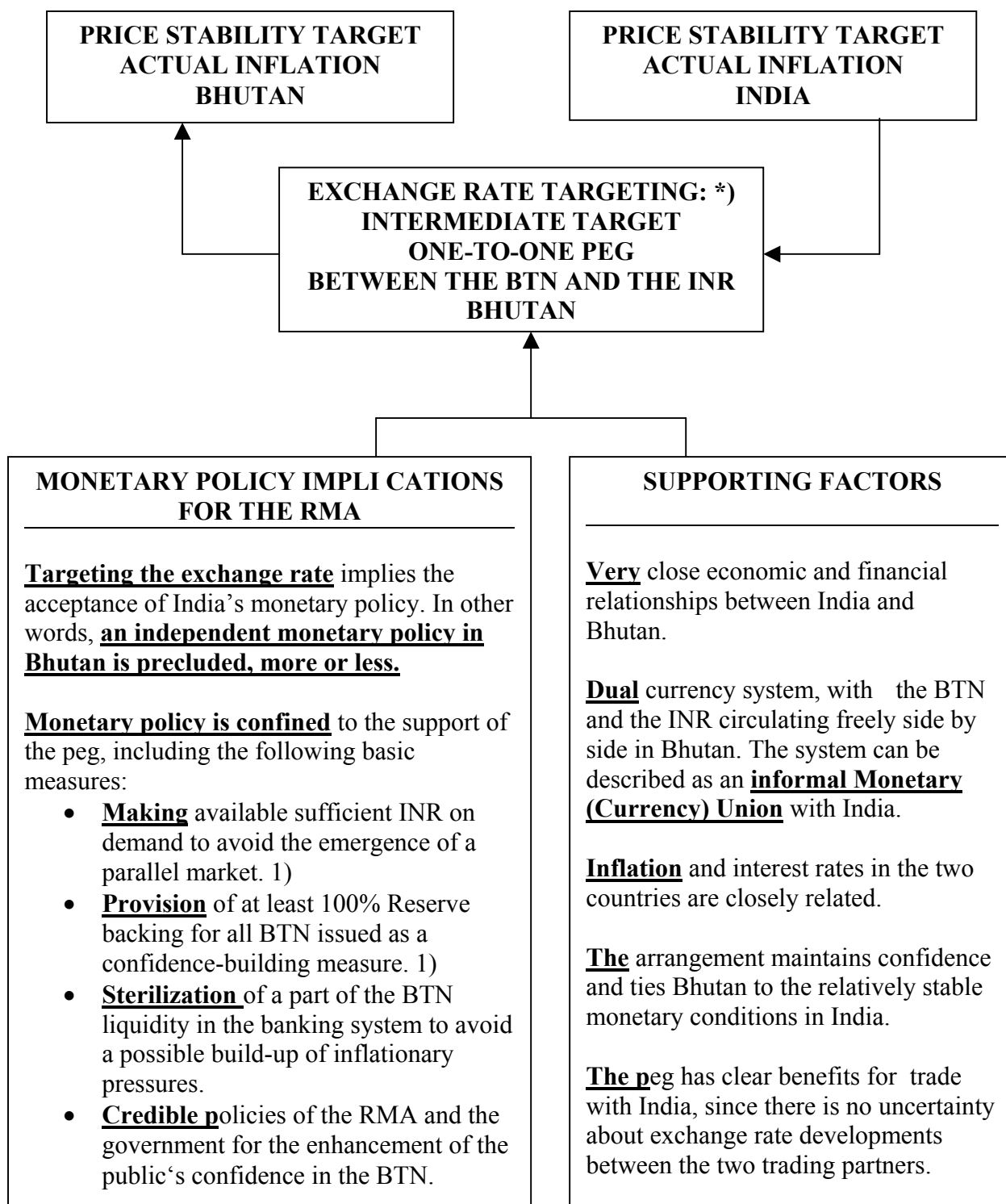
* Reserve Management

During the second half of 2004, the RMA has accepted an offer of the RBI to provide technical assistance for further developing its foreign exchange reserve function. An RBI expert already visited the RMA during December 2004 for an assessment of the systems employed by the RMA. Recommendations for the upgrading of the systems have already been made, while a time-bound action plan, together with the training needs for RMA staff, has been proposed. The recommendations and proposals made are under review.

* SWIFT

The RMA is in the process of moving to SWIFT, since TELEX, which is still in use by the RMA, is increasingly becoming outdated, and almost all the banks in the world have moved to SWIFT to facilitate money transactions. It is expected that the system will become operational during the first quarter of 2005.

THE RMA'S MONETARY POLICY FRAMEWORK
A SCHEMATIC PRESENTATION



*) By default, the only realistic **Targeting Method**.- 1) Elements of a **Currency Board**.

CHRONOLOGY OF IMPORTANT FINANCIAL SECTOR DEVELOPMENTS

- ❖ In August 1982, the RMA Act was passed by the National Assembly during its fifty-sixth session. With effect from November 1983, the RMA started its actual operations.
- ❖ In 1983, the RMA took over the issue of the national currency, the management of external reserves, and foreign exchange operations.
- ❖ In 1984, the cash reserve ratio was introduced for the purpose of liquidity control and for prudential purposes.
- ❖ In March 1988, the RMA took over the additional function of Banker to the Government, by holding the bulk of government deposits, and to provide means for financing the Government, whenever necessary.
- ❖ In November 1992, the Financial Institutions Act was passed by the National Assembly to provide the RMA with the legal framework to issue licenses for financial institutions and to regulate, supervise, and inspect their operations.
- ❖ The RMA organized the establishment of the Royal Securities Exchange of Bhutan (RSEB) in 1993 to begin a small capital market for the purpose of facilitating public participation in the holding of securities of public and private companies.
- ❖ In 1993, RMA discount bills were introduced as an instrument of central bank policy.
- ❖ For the purpose of further improving the RMA's liquidity management, the RMA introduced the reserve repurchase in September 1996 as its second debt instrument. The repurchase was rolled over until January 2002, when it was discontinued.
- ❖ To enhance competition in the banking sector, the Unit Trust of Bhutan (UTB) was converted into a full-fledged commercial bank, called Bhutan National Bank (BNB) in January 1997.
- ❖ Until 1997, interest rates on both deposits and advances were directly administered by the RMA, thereby providing insufficient flexibility to financial institutions for setting their rates on the basis of the actual cost of funds. Since this arrangement was not conducive to the long-term growth of the financial sector and the economy, the RMA liberalized interest rates with effect from October 1997, allowing each institution to determine the rates on the basis of the prevailing market conditions.

- ❖ In line with the government's programme of liberalizing trade and industrial policies, the RMA Board approved the new Foreign Exchange Regulations 1997, removing various restrictions on foreign exchange transactions. The aim is to eventually move towards current account convertibility.
- ❖ Check clearing facilities were established in the country (the first in Thimphu in 1997 and the second in Phuentsholing in 1999), in order to provide an efficient system through which the country's commercial banks could settle their claims against each other for checks and other negotiable demand items. The facilities are also envisaged to enhance the payments and settlement system through the use of negotiable instruments.
- ❖ As part of the financial sector reform programme, the Government Employees Provident Fund (GEPF) was transferred in 2000 from the Royal Insurance Corporation of Bhutan (now RICBL) to the newly created National Pension and Provident Fund (NPPF).
- ❖ One of the causes for sluggish credit activity in the country has been the inadequate legal framework for loan recovery and the high collateral requirements. For the purpose of dealing effectively with that problem, the government passed in 1999 the Moveable and Immovable Property Act and the Bankruptcy Act. Furthermore, in order to provide legal support for the check clearing houses and the use of negotiable instruments in the payments and settlement system, the Negotiable Instruments Act was passed in the 78th session of the National Assembly in July 2000. Nevertheless, more important legislation needs to be drafted and passed in the financial sector. In that regard, an insurance and a securities law are very urgent, with efforts being made towards the drafting of such legislation, and it is also necessary to draw up legislation for the NPPF.
- ❖ The Financial Sector Review, funded by the ADB, was concluded in March 2002, identifying weaknesses and formulating a medium-term strategy for financial sector development in Bhutan.
- ❖ As a result of the Financial Sector Review, the RMA launched a comprehensive IT Strategy to strengthen its institutional capacity and to develop an integrated operations and information system. The RMA website was recently made available.
- ❖ Several training courses were conducted in 2002 and 2004 by the RMA for the financial institutions (FIs) on Project Appraisal and Portfolio Management on the way towards establishing an Institute for Financial Sector Development (IFSD) in the RMA.
- ❖ In 2002, the RMA made arrangements with the Reserve Bank of India (RBI) to participate in the auctions of Government of India Securities to invest Indian Rupee reserves.

- ❖ Following a resolution adopted by the RMA's Board of Directors during its 32nd meeting, a Monetary Operations Committee (MOC) was established in June 2002. On behalf of the Board, the MOC will basically be responsible for the formulation and implementation of policy instruments, the achievement and maintenance of sound conditions in the financial sector, and the management of the country's reserves.
- ❖ During the first half of 2003 an ADB project was initiated, which was designed to help strengthen the capacity of the Royal Monetary Authority and the Royal Securities Exchange of Bhutan. The project was concluded in October 2003.
- ❖ After a long gap, the Annual Meeting between the RMA and the FIs (including the NPPF) was held at Phuentsholing in March 2004. The main objective of the meeting was to discuss issues pertaining to the financial institutions, particularly with regard to the Prudential Regulations (PR) 2002. Thereafter, necessary amendments were made to certain sections of the PR 2002 in line with the decisions taken during the meeting. These changes have come into effect since September 2004. A five-day familiarization workshop on the PR 2002 was conducted by the Financial Institutions Supervision Division (FISD) of the RMA from June 23-27, 2003 for the FIs (including the NPPF) in RMA, Thimphu.
- ❖ In the late 1990s, a proposal to set up the Credit Information Bureau (CIB) was initiated by the RMA and the FIs, but the project was stalled due to complications in the planning process. During the RMA's meeting with the FIs in March 2004, the importance and the need for establishing a CIB in Bhutan as an effective institutional mechanism for assisting the FIs in making proper credit decisions was felt necessary by the FIs. The FIs agreed to commit themselves to establishing a CIB in Bhutan. In continuation of the efforts, a CIB taskforce, consisting of two members from each FI, including the RMA, was formed in July 2004. A CIB Secretariat was informally set up under the FISD in the RMA for the smooth facilitation of the project. Thereafter, a series of preliminary meetings was conducted to discuss and deliberate on various issues relating to CIB.
- ❖ On June 21, 2004, the RMA's Managing Director issued an office order, in which a new organization structure for the RMA was outlined, commensurate with the requirements of an effective central bank. The new structure has become operational on July 1, 2004. Of particular importance is the creation of the positions of Deputy Managing Director I, DMD I, who is responsible for the Operations Department, and Deputy Managing Director II, DMD II, who is responsible for the Policy and Programs Department. For more details, please see *Annex I*.
- ❖ Work on the revision of the RMA Act of 1982 is in progress. So far, drafting has been done by the Bundesbank, the Asian Development Bank, and the International Monetary Fund. Furthermore, draft versions of the Financial Services Act and the Foreign Exchange Regulations, which have been

produced by consultants, have been reviewed by RMA Management. A final review of all three documents will be carried out by the Legal Department of the International Monetary Fund prior to their submission to the Bhutanese Authorities for further processing and subsequent approval during 2005.

- ❖ The Insurance Unit was created in 2003 under the FIRD to regulate and supervise the insurance business in Bhutan in continuation to the RMA's efforts in strengthening insurance regulation and supervision in Bhutan. In 2000, Bhutan joined as a member of the South Asian Insurance Regulatory Forum (SAIRF). In 2004, the RMA's proposal to join the International Association of Insurance Supervisors (IAIS) as a member was approved by the Board, thereby enabling the RMA to complete the necessary administrative formalities with the IAIS Secretariat in Switzerland. The Insurance Unit was re-activated in 2004 in terms of human resource training, insurance supervision, and staff strength. In December 2004, a three-week familiarization visit to the RICBL was scheduled in order to conduct a detailed study on the insurance activities of RICBL.

FINANCIAL INSTITUTIONS

The financial sector in Bhutan consists of the Royal Monetary Authority of Bhutan, two commercial banks, the Bank of Bhutan and the Bhutan National Bank, two non-bank financial institutions, the Royal Insurance Corporation of Bhutan and the Bhutan Development Finance Corporation. Bhutan also has a small stock exchange and a government pension system, namely, the Royal Securities Exchange of Bhutan and the National Pension and Provident Fund. Recent developments that have taken place in the financial sector, apart from the RMA, are outlined below.

Bank of Bhutan (BOB)

Bank of Bhutan, which was established on May 28, 1968, is the oldest and largest financial institution in the country. Initially, however, due to the non-convertibility of our local currency, "tikchung", the desired level of monetization and banking services did not take place. To solve this problem, a collaboration agreement was signed with the State Bank of India (SBI) on October 7, 1971, providing the SBI's participation in the capital and management of the BOB. Under the arrangement, the SBI held 40 percent of the bank's shares, while 60 percent were held by the RGOB. After a long and successful collaboration with the SBI, a new agreement was made on June 27, 1997, extending the collaboration period to December 31, 2001. After that date, the management of the bank was handed over to Bhutanese nationals. At present, the RGOB holds 80 percent of the bank's shares, while the remainder is held by the SBI. BOB was opened with a capital of Nu.2.5 million, and a reserve fund of the same amount. As of December 2000, the bank's capital stood at Nu.100 million, and its reserve fund at Nu.407.4 million.

In order to better serve the country's growing needs for banking services, the BOB entered into a series of arrangements with foreign banks. From 1975 onwards, the bank started contributing to the earnings of foreign exchange by financing and facilitating export transactions. During 2000, the bank's foreign exchange transactions amounted to Nu.10.4 million, a substantial increase from Nu.4.2 million in 1999.

In 1989, in an attempt to improve its banking culture, the BOB introduced customer education in rural areas on its services, deposit mobilization, and follow-up on loans. Thereafter, in 1986, the bank conducted a door-to-door survey in rural areas to introduce lending and deposit schemes to the rural community. So as to boost credit, the BOB reduced its interest rate on selected loan schemes from July 1, 2000. Since its inception, the branch expansion program was given top priority and there are presently 25 branches and two extension counters, covering 20 districts within Bhutan.

During the year 2003, BOB's total assets/liabilities increased by 3.4 percent to Nu.12,351.4 million from Nu.1,935 million in 2002. With the prudential management of funds, a marginal improvement in the in-country investment policies, and expenditure control, BOB recorded a net profit of Nu.164.2 million. Meanwhile, total deposits increased from Nu.9,093 million in 2002 to Nu.9,593.4 million as at the end

of 2003, an increase by 5.5. This increase was primarily on account of the current deposit scheme, followed by short term deposits (under the corporate segment) and because of this the interest expense on deposits declined from Nu.381.8 million in 2002 to Nu.356.6 million in 2003. In order to align the deposit rates with the prevailing market rates, the bank has scaled down its fresh term deposit rates effective from January 1, 2003. During the year, the bank sanctioned loans totaling Nu.1,047.4 million. Excluding the bills discounted and purchased, the majority of these loans went to manufacturing and industry (37.8 percent), followed by trade and commerce (29.2 percent), housing (14.9 percent), transport, including both heavy and light vehicles (12.8 percent), and the rest to other sectors like service and tourism, agriculture, etc. The bank earned a net return on its total investment of Nu.251.3 million, recording a decline of Nu.115.8 million compared to the last year. The decline was primarily due to a reduction on term deposits with other banks (low global deposits rates) and the return from RMA discount bills (decline in discount rates and the volume of bills auctioned in 2003).

By the end of 2003, BOB's staff totaled 491, comprising of 124 officers, 215 clerks, and 152 subordinates.

Bhutan National Bank (BNB)

In 1980, the Unit Trust of Bhutan (UTB) was established as a division of the Royal Insurance Corporation of Bhutan (now RICBL), jointly owned by the Royal Government and the RICB. In 1992, it started functioning as an independent financial institution to promote and mobilize small domestic savings, and to channel capital to productive sectors in the economy. With the overall goal of deepening the financial system to generate broader and competitive banking services, the Royal Government, with assistance from the ADB, converted the UTB into the Bhutan National Bank on December 5, 1996.

The new bank's equity capital base was increased from Nu.59.5 to Nu.119 million through a rights offer from June 3 to July 12, 2003, at the book value of Nu.550 per share and a public offer (ADB equity portion of 119,603 and un-subscribed portion of 26,770 shares from the rights offer) from July 21 to August 16, 2003, with 5,133 applicants subscribing for the public offer. With this, the shareholding pattern has changed considerably. The Government holds only 13.6 percent of BNB's ordinary shares, while the public holds 38.6 percent, the National Pension Board holds 25.7 percent (making it the single largest institutional shareholder of the bank), Bhutan Trust Fund holds 9.95 percent, RICBL owns 2.1 percent, and BNB's foreign investors, the ADB maintained 10.1 percent of the share capital.

BNB's assets as a percentage of the total assets of both commercial banks have risen to 31 percent in 2003, as compared to 14.2 percent in 1997. BNB now possesses 32.3 percent of the total deposits in the country, while its loan portfolio accounts for 53.6 percent of total advances between the two banks. These developments reflect an overall expansion in the Bhutanese banking system and the emergence of more competition in the financial sector.

By the end of 2002, BNB earned a profit after tax of Nu.57 million that was higher by about Nu.15 million in comparison to the previous year. The total assets/liabilities increased by 10 percent to Nu.5,559.3 million in 2003 from Nu.5,062 million in 2002.

Since credit forms the BNB's core banking area, and in order to maintain its market share, BNB reduced the rates for mortgage loans to 10 percent from 13 percent, equity loans to 12 percent from 13 percent, loan against shares by 2 percent from 14 percent, and vehicle quota loans to 12 percent from 13 percent. With these measures, this year alone, the net credit growth reached Nu.0.7 billion in absolute terms. The total credit portfolio for the year amounted to Nu.2,404.6 million, a 42 percent growth from the previous year, and this has been successful with the creation of a separate Recovery Division. Along with high credit growth, the share of non performing assets (NPA) in total loans has dropped from 34 percent in 1997 to an all time low of 8.5 percent. On the deposit side, with the increasing costs of operation and falling interest rates on the asset side, the bank had to reduce its deposit rates in order to make some margins to carry its operations. On July 1, 2003, the fixed deposit rates were revised by 0.5-1 percent.

The bank successfully upgraded its banking software to Flexi Cube on January 1, 2003, which has provisions for all modern banking facilities, such as credit card facilities, internet banking, and ATM. With this software, the bank was successful in installing two ATM machines in Thimphu and Phuentsholing, respectively, for the first time in the country; the machines are now in operation. The BNB also signed the final agreement with the Standard Chartered Bank, India for the Global Credit Cards, which will add to the customers' credit security, liquidity, and respectability in international transactions. The two parties expect the cards to be activated before the end of 2004.

By the end of the year, BNB's total staff strength stood at 191, an increase of 4 percent, while 35 employees have been sent for specialized banking courses to various Asian cities, and ten staff members attended training and workshops in the country during the year.

Bhutan Development Finance Corporation (BDFC)

BDFC was established in 1988 with assistance from the Asian Development Bank, equity participation of the RGOB, the BOB, the RICBL, and the RMA, to primarily assist the private sector by providing financial and technical assistance for industrial, agricultural, and commercial projects. It is funded by international multilateral agencies and is not a deposit-taking institution. The ongoing UNCDF/IFAD agricultural credit programme, which was initially implemented by the RMA, was transferred to the BDFC in March 1988, along with all assets and staff of the former Agricultural Credit Division of the RMA. To finance small entrepreneurs, the BDFC joined the Entrepreneurial Development Program (EDP); its share in the EDP is Nu.20 million.

Industrial lending activities dominate BDFC's profitability, while agricultural lending, particularly, micro-financing, is its main responsibility. In October 1998, the BDFC

issued Nu.50 million worth of 10-year rural credit bonds for the purpose of providing micro-credit to rural borrowers. The principal goal is to assist small farmers to increase production and income, and ultimately improve their quality of living.

The Government holds 87 percent of BDFC's paid-up capital, while the other three financial institutions share the remaining 13 percent equally. The main sources of funds for BDFC are external concessional loans and grants from international agencies, such as the UNCDF, HELVETAS, KFAED, SDC, and ADB.

BDFC's consolidated profit grew by Nu.9.1 million to Nu.40.4 million from Nu.31.3 million in the previous year, and is the highest profit level that the corporation has ever earned. The Industrial Lending Department contributed Nu.27.4 million and the Agricultural Lending Department Nu.13 million to the overall profit of the corporation. Total assets of BDFC grew by Nu.237.1 million to Nu.1,242.1 million from Nu.1,005 million in 2002. This growth was achieved from the additional borrowings of Nu.100 million each from the NPPF and BNB, Nu.27.7 million from IFAD under the Second Eastern Zone Agricultural Project (SEZAP), and retained earnings of the corporation.

At present, BDFC has 21 offices in the country, covering all the districts. BDFC has also recently introduced a mobile banking facility at the grassroots level which is already operational in 120 geogs. Meanwhile, the corporation will continue to emphasize on the implementation of the Group Guarantee Lending and Saving Scheme (GGLS) programmes piloted in 2002, targeted at the poorest of the poor in the rural areas. Currently there are 179 farmer groups, consisting of 900 members availing micro-loans under the GGLS.

At the end of 2003, BDFC's total staff stood at 133 - 30 in the Industrial Lending Department and 103 in the Agricultural Lending Department - as compared to 125 staff in 2001.

Royal Insurance Corporation of Bhutan Limited (RICBL)

The RICBL commenced operations as the first and only insurance institution in 1975 under the Royal Charter, with 61 percent Government participation and 39 percent public participation. The company is incorporated under the Companies Act of Bhutan 1989 and registered under the Financial Institutions Act of Bhutan 1992. It commenced with a paid up capital of Nu.1 million in 1975, which had increased to Nu.48 million as of December 2000.

Under the Royal Charter, the mandate of the RICBL is to underwrite all types of insurance business emanating from Bhutan and also to finance various commercial undertakings and development projects. The main lines of business of the RICBL can be categorized into insurance and finance, besides real estate and credit cards. The services provided by the RICBL under insurance and finance are life insurance, general insurance, rural housing insurance, and the group insurance cum saving scheme.

Right from its inception, the RICBL has not only met the insurance needs of the country, but also contributed towards the country's economic development by facilitating finance. In this connection, the Credit and Investment Department was set up to act as an investment body for all funds. With the investment of these funds in the economy, housing construction and transportation activities in the country were taken up by the private sector on a large scale. Almost 75 percent of the houses in Thimphu, Phuentsholing, and other towns were financed by the RICBL. Besides housing and transportation loans, the RICBL also invested a considerable amount in the development of industrial units and trading activities. The GEPPF, which was managed by RICBL since 1976, was transferred to the NPPF from April 2000, when the company had to part with assets worth Nu.1.2 billion (that accounted for over 80 percent of the RICBL's assets). The separation of the GEPPF did not have any adverse effect on the overall performance of the RICBL. Instead, it helped to resolve the long-standing problem of excess liquidity and enabled the corporation to concentrate on its core business.

On December 17, 1997, RICBL pioneered the use of credit cards by launching a three-category credit card: diamond, gold, and silver. The RICBL also introduced the classic card, with a drawing facility of up to Nu.30,000 with the objective of reaching out to the lower and middle-income groups. Thereafter, on June 2, 1999, to mark the auspicious occasion of His Majesty the King's 25th Coronation Jubilee, RICBL launched two new policies, namely, the "money-back policy" and the "double cover endowment plan". Apart from its existing loan schemes, RICBL initiated a contractors' revolving credit scheme and a preferential financing scheme (January 7, 2000). The popular preferential financing scheme, which finances private (light) vehicles, has been temporarily suspended to clear the backlog of pending orders and also to allay the explosion of vehicle registrations in the country. Since January 2000, RICBL has financed the purchase of 698 vehicles, of which only 24 were imported from third countries, while others were from India. Although, this scheme was initially started to facilitate the purchase of light and medium vehicles, it aims to expand to include the financing of service/construction, household, and office equipment.

The overall financial scenario of the corporation as at the end of 2003 reveals a growth in profits and total assets, but at a lower rate than the previous year. Profit for the year amounted to Nu.63 million, as against Nu.59.6 million in 2002, an increase by Nu.3.11 million. The total assets/liabilities increased by 5.2 percent to Nu. 1,495.3 million from Nu.1,334.0 million in 2002.

Human resources, being one of the vital factors for any organization, led to the corporation's greater emphasis on the development of its staff, and during the year, RICBL trained a number of its staff in India and other countries in the field of insurance, computer, finance, and accounts. Total staff strength stood at 159 at the close of 2003. The corporation is presently in the process of developing client server based information technology under the Oracle platform, referred to as the Integrated Insurance Management System (IIMS). The General and Life Insurance system has been installed during the year and is functioning at the expected level. The corporation has not declared any dividend for the year 2003, in order to build its reserves and expand its capital funds. In June 2003, in order to meet the Prudential

Regulation of the RMA, the RICB issued 1:1 bonus shares, increasing its paid up share/ paid up capital to Nu.96 million.

National Pension and Provident Fund (NPPF)

Prior to the establishment of the NPPF, the GEPF was managed by the RICBL and covered only government employees. The benefits were limited to a gratuity and a provident fund scheme, which were paid as a lump sum after retirement. However, the inadequacy of the lump sum payment from the gratuity and the GEPF prompted the Royal Government to initiate a formal old-age income security scheme by restructuring the GEPF scheme aimed to provide:

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

The ADB project and the government working committee in 1999, under the governance of the Board of Directors, reviewed and evaluated the UNDP's study (1997) on the "**Feasibility of Introducing a Pension Scheme in Bhutan**" and recommended an annuity-based, multi-tiered retirement plan called the national pension and provident fund plan (NPPFP). Thereby, the Royal Government formally established the National Pension and Provident Fund as an autonomous body on July 1, 2002, under the governance of the National Pension Board. The NPPFP consists of two integral separate but linked tiers:

- 1) The National Pension Plan (NPP)¹: and
- 2) The Provident Fund Plan (PFP)².

On July 3, 2000, the NPPF took over GEPF and real estate operations from the RICBL worth Nu.2 billion in the form of fixed deposits, cash and real estate assets. Since then its assets have grown to over Nu.2.4 billion, with a net inflow of funds at around Nu.25 million a month, thus making it the largest institutional investor in the country.

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

² The PFP, titled Tier 2, is a defined contribution provident fund plan under which lump sum benefit equivalent to all the contributions credited to a member's Tier 2 account, together with returns will be paid on the date of his/her retirement or death while in service.

Membership criteria for the NPPFP- All national GEPF members, except the members of armed forces, whose services are regular, will automatically become the simultaneous members of Tier 1 and 2. Non-national regular employees will become members only of Tier 2, and a separate scheme titled The Armed Forces Pension, **and Provident Fund Scheme** has been formulated.

In fiscal year 2003/2004, the NPPF generated gross revenue of Nu.169.7 million, compared to Nu.54.9 million during the previous year, achieving a growth of 9.6 percent (Nu.14.8 million) over the last year. Out of this, 83 percent (Nu.140.2 million) were from interest on investments, while 7 percent (Nu.11.7 million) were on account of rental income, 9 percent (Nu.16.5 million) as dividends, and 1 percent (1.3 million) from other revenue. However, the reduction of interest by commercial banks, the liquidation of Rupee investments by the Bank of Bhutan and promissory notes by the Royal Government of Bhutan, and the continued sluggishness of the global economy, coupled with limited investment opportunities in the domestic market, constrained the further growth of the fund.

As of June 30, 2004, the NPPF's overall international investment value stood at USD 20.8 million, compared to USD 19.3 million in 2003, and it comprised of 26 percent of its overall investment. As a result of the improvements in the US market, the NPPF made several tactical adjustments in its investment policy to take advantage of the market trends, some of which were:

- The asset allocation had been maintained at 35 percent in stocks and 65 percent in fixed income.
- International equity then managed by 1838 IA was liquidated and invested in an MSCI Europe Australia and Far East index fund.
- 15 percent of the fixed income fund managed by 1838 IA MBIA were sold and invested in the Short Term Vanguard Admiral Bonds index fund.

The NPPF, under the guidance of the Technical Advisory Committee continues to constantly monitor and make tactical policy changes on the US investments.

Investment avenues in the domestic market continued to be limited and, therefore, a significant portion of the NPPF funds were kept in short term deposits with the commercial banks in Bhutan. With the rates on short-term deposits declining from 4 percent to 3 percent per annum during the year, it has significantly affected the returns on investments. Besides, on liquidation of Rupee investments of Nu.500 million made through the BOB at 8.8 percent per annum and a promissory note of the Ministry of Finance of Nu.250 million at 7 percent per annum, these funds were kept with the banks at a very low return of 3 percent per annum, adversely affecting the returns on investments. Nevertheless, certain investment opportunities came up during the year, some of which were as follows:

- On October 4, 2003, the NPPF renewed the one year RGOB Treasury Bills for Nu.180 million at the coupon rate of 7 percent p.a.
- The NPPF participated in the consortium loan amounting to Nu.220 million of the Bhutan Telecom GSM Mobile Project. Out of the total loan of Nu.220 million, NPPF's share represented 32.5 percent, amounting to Nu.71.5 million.
- The NPPF also took the opportunity to participate in the Druk Air Bonds for the purchase of Airbus A319 aircraft for the Druk Air Corporation Limited. The total amount disbursed till date is Nu.531.4 million.

Despite the adverse investment climate, the NPPF was able to declare a return of 5 percent p.a. to the members during financial year 2003/2004.

During the year, two new products were introduced for the benefit of the members. The NPPF launched the housing scheme, effective from July 1, 2003, with an objective of helping the members build their residences while working. The education scheme was launched on March 1, 2004, with the objective of encouraging the members in pursuing their further education and/ or educating their children.

As on June 30, 2004, the NPPF had sanctioned member-housing loans of Nu.252 million and education loans of Nu.70 million. The overall interest rates for housing loan, in the financial sector fell to 10 percent per annum in response to the introduction of the member-housing scheme by the NPPF.

For the benefit of the members, on 26th January, 2004, the NPPF launched its website (www.nppf.org.bt). Members can now secure online information relating to their personal information and member account details. Although, currently the database is updated on a monthly basis, there are plans whereby information will be updated instantly. The enhancement of these capabilities will continue, allowing more information to be viewed and updated in coming years perhaps on real time basis.

Computerization of the Member Financing Scheme System had been given the prime importance by the NPPF during the year. It had already commenced software development as an in-house project, which will be completed by the end of January 2005.

The Royal Securities Exchange of Bhutan (RSEB)

The RSEB is incorporated under the Companies Act and licensed under the Financial Institutions Act. Its initial authorized capital of Nu.2 million was provided by the four financial institutions whose subsidiary units, brokerage firms, are licensed to serve as brokers. The board of directors consists of the Managing Director of the RMA as Chairman, the CEO's of the four-brokerage firms, the president of the Bhutan Chamber of Commerce and Industry (BCCI), and the CEO of the RSEB as Member Secretary. As the Exchange is still at an early stage of development, the RMA, which acts as a securities commission, provides budget grants for its operations.

The trading system is fully automated and linked by a local area network to the trading floor. Since the volume of trading is relatively low, the Exchange conducts trading only twice a week on Tuesdays and Fridays. To eliminate delays in the registration of physical transfers of shares and to ensure the safety of such documents, a central depository (CD) was established along with the RSEB. However, due to the lack of a proper legal framework governing the CD, only about 25 percent of the securities outstanding are deposited with it and this problem will be solved after the rules and regulations of the depository drafted by the ADB and International Securities Consultancy (ISC) comes into force (only after the enactment of the Financial Services Act of Bhutan). The turnover of the securities at the end of

December 2003 at the depository was Nu.2,137.7 million, as compared to Nu.2,096.8 million in the previous year. It held about 57.8 percent of the total outstanding shares in its custody during the year.

The total number of shareholders has increased to 15,867 from 11,461, recording a growth of 38.4 percent during the year and this growth was achieved mainly due to the public offer by the ADB of its shares in the BNB.

Within the ongoing financial sector reform process, the existing Securities Exchange Regulations (1993) need to be upgraded to a modern legislation. The Financial Institutions Supervision Division in the RMA is required to commence the supervision of the RSEB and the capital market, while a substantial institutional strengthening of the RSEB will be necessary. The Exchange began with four listed companies and a total market capitalization of Nu.393 million, and, since then, investment in securities has increased dramatically, as at end December 2003 there are fifteen listed companies and a total market capitalization of Nu.3,534 million. At end of December 2003 it has been revealed that the BBCL, BNB, PCAL and RICB traded most actively in the secondary market, with a total turnover during the year of Nu.20 million.

Bank of Bhutan - Selected Financial Indicators, 1997 - 2003

End of Period

Particulars	1997	1998	1999	2000	2001	2002	2003
(Millions of Ngultrum)							
Total Assets/Liabilities	6260.8	6999.1	7417.7	8743.4	9574.5	11935.0	12351.4
Share Capital	50.0	50.0	100.0	100.0	100.0	100.0	100.0
Reserves	311.7	360.7	351.3	407.4	538.6	645.3	781.8
Deposits	4397.0	4921.5	5998.7	6274.6	6979.7	9093.0	9593.4
Balances with RMA	1573.9	1539.2	2173.3	2677.2	2877.0	1791.7	2509.7
Balances with other Banks	1433.2	2713.2	2387.2	2657.6	3013.4	4171.7	3914.3
Loans and Advances	1566.8	1230.7	1126.4	1186.6	1531.4	2310.3	2084.5
Interest Income	220.2	297.4	362.2	378.1	563.1	516.4	534.5
Interest Expenses	205.9	273.4	292.9	338.0	379.4	381.8	356.6
Net Interest Income	14.3	24.0	69.3	40.1	183.7	134.6	177.9
Profit before Tax	55.8	98.2	100.1	122.7	243.8	193.9	232.7
(Percentage Change)							
Total Assets/Liabilities	-	11.8	6.0	17.9	9.5	24.7	3.5
Deposits	-	11.9	21.9	4.6	11.2	30.3	5.5
Loans and Advances	-	-21.5	-8.5	5.3	29.1	50.9	-9.8
Interest Income	-	35.1	21.8	4.4	48.9	-8.3	3.5
Interest Expenses	-	32.8	7.1	15.4	12.2	0.6	-6.6
Profit before Tax	-	76.0	1.9	22.6	98.7	-20.5	20.0
Memorandum Items							
No. of Branches	25	25	25	25	26	26	26
No. of Employees	411	412	426	438	452	489	491
No. of Shareholders	2	2	2	2	2	2	2
Shareholding Pattern in Percent:							
RGOB	80	80	80	80	80	80	80
SBI	20	20	20	20	20	20	20

Source: Financial Statement of BOB.

Bhutan National Bank - Selected Financial Indicators, 1997 - 2003

End of Period

Particulars	1997	1998	1999	2000	2001	2002	2003
Total Assets/Liabilities	1033.3	1402.8	2816.1	3831.5	4124.2	5062.7	5559.3
Share Capital	59.5	59.5	59.5	59.5	59.5	59.5	119.0
Reserves	80.2	98.2	122.3	195.4	243.8	269.0	549.0
Deposits	767.4	1110.9	2489.9	3376.1	3610.2	4522.2	4587.1
Balances with RMA	79.9	135.4	228.2	534.2	464.2	1716.0	1438.0
Rupee Investments in India	79.4	210.4	1131.0	1534.1	1047.6	604.1	579.2
Loans and Advances	687.0	732.1	819.6	948.8	1208.3	1688.4	2404.6
Interest Income	103.8	121.0	170.7	275.1	310.5	306.9	360.3
of which Interest from Rupee Deposits	3.8	10.7	54.6	144.0	146.9	87.2	45.0
Interest Expenses	56.8	61.0	88.9	155.8	196.4	200.2	190.7
Net Interest Income	47.0	60.0	81.8	119.3	114.1	106.7	169.5
Gross Operating Income	59.7	81.6	110.3	189.6	170.4	143.6	194.1
Operating Expenses	28.9	30.2	30.0	49.8	50.2	60.1	71.6
Net Operating Income	30.8	51.4	80.3	139.8	120.2	83.5	122.5
Profit before Tax	21.0	68.3	68.4	150.1	111.6	57.3	81.3
(Percentage Change)							
Total Assets/Liabilities	-	35.8	100.7	36.1	7.6	22.8	9.8
Deposits	-	44.8	124.1	35.6	6.9	25.3	1.4
Loans and Advances	-	6.6	12.0	15.8	27.4	39.7	42.4
Interest Income	-	16.6	41.1	61.2	12.9	(1.2)	17.4
Operating Expenses	-	4.5	(0.7)	66.0	0.8	19.8	19.2
Profit before Tax	-	225.2	0.1	119.4	(25.6)	(48.7)	42.0
Market Highlights:							
No. of Share holders	411	406	407	407	405.5	409	5451
Year-end closing price per share (Face value of Nu.100)	225.0	240.0	250.0	700.0	1450.0	2000.0	550.0
Dividend (%)	20.0	50.0	40.0	50.0	50.0	25.0	30.0
Earning per Share	35.2	80.3	80.4	173.0	131.3	67.4	47.8
PE Ratio	6.4	3.0	3.1	4.1	11.1	29.7	11.5
Divident Yield	8.5	18.9	13.1	11.7	9.8	4.5	5.3
Return on Capital	0.2	0.3	0.8	1.7	0.2	0.1	0.1
Memorandum Items							
No. of Branches	1	1	1	1	1	1	1
No. of Employees	113	125	135	144	165	182	191
Shareholding Pattern in Percent:							
ADB	0.0	0.0	20.1	20.1	20.1	20.1	10.1
Citibank	0.0	0.0	19.9	19.9	0.0	0.0	0.0
RGOB	67.2	67.2	27.2	27.2	27.2	27.2	13.6
RICB/PF	4.2	4.2	4.2	4.2	2.1	2.1	2.1
Public	28.6	28.6	28.6	28.6	28.6	28.6	38.6
BTF	0.0	0.0	0.0	0.0	10.0	10.0	10.0
NPPFB	0.0	0.0	0.0	0.0	12.1	12.1	25.7

Source: Financial Statement of BNB and RSEB Annual Report.

Bhutan Development Finance Corporation - Selected Financial Indicators, 1997 - 2003

Particulars	End of Period						
	1997	1998	1999	2000	2001	2002	2003
(Millions of Ngultrum)							
Total Assets/Liabilities	488.0	557.3	614.7	718.6	809.7	1005.0	1242.1
Share Capital	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Reserves	81.1	91.2	107.1	123.6	141.0	159.9	158.4
Balances with BOB and BNB/ Current a/cs	24.7	24.6	26.4	43.4	31.3	28.9	88.8
Loans Receivables	406.1	422.1	450.4	500.1	642.5	908.1	1114.1
Interest on Loans	46.9	50.2	54.1	66.3	69.5	97.7	127.7
Operating Expenses	21.9	21.8	27.7	25.6	25.9	31.8	35.9
Profit for the Year	0.8	6.3	8.8	12.9	24.4	31.3	40.4
(Percentage Change)							
Total Assets/Liabilities	-	14.2	10.3	16.9	12.7	24.1	23.6
Loans Receivables	-	3.9	6.7	11.0	28.5	41.3	22.7
Interest on Loans	-	7.0	7.8	22.6	4.8	40.6	30.7
Operating Expenses	-	-0.5	27.1	-7.6	1.2	22.7	13.0
Profit before Tax	-	687.5	39.7	46.6	89.1	28.1	29.1
Memorandum Items							
No. of Branches	20	20	20	20	21	22	22
No. of Employees	117	114	128	131	125	133	133
Shareholding Pattern in Percent:							
RGOB	87	87	87	87	82	82	82
Financial Institutions	13	13	13	13	18	18	18

Source: Financial Statement of BDFC.

Royal Insurance Corporation of Bhutan Limited - Selected Financial Indicators, 1997 - 2003

End of Period

Particulars	1997	1998	1999	2000	2001	2002	2003
(Millions of Ngultrum)							
Total Assets/Liabilities	1500.6	2077.9	2452.6	1336.9	1154.4	1334.0	1495.3
Share Capital	24.0	24.0	24.0	48.0	48.0	48.0	96.0
Reserves	55.9	133.0	143.1	69.6	103.9	145.6	141.5
Call Deposits with RMA	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Foreign Currency Deposits	0.6	2.1	2.7	1.1	5.4	6.0	4.8
Loans and Advances	697.9	954.6	666.9	815.4	947.3	1112.8	1211.8
Interest Income	175.1	169.4	160.4	139.9	126.3	145.2	145.1
Interest Expenses	8.1	9.1	10.3	11.7	79.7	89.0	96.2
Gross Operating Income	116.4	43.2	40.7	47.5	79.5	71.0	78.49
Operating Expenses	34.8	10.4	6.1	13.0	29.8	11.5	15.8
Profit before Tax	31.0	32.8	34.6	34.6	49.7	59.6	62.7
(Percentage Change)							
Total Assets/Liabilities	-	38.5	18.0	-45.5	-13.7	15.6	12.1
Call Deposits with RMA	-	0.0	-100.0	0.0	0.0	0.0	0.0
Loans and Advances	-	36.8	-30.1	22.3	16.2	17.5	8.9
Interest Income	-	-3.3	-5.3	-12.8	-9.7	15.0	-0.1
Operating Expenses	-	-70.1	-41.3	113.1	129.2	-61.4	37.2
Profit before Tax	-	5.8	5.5	0.0	43.6	19.9	5.2
Market Highlights:							
No. of Share holders	205	200	260	2543	2056	1871	1715
Year-End Closing Price Per Share (Face value of Nu.100)	0.0	0.0	3700.0	4100.0	4100.0	4205.0	3500.0
Dividend (%)	25.0	40.0	30.0	15.0	20.0	-	-
Earning per Share	905.0	955.4	1009.6	455.2	724.1	868.5	457.3
PE Ratio	2.8	3.9	3.7	9.0	5.7	4.8	7.7
Divident Yield	0.8	6.1	0.4	3.7	4.9	-	-
Return on Capital	0.3	0.2	0.1	0.2	0.2	0.2	-
Memorandum Items							
No. of Branches	2	2	2	2	9	9	9
No. of Employees	185	195	203	172	153	157	159
Shareholding Pattern in Percent:							
RGOB	61.0	61.0	61.0	39.3	39.3	39.3	39.3
Public	14.7	14.7	16.2	37.2	37.2	37.2	55.8
Private	24.3	24.3	23.5	23.5	23.5	23.5	23.5

Source: Financial Statement of RICBL and RSEB Annual Report.

TOURISM

The first official tourists to Bhutan were a group of Americans led by Lars Eric Lindblad of Lindblad Travel New York after the Royal Coronation in 1974. Thereafter, the Bhutan Tourism Corporation was responsible for all tourist operations up till 1991, when the tourism industry was privatised. It was then that the Tourism Authority of Bhutan (TAB) was established as a regulatory body, which in 2000 was re-instituted as the Department of Tourism in a Royal Government restructuring exercise.

Since its inception, the development of the tourism industry is consistently guided by its policy of "high quality, low volume," in an effort to ensure the preservation of Bhutan's environment, its traditional culture, and values. The very elements of Bhutan's natural and cultural wealth are now being upheld even more strongly as the foundation for current and future development of tourism in Bhutan. The enormous possibilities in the marketability of eco-tourism products will soon alter the overriding principle for the industry from "high quality, low volume" to "high quality, low negative impact." (*Bhutan National Eco-Tourism Strategy, Department of Tourism, September 2001*) The Bhutan National Eco-Tourism Strategy, a collaboration between the Department of Tourism and members of the Association for Bhutan Tour Operators (ABTO), was published in November 2001 as a guide to entrepreneurs and a report on the strategies to be adopted by the Government in the tourism sector.

In a span of 28 years, tourist arrivals have risen from 287 in 1979 to 6261 in 2003. The tourism sector continues to be recognized for its considerable potential as a major source of income for the Government, and as a private sector employer to part of Bhutan's growing working population. Tourism is the Kingdom's largest source for convertible currency earnings, excluding Rupee exports of electricity. Tourism receipts to the Government consist of royalties and taxes collected from tour operators. As at the end of the FY 2003/2004, Government receipts from tourism accounted for 3 percent of total national revenue, recording an increase in revenue contribution from 2002/2003 by 16.2 percent (Dept. of Revenue and Customs). It is projected as second only to hydropower in the 9FYP.

Analysis of Daily Fee Breakdown (USD)	
HIGH SEASON	
Client pays per day	200.00
Less 10 % commission to overseas agent	20.00
So Bhutan receives	180.00
Less 35% agreed royalty to RGOB	65.00
Less 2% withheld tax to RGOB	3.60
Received by tour operator	111.40
LOW SEASON	
Client pays per day	165.00
Less 10% commission to overseas agent	16.50
So Bhutan receives	148.50
Less 35% agreed royalty to RGOB	55.00
Less 2% withheld tax to RGOB	3.00
Received by tour operator	90.50

Source: Department of Tourism.

According to the Planning Commission's document, Bhutan 2020, by the end of the 10 FYP (2012), tourism will constitute 25 percent of GDP and revenues will have increased by 100 percent, while by the end of the 11 FYP (2017), tourism revenues will have risen by 150 percent.

The primary source for tourism statistics is the Department of Tourism; however the Ministry of Foreign Affairs also maintains records of other foreign guests. Statistics on visitors from Bangladesh, India, and the Maldives, who do not

require visas to enter the country and are yet to be captured at this stage.

Liberalization of the licensing process had been initiated in early 1999, following a unanimous response from Bhutanese entrepreneurs to dilute the monopoly of early operators. Licenses for tour operators had been limited to 33 for a number of years prior to the liberalization. This has not, however, changed the fact that as at the end of 2003 the top 6 tour agencies accounted for 42.4 percent of all tourists who visited Bhutan. As of September 2004, there were a total of 143 registered tour operators up from 131 as of October 2003.

Meanwhile in 1996, there were a total of 32 hotels, lodges, and guesthouses to accommodate visiting travellers. By 2003, those figures grew to 69 approved establishments, with a total of 1,239 rooms in major towns across the country.

Selected Tourism Indicators 1999-2003					
Item	1999	2000	2001	2002	2003
Tourist Arrivals	7158	7559	6393	5599	6261
Of which: Cultural	6328	6633	5925	5242	5823
Trekking	830	926	468	357	438
% Change in arrivals	18.8	5.6	-15.4	-12.4	11.8
Gross Receipts ¹	8.9	10.5	9.2	8.0	8.3
% Change in receipts	11.3	18.0	-12.4	-13.0	3.8
Government Revenue	3.5	4.1	3.3	2.8	2.9
% Change in Govt. Revenue	14.3	17.1	-19.5	-15.2	3.6

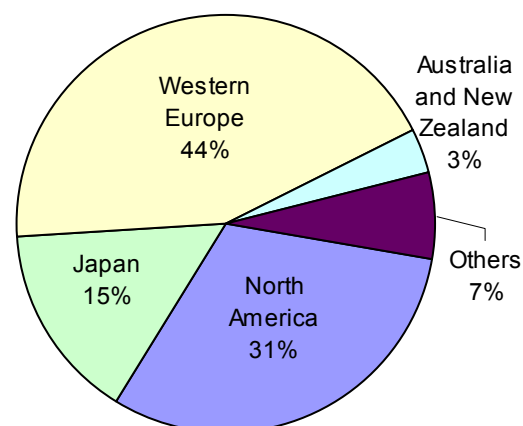
Source: Department of Tourism. -1) Millions of USD.

From the beginning, the Bhutanese tourism market has been largely dominated by the section of North Americans and Europeans. These two segments alone accounted for 75 percent of all visitors to Bhutan in 2003. The Japanese came in third with a share of 15 percent last year.

Fiscal Year 2003/2004

Performance in the tourism sector, which had suffered a backlash on account of recessionary global trends and political instability in the region, indicated positive signs of recovery during the review year. This was reflected in the increase of tourist numbers by 12.9 percent (to 6873) in contrast to a decline by 20.5 percent in 2002/2003, and a growth in foreign exchange earnings by 8.5 percent (to USD 9.2 million), compared to 5.5 percent in the previous year.

Source of Tourist Arrivals for 2003



Supporting tourism development, the Druk Air Corporation also took significant steps during the year 2003/2004 towards improving its air travel services with the agreement to purchase 2 new Airbus aircraft for the fleet (October 2003), and with the subsequent introduction of Gaya in India as its 6th flight destination launched on November 11, 2004.

Tourist Arrivals and Convertible Currency Revenue¹

Period	2002				2003				2004			
	Absolute		% Change		Absolute		% Change		Absolute		% Change	
	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.
Jan	55	0.1	-70.3	-65.7	192	0.2	249.1	227.3	89	0.1	-53.6	-60.3
Feb	269	0.2	-24.2	-34.5	98	0.1	-63.6	-62.5	358	0.4	265.3	286.0
Mar	862	1.1	55.9	34.0	654	0.8	-24.1	-29.5	831	1.1	27.1	35.8
Apr	683	1.1	-58.1	-51.0	1215	1.8	77.9	53.5	1304	2.0	7.3	12.2
May	296	0.4	7.2	-4.3	397	0.5	34.1	36.8	448	0.6	12.8	8.0
June	79	0.1	-45.9	-29.2	176	0.2	122.8	88.9	314	0.3	78.4	93.5
July	114	0.1	-11.6	9.1	112	0.1	-1.8	-29.8				
Aug	213	0.2	-15.5	-19.6	198	0.2	-7.0	-5.6				
Sept	760	1.2	-12.4	-18.7	612	0.9	-19.5	-25.3				
Oct	1474	2.4	12.7	11.6	1456	2.2	-1.2	-7.5				
Nov	643	0.9	24.4	10.9	862	1.1	34.1	28.4				
Dec	151	0.1	-12.2	-28.4	289	0.3	91.4	107.5				
Total	5599	8.0	-12.4	-13.2	6261	8.3	11.8	4.3	-	-	-	-

1) USD million.

In February 2003, Bhutan made the decision to join the World Tourism Organization (WTO) and was formally accepted as a member at the WTO's General Assembly held in Beijing, China, in October of the same year. The World Tourism Organization is the leading international organization in the field of tourism and travel, with 143 member nations and with its headquarters in Madrid. By becoming a member, Bhutan aims to develop its vast potential, and strengthen its ability to withstand external shocks.

Though there is currently no system to measure the inflow of tourists from neighbouring countries such as Bangladesh, India, and the Maldives, there are an estimated 11,000 Indian tourists who visit Bhutan annually, a majority of which are from West Bengal. These tourists make their way to Bhutan usually in the winter that coincides with their religious holidays, the snowfall, and Druk Air discounted airfares. Though Bhutanese tour operators offer tour packages to attract Indian tourists during winter, an otherwise low season, most Indian tourists prefer to travel to Bhutan by road, on their own. Tour agencies admit however, that this is a huge market that has further potential for future utilization. It could also help in reducing seasonalities faced.

Till date there has been considerable FDI in the country aimed towards developments in the tourism sector. One of these, the Aman-Bhutan project, is a joint venture between Bhutan Tourism Corporation Ltd. (BTCL) and Maha/Aman Resorts, Singapore that was registered as Bhutan Resorts Corporation Ltd. (BRCL), in August 2001. Aman Resorts caters to a select affluent segment of world travellers and was founded in 1988. It now has 11 resorts over five continents with just over 400 rooms.

In Bhutan, BRCL will be establishing small luxury resorts in Paro, Thimphu, Punakha, Gangtey Gompa, Trongsa, and Bumthang with a total of 72 rooms. Construction work on Phase I of the project covering Paro, Thimphu, and Punakha was expected to be completed and operational by April 2003, while Phase II including Gangtey Gompa, Trongsa and Bumthang was due to be completed by September 2003.

As at the end of the fiscal year 2003/2004, updates confirm considerable progress on the resorts: Paro site: 100 percent completed; the AmanKora was inaugurated end of June 2004. Thimphu site: 79 percent completed, Punakha site: 48 percent completed, and Bumthang site: 48 percent completed, and Gangtey Gompa site: 43 percent completed. The targeted completion of the Thimphu and Punakha resorts is the end of February 2005. Meanwhile, the Gantey Gompa and Bumthang resorts are planned to be finished by the end of September 2005, and once work on the Trongsa site commences, it is planned for completion end of March 2006.

Initial total project costs have been estimated at USD 14 million, with a proposed capital structure of USD 6 million equity and USD 8 million debt. Aman Resorts will contribute to 60 percent of the equity, BTCL will contribute 30 percent and 10 percent of equity will be floated to the public, when decided by the company. Debt financing is being sought from local financial institutions, and external financing.

Soon after the establishment of the Bhutan Resorts Corporation Ltd, another FDI venture in tourism was forged between Bhutan International Company and M/s. HPL Properties (West Asia) Pte. Limited, Singapore. Bhutan Eco Ventures Limited (BEVL) was incorporated on November 6, 2001, with the main objective of setting up exotic resort hotels initially in Paro, and subsequently in Haa, and Punakha

Out of the total project expenditure of USD 4 million, USD 3 million will be met in proportion to the respective holdings of BEVL's shareholders (M/s. HPL Properties Pte Limited – 60 percent, Bhutan International Company – 30 percent, and 10 percent floated to the public), while the balance of USD 1 million will be raised through loans. According to BEVL, the Paro Uma Hotel was completed in October 2004, while construction on the second and third phase in Ha and Bumthang will begin subsequently.

For the Ninth Plan, the Royal Government has marked tourism as a "priority sector" allocating funds of Nu.185 million for tourism development. Among these, Department of Tourism officials report that part of the budget will be used in setting up a hotel management and training institute in Thimphu in addition to the development and promotion of new tourism products including retreat meditation, river rafting, mountain biking, rock climbing, and skiing. The Himalayan Adventures tour agency was the first to offer motor-biking adventure tour packages in September 2003.

The Royal Government of Bhutan took a major step towards the liberalization and integration of the Bhutanese economy with the rest of the world on December 3, 2002, by approving the FDI Policy. Joint venture projects such as BRCL and BEVL are a significant step in the early stages of building an enabling FDI environment

within the country that will boost the local economy through inflows of technology, foreign exchange, and creation of employment. Other cases of FDI within the country include the State Bank of India's participation in the Bank of Bhutan's initial establishment in 1968, and the ADB's equity contribution during the setting up of Bhutan National Bank in 1997.

Tourism Arrivals by Nationality and Activity 1998-2003							
Country of Origin	1998	1999	2000	2001	2002	2003	Change over 2002 (%)
USA	1471	2122	2754	2149	1913	1806	-5.6
Japan	1032	1102	875	1038	892	952	6.7
Germany	520	574	662	414	346	496	43.4
United Kingdom	686	646	595	681	519	605	16.6
France	366	236	399	287	192	288	50.0
Netherlands	370	362	359	180	197	179	-9.1
Canada	82	149	194	197	166	121	-27.1
Australia	64	131	179	138	214	165	-22.9
Taiwan	135	179	175	44	40	90	125.0
Italy	218	276	156	192	177	331	87.0
Spain	109	118	141	73	68	77	13.2
Switzerland	170	296	137	170	164	177	7.9
Austria	270	197	131	128	92	152	65.2
Belgium	95	107	95	76	22	104	372.7
Thailand	19	71	92	36	46	66	43.5
Israel	81	80	68	78	5	47	840.0
Finland		5	60	17	14	14	0.0
Nepal	23	23	50	14	16	13	-18.8
Sweden	58	37	48	28	41	48	17.1
Mexico		49	37	7	38	72	89.5
Turkey		49	34	30	61	9	-85.2
Singapore	77	26	31	15	8	20	150.0
New Zealand	28	22	31	25	32	37	15.6
Others	329	301	256	376	336	392	16.7
TOTAL ARRIVALS	6203	7158	7559	6393	5599	6261	11.8
Trekking	1343	830	926	468	357	438	22.7
Cultural	4860	6328	6633	5925	5242	5823	11.1

Source of Total Arrivals (%)							
Sector	1998	1999	2000	2001	2002	2003	
North America ¹	25.0	31.7	39.0	36.7	37.3	30.8	
Japan	16.6	15.4	11.6	16.2	15.9	15.2	
Western Europe	50.3	43.9	40.1	39.6	37.2	44.1	
Australia and New Zealand	1.5	2.1	2.8	2.5	4.4	3.2	
Others	6.5	6.9	6.6	4.9	5.1	6.6	
Total	100.0	100.0	100.0	100.0	100.0	100.0	

1)USA and Canada.

Source: Department of Tourism, Royal Government of Bhutan.

THE POWER SECTOR IN BHUTAN*

The power sector continues to be Bhutan's largest source of revenue, contributing 37.8 percent to gross national revenue in fiscal year 2003/2004. The Chukha hydropower corporation limited (CHPCL) alone accounted for over 98 percent of the revenue from the power sector, with the remainder being the contribution of the Basochu hydropower corporation limited (BHPCL).

Bhutan's hydropower potential is estimated at 30,000 megawatts (MW). Out of this, a little over 450 MW, representing about 1.5 percent of that potential has been harnessed so far. The first hydroelectric plant was built in Thimphu, producing 360 kilowatts (kW) of electricity. The commissioning of the Tala hydroelectric project in 2006 will add another 1,020 MW to total harnessed hydropower, and over 5 percent of the total potential will have been developed. Development of hydropower is guided by the Hydropower Development Master Plan (1990-2010).

It is projected that by the year 2006, Bhutan will export over 6,400 million units of energy per annum and total gross national revenue will then achieve Nu.15 billion annually.

In the continuous efforts to tap Bhutan's vast hydropower potential, the Royal Government sent two project reports to the Government of India on the 360 MW Mangdechhu and the 870 MW Puna Tsangchhu hydropower projects to consider financing along the Kurichhu and Tala modalities. The Mangdechhu project is estimated to cost USD 349 million and the Punatangchhu project USD 813 million. In addition, four feasible micro-hydel sites have also been identified at Sengor, Sakten, Tang, and Gasa. The detailed project report on the Punatsangchu project is currently being prepared by the water and power consultancy services (WAPCOS), a central government of India undertaking.

- ❖ Effective July 1, 2002, the Department of Power under the Ministry of Trade Industry and Power was separated into the Bhutan Power Corporation (BPC), the Department of Energy (DoE) and the Bhutan Electricity Authority (BEA). While the BPC functions as a government-owned corporation, the DoE and the BEA (established within the DoE) remain as government departments responsible for policy, planning, and regulation in the energy sector. This restructuring has been implemented in pursuance of provisions in the Electricity Act 2001. The mandate of the BPC is to provide reliable and affordable electricity for all Bhutanese by the year 2020.

With the BPC commencing operations on commercial grounds, power tariffs were revised effective from January 1, 2003, in an effort to meet operational costs. The revision replaces the previous flat rate system with a progressive

* Sources : Department of Energy, Ministry of Trade and Industry, Royal Government of Bhutan.
 Department of Revenue and Customs, Ministry of Finance.
 Basochu, Kurichhu and Tala Hydropower Project Authorities.
 Kuenselonline News Archives.
 Ninth Plan Document (2002 - 2007), Planning Commission.

charge and has different rates for domestic use, small-scale industries, and large-scale industries.

- ❖ Mr. Ganardhana Puranik Narayana Rao, Chief Engineer and Managing Director of the CHPCL upon its establishment in 1991, passed away on July 24, 2002. Mr. Rao had received the Druk Thuksey Medal on June 2, 1999, and the Padmashri National Award from the Government of India in 1992 for his outstanding and valuable contribution to Indo-Bhutan Relations, and the development of hydropower in Bhutan.
- ❖ On September 15, 2003, the Royal Government and the Government of India signed a memorandum of understanding (MOU) for the preparation of a detailed project report on the Punatsangchu hydroelectric project. The MOU was signed by the two Foreign Ministers, Lyonpo Khandu Wangchuk and Mr. Yashwant Sinha, in New Delhi, in the presence of His Majesty the King, President A.P.J. Abdul Kalam, the then Prime Minister of India, AB Vajpayee, and other dignitaries from the two countries.

The Punatsangchu project is a run-of-the-river scheme along the course of the Punatsangchu river, downstream from Wangduephodrang. It will have an installed capacity of 870 MW and an annual average generation of 4,330 GWh.

Feasibility investigations of the Punatsangchu project were taken up between 1998 and 2001 by the electric power development company limited of Japan through JICA. The project site was identified by NORCONSULT-AS, a Norwegian consultancy firm between 1990 and 1992. NORCONSULT-AS also carried out the pre-feasibility study in 1992-1993 under the UNDP-NORAD project. About USD 1 million was spent on various studies conducted for the project.

- ❖ The BPC increased power tariffs by an average of 11 percent with effect from July 1, 2004 for domestic use and for small and large scale industries.
- ❖ WAPCOS has started work on a detailed project report on the proposed 870 MW Punatsangchu hydroelectric project. The report is scheduled to be prepared before January 2006.

CHUKHA HYDROPOWER PROJECT (336 MW)

The first major hydropower project, the Chukha hydropower project with an installed capacity of 336 MW, was financed by the Government of India (GoI) with 60 percent grant and 40 percent loan. The agreement was signed between the GoI and the Royal Government on March 23, 1974. The first 84 MW unit of the Chukha hydroelectric plant was commissioned on September 7, 1986, and by August 22, 1988, all the other three units were commissioned. The Chukha hydropower project, completed at a cost of Nu.2,460 million, was inaugurated on October 21, 1988 by His Excellency R. Venkataraman, the then President of India in the presence of His Majesty, King Jigme Singye Wangchuck.

Bhutan began exporting hydropower to India with the commissioning of the first unit of the Chukha hydropower project in 1986. Chukha continues to export over 90 percent of generated hydropower. The remaining power is supplied to seven western and southwestern dzongkhags, with 75 percent of its domestic consumption being in Chukha dzongkhag alone. The latest revision in Chukha power tariffs with the Indian Government was made during 1999/2000 from Nu.1 per unit to Nu.1.5. During the fiscal year 2003/2004, export earnings of CHPCL reached a record Nu.2,306.6 million, while contributing 37.3 percent to the gross national revenue for that year.

THE TALA HYDROELECTRIC PROJECT (1020 MW)

The Tala project was embarked upon following the successful implementation of the Chukha hydropower project. It is the largest hydropower project assisted and undertaken by India in any country. The contract for the Tala project was signed on March 5, 1996, and works on the project began in October 1997. It was approved at an estimated cost of Rs./Nu.14,080 million (1993 price level) and was scheduled to be completed in 8 years, inclusive of the first two years of infrastructure development. The cost was later revised to Nu.30,000 million in 2001. However, the revised estimated cost is expected at Nu.43,000 million, and the expected date of completion is March 31, 2006.

Upon completion, Tala will be capable of generating 5,000 GWh (million units) of energy in an average year and provide 1,020 MW of peaking power throughout the year. Tala is expected to generate Nu.40 million a day in revenue.

Over 80 kms of land have been used in the construction of the Tala project and settlement colonies have been set up at Gedu, Wangkha, Tala and Sinchekha. The Tala project has helped generate business and employment for the people of these towns, as well as introduce better public services in the form of roads, hospitals, schools, water treatment facilities, mostly financed by the Tala hydroelectric project authority.

Calendar of Events

- ❖ March 2002 – Bhutan's private sector benefits from the Tala project. It was reported that out of the estimated cost (on completion of the project), a total of 280 works worth Nu.1,070 million were awarded to Bhutanese contractors. Approximately 150-170 Bhutanese construction companies shared these works relating to infrastructure.
- ❖ June 2002 – The 15th Tala project meeting reported that the project was on schedule. Heavy rains and landslides in 2000 had caused massive damages to the project and had brought all activities to a standstill for many months. By March 2001, the project was 18 months behind schedule. However, the acceleration programme adopted in April 2001 helped regain lost time.
- ❖ January 2003 – The Tala hydroelectric project authority meeting held in New Delhi on January 16 stressed the need to monitor the project vigorously to ensure its completion on schedule by September 2005. The authority approved the

contract for the electro-mechanical works at Malbasey substation, which will interconnect the Tala and Chukha systems, and the use of optical fibre ground wire for data transmission, coordination and protection control. The works will be implemented by the Power Transmission Grid Corporation of India Ltd.

- ❖ March and September, 2003 – Tala workers come across “adverse geological conditions” during tunnelling works for the 23 kilometre long headrace tunnel between Kalikhola and Mirchingchu. The presence of water in rocks that ground against each other for centuries made the geological strata a moist, flowing mass of soil which was difficult to retain, tremendously slowing down the tunneling works.
- ❖ January 2004 – The Project Authority met to review the physical and financial progress of Tala on January 15, 2004, in New Delhi. The project would be completed on schedule despite several hurdles encountered in recent times. Installation of generating plant and equipment was started in the underground power house cavern and installation of all the six generators would be completed between March-September 2005. If the water conductor system was completed on time, the units were expected to be commissioned after June 2005. As of January 15, 2004, the project had spent Nu.26,000 million.

The GoI and the Royal Government also began preliminary meetings to work out a common principle of power tariff for the export of power from Tala to India. The two governments already had a 1996 agreement on how the tariff would be fixed. The meeting focused on what basis the tariff principles should be determined.

- ❖ March 2004 – Officials of the two governments met for a second round of talks to work out a common principle of power tariff for power exports from Tala. The tariff would be determined on costs, including project construction, interest, and depreciation. An acceptable arrangement could become a model for developing future projects in Bhutan. A consensus on the power tariff is expected to be reached by the end of 2004.
- ❖ April 2004 – Adverse geological conditions in drilling the headrace tunnel and blockages in the vertical and inclined pressure shafts and coming monsoon rains were expected to delay the completion of the project. Although 80 percent of the project was finished, about 159 metres of tunnelling was still to be completed.
- ❖ June 2004 – The project authority met in Thimphu on June 26, 2004. A report released then scheduled the commissioning of Tala in March 2006, six months beyond its initial date. Allowing a month each for filling and for testing and trial runs, the first unit will be commissioned by December 2005, and all six units by March 2006. The new schedule takes into consideration the work on the headrace tunnel between Kalikhola and Mirchingchu, excavating and concreting of surge shaft and pressure shafts in the middle reach, scheduled for completion in October 2005.

- ❖ November 2004 – Excavation of the 23 kilometer long headrace tunnel between Kalikhola and Mirchingchu, second longest in the Himalaya was completed on November 8, 2004. The excavation took 20 months, which in normal conditions could have taken only about 2 months. The excavation was delayed due to adverse geological conditions. The Tala tunnel will be ready to deliver water to the six 170 MW generators by October 2005.

THE KURICHHU HYDROPOWER PROJECT (60 MW)

The Kurichhu project was constructed with the assistance of the Government of India. The contract between the two governments was signed on February 18, 1994, and construction commenced on September 27, 1995.

Financial assistance from the Government of India was provided in the form of 60 percent grant and 40 percent loan. The initial estimated cost of the project was Rs./Nu.2,560 million. However, in June 2002, the Kurichhu project authority (KPA) conveyed India's approval of the completion cost of Nu.5,600 million, out of which Nu.5,263 million were to be awarded to the main contractor, national hydro power corporation (NHPC) of India as final settlement. The balance Nu.327 million was spent on infrastructure building, consultancy charges, and the establishment of the project management.

The first phase (3 units of 45 MW) was completed in September 2001, with commercial operations commencing in November 2001 and the second phase (1 unit of 15 MW) was completed in May 2002. The Kurichhu project was formally inaugurated on June 10, 2003, and provides the supply for the eastern transmission grid network, which provides power to eight dzongkhags in eastern and central Bhutan. The project will light up an estimated 8,371 rural households in the ninth plan period.

The grid network comprises 304 kilometers of 132kV line and seven substations: starting from Gyelposhing where the project is based, the 132kV line connects substations in Tangmachu (Lhuentse), Kilikhar (Mongar), Kanglung (Trashigang), Nangkhor (Pema Gatsel), Deothang (Samdrupjongkhar), Tingtibi (Zhemgang), and a feeder bay extension in Gelephu. The network was built with a Nu.1,837.2 million grant from the Government of India.

Since the project was commissioned, Kurichhu has been exporting over 80 percent of generated power to India at Nu.1.75 per unit. The remaining power is supplied to the eastern and central parts of Bhutan, with domestic tariff rates set at Nu.0.3 per unit. During fiscal year 2003/2004, the Kurichhu hydropower corporation earned 98 percent of its revenue (Nu.497.7 million) from exports to India, with the remaining 2 percent (Nu.9.9 million) earned domestically.

- ❖ The Kurichhu project had to be temporarily shut down in July 2004 when the Tsatichhu lake, about 35 kilometers away burst on 10th July, cutting off power supply from the project and causing other damages downstream. Advance warning from a flood warning unit in Ladrong village had enabled the Kurichhu officials to lower the reservoir level to withstand the onslaught of the flood.

The dam and the powerhouse were not damaged by the flood. The flood washed away a transmission tower about 15 kilometers downstream of the project, bending adjacent towers, and desynchronizing the project from the Indian grid.

THE BASOCHU HYDROPOWER PROJECT (64 MW)

His Majesty the King identified the Basochu as a potential energy source in the early 1970's, but it was only in 1989 that the Austrian Government took an interest in the project and financed the pre-feasibility study. In 1993 and 1994 a preliminary design of the project was carried out by a team of Austrian engineers, and on April 14, 1995, the financing agreement was signed between the RGOB and Government of Austria. This project is by far the single-largest Austria-Bhutan undertaking and also the first time that Bhutanese have been involved at all levels of planning, construction, operation, and maintenance.

Phase I: Upper Stage Basochu Project (24 MW)

The upper stage of the Basochu Project was commissioned in October 2001 at a cost of Nu.1,600 million, of which Nu.1,200 million were contributed by the Government of Austria in the form of a grant and an interest-free loan.

Hydropower from Basochu is sold to the Bhutan Power Corporation for domestic consumption at Nu.0.5 per unit, and surplus power sold to the CHPCL at Nu.1.5 per unit. The Basochu project generated 131.6 million units of hydropower in 2003/2004, earning Nu.116.7 million. Over 60 percent of total generated power was used domestically through the BPC.

Phase II: Lower Stage Basochu Project (40 MW)

The lower stage Basochu project went into commercial operation on September 8, 2004, after three weeks of commissioning tests. Hydropower from the lower stage is also sold to the BPC at Nu.0.5 per unit.

The lower stage utilizes water released by the upper stage to generate 32 MW of hydropower. Further, there will be an additional 20 percent flow tapped from the nearby Rurichhu. Work continues to tap this flow to generate the remaining 8 MW of energy.

Implemented as a turnkey project, the lower stage cost Nu.1,422 million (2001/2002 pricing) of which 90 percent is a loan from the Austrian government.

The two stages will together have a total installed capacity of 64 MW, which will be extended to Tsirang, Dagana, and Sarpang in addition to being used to meet electricity requirements of the five western dzongkhags. The eventual goal, besides connecting to the Simtokha sub-station, is to form an integrated national power transmission grid by linking with the Kurichhu supply in Gelephu.

SUMMARY OF OPERATIONS OF MAJOR HYDROPOWER PROJECTS IN BHUTAN

ITEM	TALA	KURICHHU*	UPPER STAGE BASOCHU	LOWER STAGE BASOCHU**
Date Contract was signed	March 5, 1996	February 18, 1994	November 6, 1997	September 13, 2001
Donor	GOI	GOI	Govt. of Austria (GoA)	Official Austrian Export Promotion Scheme (Govt. of Austria)
Commencement of construction	October 1, 1997	September 27, 1995	December 1, 1997	March 20, 2005
Expected date of completion	March 31, 2006	First Phase (3 units of 45 MW): September 26, 2001. Second Phase (1 unit 15 MW): May 31, 2002	December 31, 2001	September 2004
Energy capacity upon completion	1020 MW	60 MW	24 MW	40 MW
Terms of Finance	60% Grant 40% Loan (9% interest)	60% Grant 40% Loan (10.75% interest)	37.74% Grant 48.96% Loan 13.69% RGOB	2.80% TA (GoA) 90.70% Soft Loan (GoA) 6.50% RGOB
Initial Budget outlay and estimated cost	Rs./Nu.14,080.00 million at 1993 price levels	Rs./Nu. 2,560 million	ATS 350 million	Nu.1,421.8 million at 2000 price level
Envisaged escalated cost	Rs./Nu.35,800 million (sanctioned estimated cost) Rs./Nu.43,000 million (revised estimated cost)	Rs./Nu. 5,600 million (as revised in June 2002) - GOI. Additional RGOB contribution of Rs./Nu. 40 million	ATS 482 million	-
Grant amount disbursed till date	Rs./Nu.17,176.524 million	Rs./Nu. 3,360 million	ATS 180 million	Nu.26.6 million
Loan amount disbursed till date	Rs./Nu.11,632.082 million	Rs./Nu. 2,240 million	ATS 236 million ATS 66 million (RGOB)	Nu.774 million Nu.19.4 million
Total funds utilised till date	Rs./Nu.28,494.66 million	Rs./Nu. 5,600 million - GOI Rs./Nu. 34 million - RGOB Total - Rs./Nu. 5,634 million	ATS 482 million (Nu.1,446 million)	Nu.820.1 million

*Position as of December 2003.

** Position as of June 2004, except for updates on grant and loan disbursement and total funds utilized which will be available in 2005. The figures are as of June 2003.

Source: Tala Hydroelectric Project Authority, Kurichhu Hydropower Corporation, Basochu Hydropower Corporation.

INTEREST RATES

Given the close financial and economic links with India, and the pegged arrangement between Ngultrum and the Indian Rupee at par, there has been a similar trend in the development of the interest rates and inflation between the two countries. Thus, our interest rates should closely reflect rates in India. Large interest rates differentials can affect the terms of trade and can also lead to capital outflows. In line with the interest rate development in India, the RMA continued to impart greater flexibility in determining interest rates by the financial institutions for an effective financial intermediation and monetary control.

With the emergence of a more prudent suggestion from the IMF mission in January 1992, in better influencing the allocation of the investments in the economy, the RMA came forth with the idea of liberalizing the interest rates of the financial institutions. The interest rates were administered by the RMA, providing little flexibility to the financial institutions to set their own deposit and lending rates on the basis of their cost of funds, risk of default, operating expenses, and yield on assets. A large increase in deposits with the banks without matching lending and investment opportunities can result in less prudent lending policies and consequently, problems of non-performing assets. The RMA Board of Directors, seeing that the controlled and administered rates would not create an environment conducive to the growth of the financial system, decided to partially liberalize the rates on September 2, 1997, whereby financial institutions were allowed to determine their own deposit and lending rates in accordance with the spread system.

However, in April 1999, to encourage competition among the financial institutions, the RMA abolished the system of spreads, liberalizing the interest rates fully on both loans and advances. The structure of deposit rates prevailing since 2001 till 2004 is provided in the *adjacent table*.

Deposit Rates in Percent (end of June)				
BNB	2001	2002	2003	2004
Savings	7.0	6.0	5.0	5.0
Fixed Deposits				
3 months- 1 Year	8.0	7.0	6.0	5.5
1-2 Years	8.0	9.0	7.0	6.0
2-3 Years	10.0	9.0	7.0	6.5
More than 3 Years	11.0	10.0	8.0	7.0
BOB				
Savings	5.0	5.0	5.0	4.5
Fixed Deposits				
3 months- 1 Year	7.0	7.0	5.5	4.5
1-2 Years	9.0	9.0	7.5	6.0
2-3 Years	9.0	9.0	7.5	6.0
More than 3 Years	10.0	10.0	8.5	7.0

The first revision in interest rates was recorded in August 1994, when rates were cut by 1 percent on deposits and most categories of loans and advances. The rationale behind the reduction in the rates had been a corresponding reduction of interest rates in India. After the policy change, the financial institutions took a while to act on it. There were no movements in interest rates until July 1, 2000, when the BOB took the first initiative and lowered their interest rates on selected loan schemes. A wider effect of the liberalization is being reflected through interest rate changes undertaken by the financial institutions only after 2000, as seen in the changes in the interest rates structure.

During the period June 2001 and June 2004, the average rates on savings deposits of the commercial banks fell from 6 percent to 4.8 percent. Simultaneously, there followed a reduction in the rates in the fixed deposits. The interest rates paid by commercial banks on 3 month to less than one year deposits declined from 7.5 percent to 5 percent and the deposits on more than three years, fell to 7 percent from 10.5 percent in the same period. Contrary to this, the lending rates for manufacturing industry, service industry, equity finance, and housing declined from the average of 13.3 percent to 12.5 percent, 13 percent to 12.5 percent, 13 percent to 12 percent, and 14 percent to 10 percent (except BDFC), respectively. While the lending rates on others remained relatively unchanged during the period.

Following the reduction in interest rates, the recent years have witnessed a rapid build-up of lending in the housing sector and construction sector. During the year 2003, it is reported that the housing sector and manufacturing sector alone hold more than 49 percent of the total credit allocated in the financial sector. The more liberal interest rate structure brought a sense of competition in the financial market, and also made the institutions more confident on the recovery of loans at the lowered interest rate. At the same time, it helped the clients to reduce their repayment burden, due to more favorable terms offered by the financial institutions.

Table I. Current Selected Interest Rates in Bhutan

Percent per Annum

Deposit Rates	BOB	BNB
Savings Deposits	4.5	5.0
Term Deposits (General)		
3 months to less than 1 year	4.5	5.5
1 year to less than 2 years	6.0	6.0
2 years to less than 3 years	6.0	6.5
More than 3 years	7.0	7.0
Corporate Deposits		
46 days to less than 3 months	3.0	3.3
Lending Rates	BOB	BNB
Loans by purpose:		
General Trade	15	15
Export Finance	13	13
Manufacturing Industry		
Term Loans	12	12
Working Capital	13	13
Service Industries	12-13	12
Transport (heavy)	13-16	13
Transport (light-commercial)	15	16
Transport (light-non commercial)	15	16
Agriculture & Livestock	13	-
Housing	10	10
Equity Finance	13	12
Personal Loan	15	15
Small Loan to Government Employee	12	12

N.B: The above interest rate data is as of June 2004.

In India, the bank deposit rates were driven down across maturities during 2003/2004 by easy liquidity conditions. Bank lending rates also declined, but on a relatively muted scale, reflecting their inherent rigidity due to high cost of deposits contracted in the past and the overhang on non-performing assets (NPAs), along with some other structural factors. A sizeable portion of bank loans was extended at rates below the prime lending rates (PLRs). Spreads around PLRs of the public sector banks narrowed marginally by the last quarter of 2003/2004. The benchmark prime lending rates (BPLRs), implemented through the operational guidelines issued by the Indian Banks' Association in November 2003, are expected to improve transparency and to reduce complexity in pricing of loans. As on April 2004, almost all banks have adopted the new system of benchmark PLRs, which were significantly lower than earlier PLRs on cash credit or overdraft. During the period March 2003 and March 2004, the range of BPLR moderated by 25-200 basis points from the existing PLRs. Banks overwhelmingly adopted BPLRs by abandoning the system of tenor-linked PLR. The BPLRs of the public sector banks moved in the range of 10.25-11.50 percent in June 2004 (Table II).

Table II. Movements in Indian Deposit and Lending Interest Rates

Item	Percent per annum		
	June '03	March '04	June '04
<u>I. Domestic Deposit Rates</u>			
Public Sector Banks			
a) Up to 1 year	4.00-5.75	3.75-5.25	3.50-5.25
b) 1-3 years	5.00-6.25	5.00-5.75	5.00-5.75
c) Over 3 years	5.25-6.50	5.25-6.00	5.25-5.75
Private Sector Banks			
a) Up to 1 year	3.00-7.00	3.00-6.00	3.00-6.00
b) 1-3 years	5.50-7.75	5.00-6.50	5.00-6.50
c) Over 3 years	6.00-8.00	5.25-7.00	5.25-7.00
Foreign banks			
a) Up to 1 year	3.00-7.75	2.75-7.75	2.75-7.50
b) 1-3 years	3.50-8.00	3.25-8.00	3.25-8.00
c) Over 3 years	4.50-8.00	3.25-8.00	3.25-8.00
<u>II. Prime Lending Rates</u>			
Public Sector Banks	9.00-12.25	10.25-11.50	10.25-11.50
Private Sector Banks	7.00-15.50	10.50-13.00	9.75-13.00
Foreign Banks	5.45-17.50	11.00-14.85	11.00-14.85

Source: RBI Annual Report 2003-2004.

TABLE III. STRUCTURE OF FINANCIAL INSTITUTIONS' DEPOSIT AND LENDING RATES: 1997-2004

(Percent per annum)

Deposit rates									
Types of deposit	1997	1998	1999	2000	2001	2002	2003	2004	
Savings	5.0-7.0	5.0-7.0	5.0-7.0	5.0-7.0	5.0-7.0	5.0-6.0	5.0	4.5-5.0	
Fixed deposits									
<i>a) 3 months to less than 1 year</i>	8.0	8.0	8.0	8.0	7.0-8.0	7.0	5.5-6.0	4.5-5.5	
<i>b) 1 year to less than 2 years</i>	8.0-10.0	8.0-10.0	8.0-10.0	8.0-10.0	8.0-9.0	9.0	7.0-7.5	6.0	
<i>c) 2 years to less than 3 years</i>	10.0	10.0	10.0	10.0	9.0-10.0	9.0	7.0-7.5	6.0-6.5	
<i>d) More than 3 years</i>	11.0	11.0	11.0	11.0	10.0-11.0	10.0	8.0-8.5	7.0	
Lending Rates of Financial Institutions									
Loan by Purpose	1997	1998	1999	2000	2001	2002	2003	2004	Repayment Period (yrs.)
1. General Trade	16.0	16.0	16.0	16.0	15.5-16.0	15.0-15.5	15.0-16.0	15.0	3
2. Export Finance (Convertible Currency Areas)									
<i>a) From date of 1st disbursement to 60 days after the date of the last disbursement</i>	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	1
<i>b) More than 60 days after the last disbursement</i>	16.0	16.0	16.0	16.0	15.5	15.0	15.0	15.0	1
3. Manufacturing Industry									
<i>Term loan</i>	13.0	13.0	13.0	13.0	13.0	12.0	12.0	12.0	10
<i>Working capital</i>	14.0	14.0	14.0	14.0	13.5	13.0-13.5	13.0	13.0	1
4. Service Industries									
<i>a) Term loan</i>	13.0	13.0	13.0	13.0	13.0	13.0	12.0	12.0	10
<i>b) Working capital (includes tourism, contract services, and other service activities)</i>	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	1
5. Transport									
<i>a) Truck & buses (Heavy vehicle)</i>									
<i>i) Term loan</i>	12.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	5
<i>ii) Working capital</i>	16.0	16.0	16.0	16.0	15.5	15.5	15.0	16.0	1
<i>b) Other passenger vehicles (commercial light vehicles)</i>	16.0	16.0	16.0	16.0	15.5	15.5-16.0	15.5-16.0	15.0-16.0	5
<i>c) Non commercial light vehicles</i>								12.0-16.0	5
6. Agriculture & Livestock	13.0	13.0	13.0	13.0	13.0	13.0	13.0-15.0	13.0-15.0	10
7. Housing	14.0	14.0	14.0	14.0	14.0	13.0	13.0	10-13	20
8. Equity Finance	14.0	14.0	14.0	14.0	13.0	13-14	12.0	12.0	5
9. Personal Loan	16.0	16.0	16.0	16.0	15-16	15-16	15-16	15-16	5
10. Vehicle Loan to Government Employees	13.0	13.0	13.0	13.0	12.0-13.0	12.0-13.0	12.0	12.0	6

a) Source: Selected Economic Indicators, RMA.

b) N.B: Effective April 1999, the interest rates on deposits and advances were fully liberalised by RMA. The calendar year refers to June-end periods.

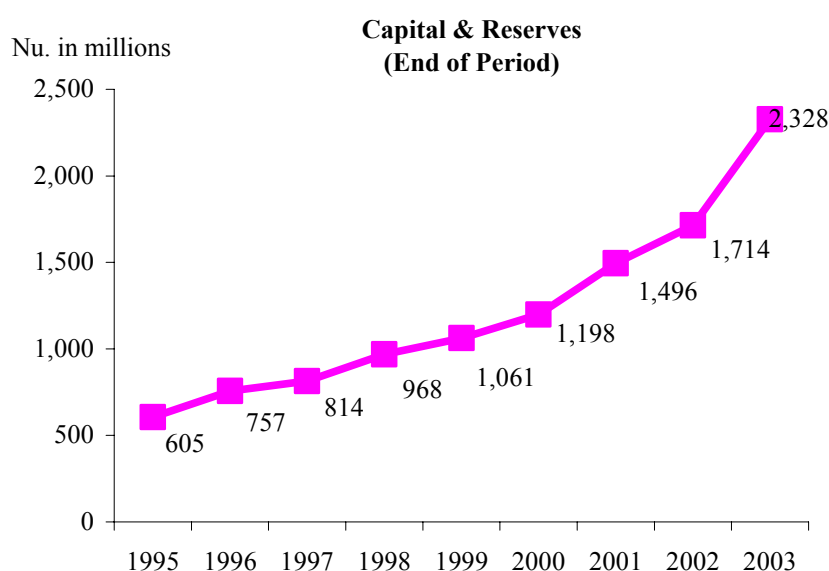
AN OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL SECTOR (2003)

Introduction

This report provides a brief presentation on the overall financial sector performance for the year ending December 2003. Keeping in line with the recent GDP growth of 6.5 percent, the balance sheet size of the financial sector also achieved a growth of 7 percent to Nu.19.95 billion as at the end of 2003. The total assets of the two banks accounted for 87 percent of the total balance sheets, thus leaving the two non-bank financial institutions (NBFIs) with a 13 percent market share. The assets of the two commercial banks grew by more than 5 percent, while the total assets of the two NBFIs achieved a growth of around 18 percent.

Capital and Reserves

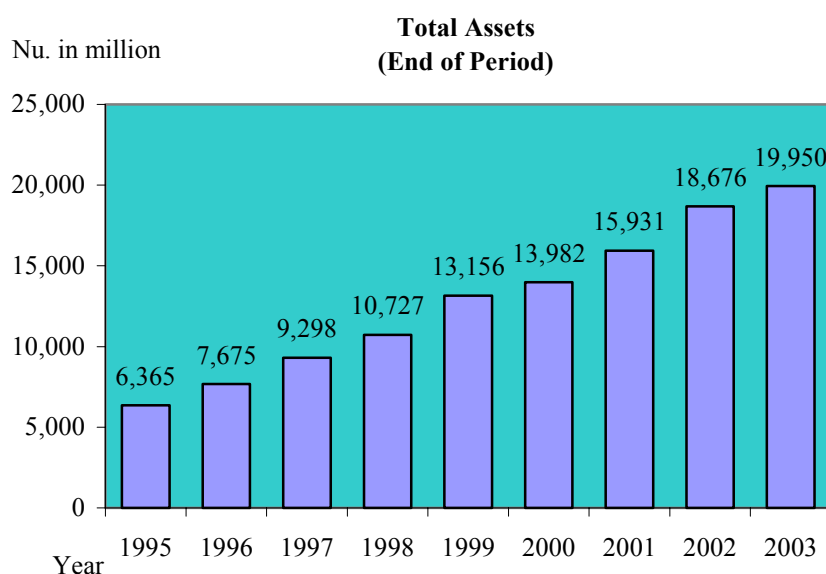
The capitalization of the financial institutions (FIs) continued to improve as the total capital base of the institutions achieved a growth of 36 percent in the past year. The financial sector capital base increased from a total of Nu.1.71 billion at the end of 2002 to Nu.2.33 billion at the end of 2003. This was mainly because of the prudent regulatory policies, which had been introduced to raise the minimum paid-up capital of both the banks and NBFIs. Supplementing this policy, the RMA also made it mandatory to transfer at least 20 percent of profit after tax to the general reserve, which is also part of the capital base. The overall financial sector capital to asset ratio has increased from around 9 percent in 2002 to 12 percent during the year ended 2003.



The Capital Adequacy Ratio (CAR) of the FIs stood within the range of 16.74 percent to 43.38 percent, against the minimum regulatory requirement of 8 percent CAR.

Assets

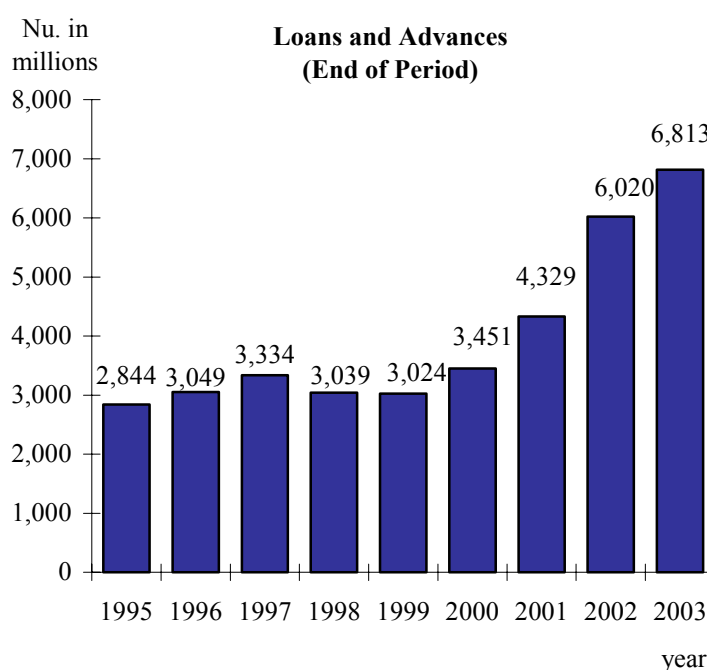
From the period ending 2002 to 2003, the total assets of the financial sector increased by around 7 percent from Nu.18.68 billion to Nu.19.95 billion. Of Nu.19.95 billion in assets, cash and bank balances constitute Nu.11.63 billion, which represent 58 percent of the total financial sector asset composition. This is followed by total loans and advances, amounting to Nu.6.81 billion, which account for 34 percent of total assets. Investments in equities remained sluggish due to the poor and in-active performance of the capital market.



Loans and Advances

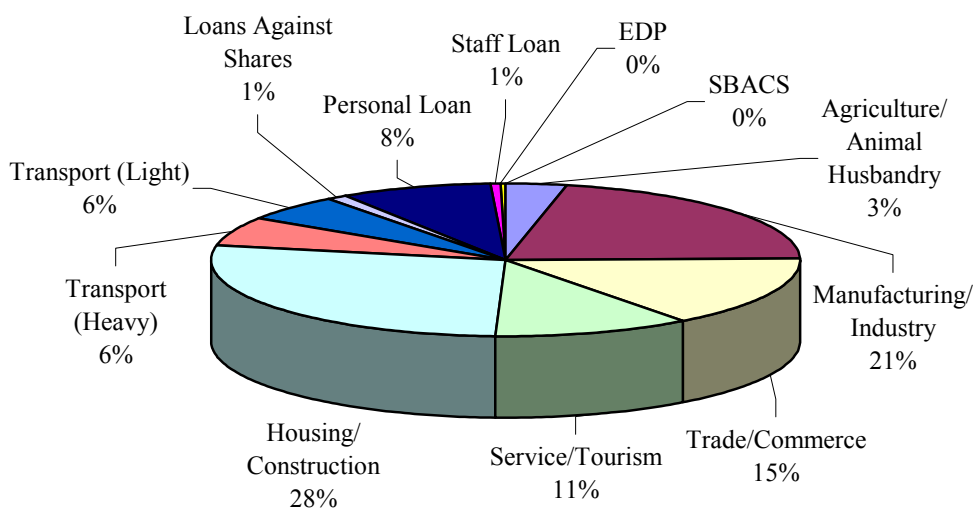
In terms of loans and advances, the financial sector experienced a slow-down of growth from 39 percent at the end of 2001 to 2002, to 13 percent for the period ending 2002 to 2003. This was despite an increase in the total loan portfolio from Nu.6.02 billion to Nu.6.81 billion during 2002 to 2003.

However, it is still very encouraging to note that the growth in domestic credit is moderate and signals good progress.



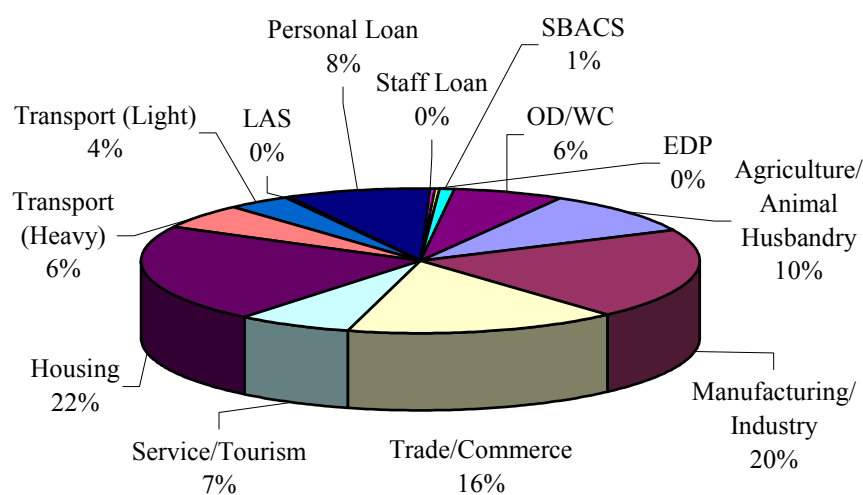
The total loans and advances of the financial sector could also be classified into different investments by economic activities. At the end of the present reporting period, loans towards construction/housing with Nu.1.88 billion are the biggest loan portfolio composition, representing 28 percent of the total loan portfolio.

Sectoral Investment

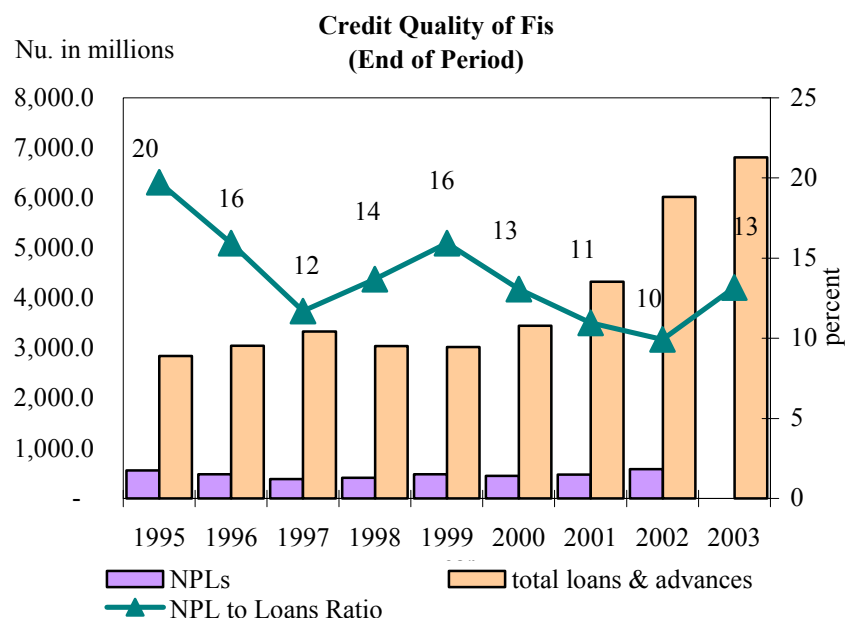


This report shall also indicate as a cautionary statement, that, of total non-performing loans (NPL) amounting to Nu.897 million, 22 percent pertains to the construction/housing sector which has the largest NPL component. The same is followed by manufacturing/industry sector with a total loan portfolio of Nu.1.46 billion, representing 21percent of total financial sector loans. This sector has the second highest NPL of 20 percent. The third largest sectoral NPL is trade/commerce, with Nu.142 million accounting for 16 percent of total NPL.

Sectoral NPL



The two commercial banks hold NPL of Nu.349 million, which is 39 percent of total NPL. If considered on an average, the NPL ratio of two banks is around 8 percent, while that of the two NBFIs is about 24 percent. The overall financial sector NPL ratio is 13 percent for the year 2003.



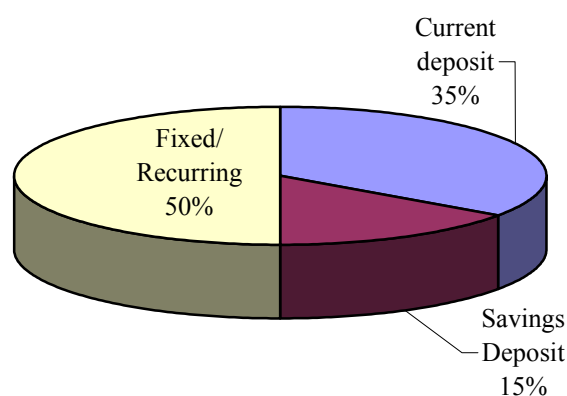
Further, analysis on loan repayments confirms that 70 percent of the total loans outstanding is “Standard,” 17 percent classified under “Watch,” 8 percent classified as “Substandard,” 1 percent as “Doubtful,” and 4 percent, are under the “Loss,” category.

Bad debts provisions (specific) increased from Nu.290 million in 2002 to Nu.383 million in 2003. Interest-in-suspense accounts account for Nu.131 million during the end of the current reporting period.

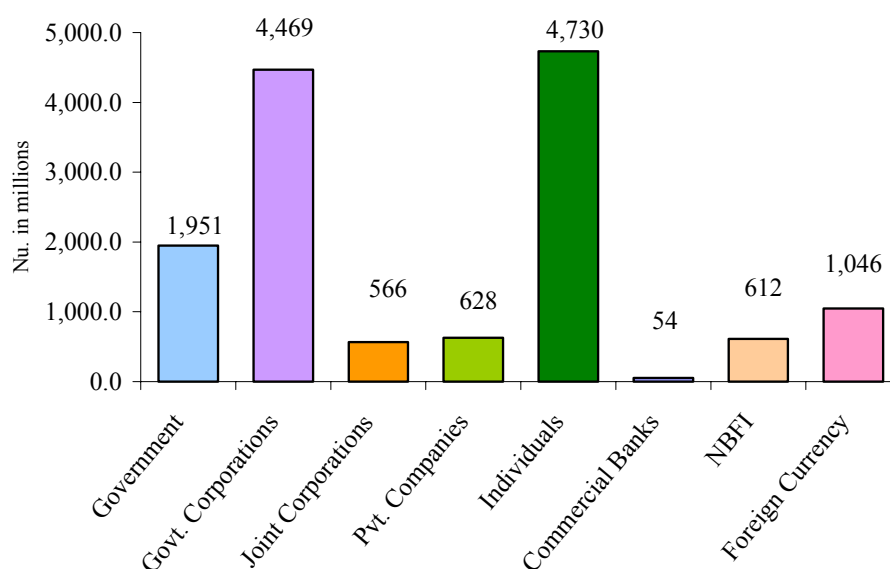
When compared to total NPL, bad debt provisions could cover as much as 43 percent of the total bad loans with more than 90 days default.

Deposit Liabilities

Total deposit liabilities of the two banks showed an increase of 3.88 percent only, from Nu.13.53 billion to Nu.14.06 billion in 2003. Deposit liabilities constitute 70.5 percent of the total liabilities of the financial sector. The breakdown of the composition of banking sector deposits are, (a) time deposits of Nu.7.01 billion (50 percent), (b) saving deposits of Nu.2.16 billion (15 percent), and (c) current deposits of Nu.4.89 billion (35 percent).

Deposits by Type

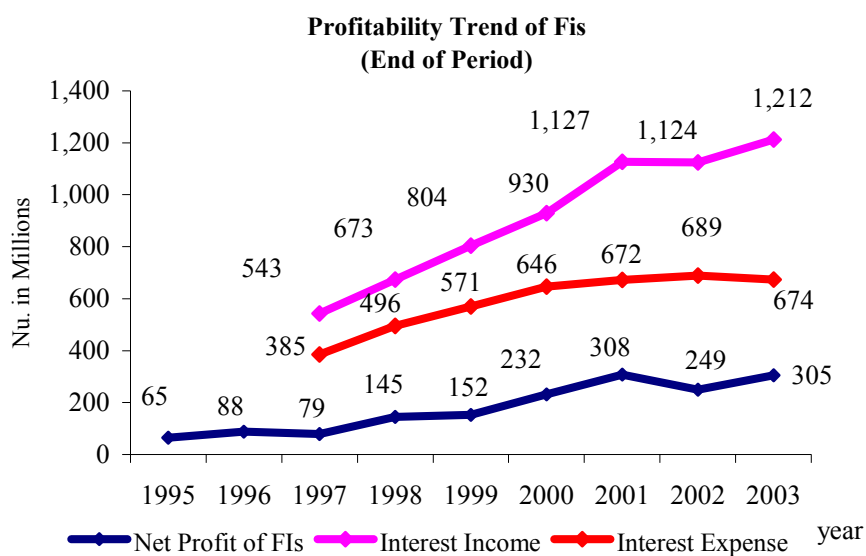
If these deposits are analyzed by way of customer holdings, individuals deposits are the largest with Nu.4.73 billion (34 percent), followed by government corporation deposits of Nu.4.47 billion (32 percent). The third largest depositor is the Royal Government with Nu.1.95 billion (14 percent).

Deposits by Customer

During the close of the year, the balance sheets of the two NBFIs also reflect liabilities of Nu.886 million as borrowed funds against their total liabilities of Nu.2.59 billion.

Profitability

Profit after tax of the financial sector increased from Nu.249 million in 2002 to Nu.305 million at the end of 2003, thereby achieving a growth of 22.6 percent. The main factor contributing to the rise in profit is due to the increase in interest income from loans and advances, and a reduction in the interest expense. Interest income rose from Nu.1.12 billion in 2002 to Nu.1.21 billion at the end of 2003. On the contrary, interest expense declined from Nu.689 million in 2002 to Nu.674 million in 2003.



BHUTAN'S EXTERNAL DEBT¹: A STATUS REPORT

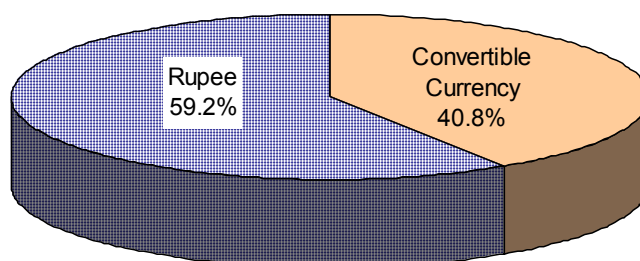
1. EXTERNAL DEBT STOCK

Total External Debt²

Bhutan has amassed its external debt over the years to fund a range of infrastructure and social service works. The outstanding stock of external debt stood at USD 529.2 million at the end of June 2004. 40.8 percent of outstanding debt were convertible currency loans and the remaining 59.2 percent Rupee loans. Since the amortization of the commercial loan for the purchase of the Druk Air plane in 1998/1999, Bhutan has only had concessional debt outstanding to its multilateral and bilateral donors until 2002/2003. However, since Bhutan's membership to the International Finance Corporation (IFC) in December 2003, the IFC has agreed to lend USD 10 million towards development in the tourism sector, thus increasing the size of Bhutan's external debt portfolio.

The present stock of external debt consists of convertible currency debt of USD 216 million and Rupee debt of Rs.14,222.3 million. The increase in total debt stock can be attributed to disbursements made towards current loan portfolios, as well as the deployment of USD 8 million as a long-term commercial loan from the IFC to Bhutan's private tourism sector. While overall concessional convertible currency loan disbursements during FY 2003/2004 had fallen from USD 32.6 million at the end of

Composition of External Debt (End June 2004)

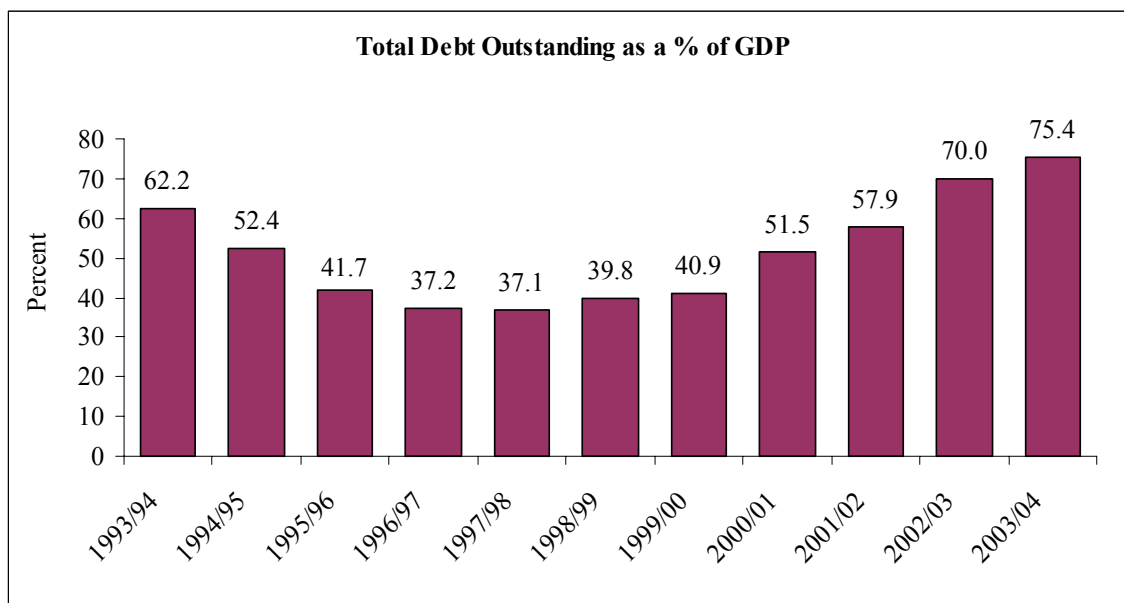


¹ Bhutan's external debt statistics are published quarterly for four reference periods in a year, viz., for end-March (in the RMA Selected Economic Indicators (SEI)), end-June (SEI), end-September (SEI), and end-December (SEI). The annual fiscal position of External Debt statistics is, thereafter, published in the RMA Annual Report that is distributed at the end of each calendar year. Updates, whenever available, are also featured in the RMA Monthly Bulletin. The Department of Aid and Debt Management (DADM) in the Ministry of Finance is the RMA's primary source for such statistics.

²The **Gross External Debt of Bhutan** is the outstanding amount of those current, and not contingent, liabilities that require payment(s) of interest and/or principal at some point(s) in the future and that are owed to non-residents by residents of the Bhutanese economy. In the case of Bhutan, following Bhutan's membership to the IFC in 2003, FDI ventures in Bhutan can borrow from external sources and, therefore, external debt comprises of government and private sector liabilities to non-resident creditors from concessional and commercial borrowings. The surveillance of external debt is crucial, being the requirement, or obligation, to make future payments.

2002/2003 to USD 26 million, Rupee debt disbursements to the power sector increased slightly by 4.5 percent as of 2003/2004.

Notably, of the sectors that received inflows, the power sector received the largest share of disbursements for the year, amounting to USD 13.5 million (USD 11.7 million from the Austrian Government for the Basochu project), and Rs.3,346.2 million in the Rupee account to the Tala hydroelectric project from the Government of India (GOI).



External debt levels (in US Dollars) have been relatively lower for the first half of the last decade. The shift in trend towards larger outstanding debt took place in the later part of the 1990's with the construction of the Tala, Kurichhu, and Basochu hydropower projects. Notwithstanding the increase in debt stock, Bhutan's external debt is still manageable with a debt service ratio of 3.7 percent of current receipts³ in 2003/2004, improved from 4.3 percent at the end of 2002/2003. This implies that less than 5 percent of current receipts were needed during both fiscal years to finance the country's debt-service obligations. Similarly the debt service ratio (as a percentage of the export of goods and services) has improved to 4.1 percent in 2003/2004. A study of the debt to GDP ratio reveals that debt as a percentage of domestic output had been declining, while only in recent years has been making a gradual climb to reach it highest in 2003/2004 at 75.4 percent.

³ Current receipts include receipts from the export of goods and services, income and current transfers, excluding official (grants) and private transfers.

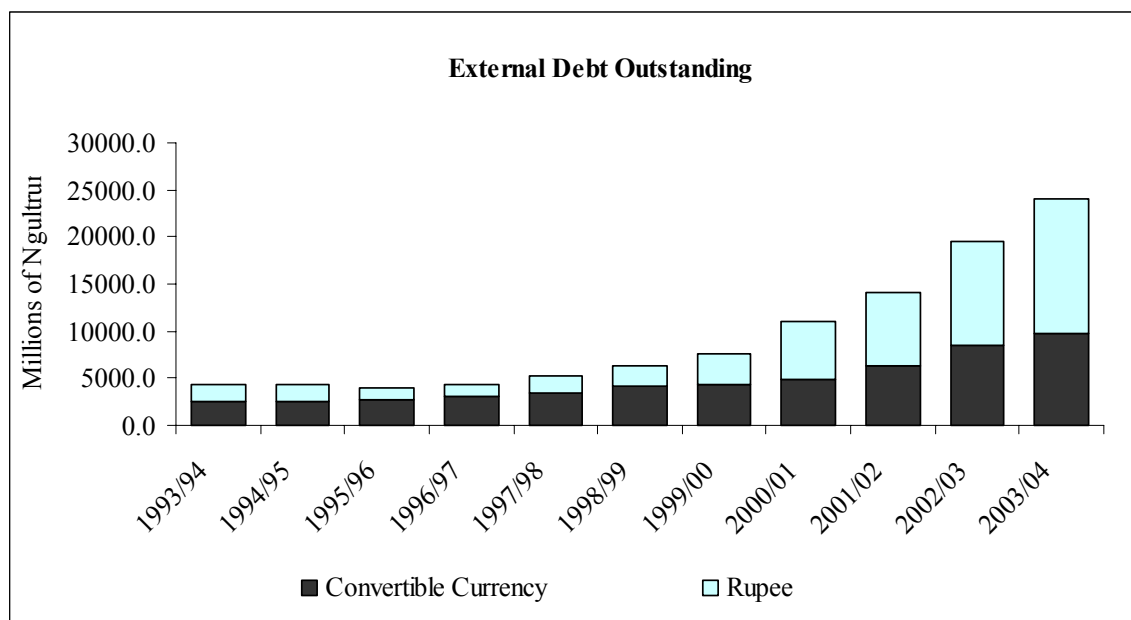
Bhutan - Key External Debt Indicators

(In Percent)

Year	Debt Service/ Current Receipts	Interest Pay./ Current Receipts	Debt/ Current Receipts	Debt/ GDP	Convertible Currency Debt/ Total Debt	Rupee Debt/ Total Debt	Debt Service Ratio
1990-91	5.3	2.0	145.2	50.4	59.6	40.4	5.3
1991-92	6.5	2.4	160.2	62.3	61.8	38.2	6.5
1992-93	18.1	4.0	169.9	64.8	55.4	44.6	18.1
1993-94	20.3	11.0	166.2	62.2	57.8	42.2	20.3
1994-95	14.2	8.5	150.7	52.4	59.4	40.6	14.2
1995-96	20.8	5.6	96.7	41.7	68.6	31.4	22.7
1996-97	8.5	4.5	97.9	37.2	70.7	29.3	8.9
1997-98	6.8	1.9	92.7	37.1	66.9	33.1	8.0
1998-99	10.2	1.7	108.4	39.8	65.7	34.3	12.1
1999-00	4.2	1.2	111.8	40.9	56.8	43.2	4.9
2000-01	4.1	1.3	156.8	51.5	45.2	54.8	4.7
2001-02	4.2	1.3	191.4	57.9	44.5	55.5	4.9
2002-03	4.3	1.3	255.2	70.0	43.6	56.4	5.0
2003-04 (p)	3.7	1.4	250.1	75.4	40.8	59.2	4.1

Notes:

1. Figures for debt service and interest payments are calculated on cash payment basis.
2. Current receipts exclude official and private transfers.
3. Debt-GDP figures are calculated using the GDP figure for the previous calendar year, i.e., the 1990 GDP figure for Fiscal Year 1990/91. Debt-GDP figures are derived using Ngultrum figures.
4. Debt Service Ratio is equal to total debt service payments in percent of the total exports of goods and services.



BHUTAN'S OUTSTANDING EXTERNAL DEBT - FISCAL YEAR POSITION

Item	Rupee/Ngultrum million				US \$ Million			
	2000/2001	2001/2002	2002/2003	2003/2004	2000/2001	2001/2002	2002/2003	2003/2004
1. Government Borrowing								
Concessional	4960.2	6264.1	8471.9	9445.7	106.9	129.9	176.8	208.0
a. World Bank	1282.6	1599.9	2054.6	2384.7	27.6	33.2	42.9	52.5
b. IFAD	579.5	660.0	939.0	922.8	12.5	13.7	19.6	20.3
c. ADB	2197.2	2671.3	3630.7	3743.3	47.4	55.4	75.8	82.4
d. KFAED	300.5	246.6	174.6	95.2	6.5	5.1	3.6	2.1
e. EFIC Australia	17.6	13.7	9.1	4.3	0.4	0.3	0.2	0.1
f. Govt. of Austria	582.9	1072.6	1663.8	2295.4	12.6	22.2	34.7	50.5
2. Commercial Borrowing	0.0	0.0	0.0	363.3	0.0	0.0	0.0	8.0
3. Rupee Debt	6024.4	7803.6	10963.7	14222.3	129.9	161.9	228.7	313.2
a. Chukha Hydropower Project	612.9	525.3	437.8	350.2	13.2	10.9	9.1	7.7
b. Kurichhu Hydropower Project	1874.0	1994.0	2240.0	2240.0	40.4	41.4	46.7	49.3
c. Tala Hydroelectric Project	3537.6	5284.3	8285.9	11632.1	76.3	109.6	172.9	256.1
4. Gross Total	10984.7	14067.7	19435.5	24031.3	236.8	291.8	405.5	529.2
Convertible Currency Debt					106.9	129.9	176.8	216.0
As a % of Total Debt					45.2	44.5	43.6	40.8
Rupee Debt	6024.4	7803.6	10963.7	14222.3				
As a % of Total Debt	54.8	55.5	56.4	59.2				
Exchange Rate								
Ngultrum to 1 USD	46.4	48.2	47.9	45.4				

Source: Department of Aid and Debt Management.

1. Based on the fiscal year period : July to June-end.

2. Outstanding debt = (total disbursement - principal repayment).

3. Exchange rate used for conversion is based on the fiscal year average.

2. EXTERNAL DEBT AND THE BUDGET

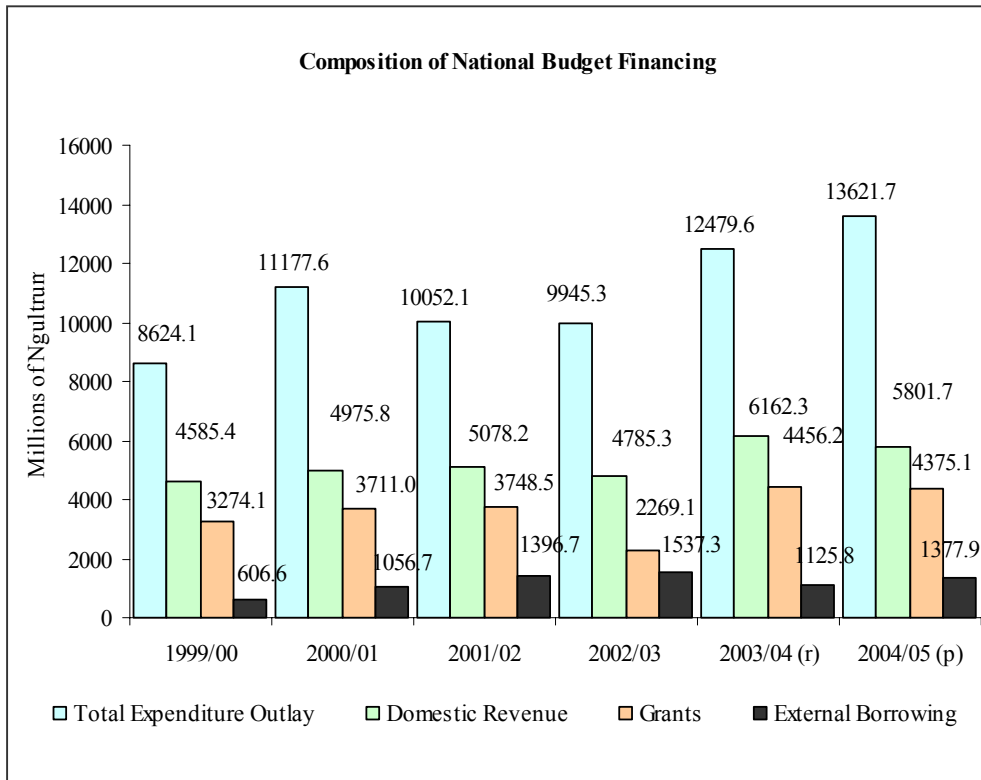
The Royal Government till date has followed a cautious fiscal approach to development, relying heavily on external assistance in the form of concessional aid and grants to finance development-related activities. In the 2003/2004 revised budget, total outlay was marked at Nu.12.5 billion. Of this, current expenditure accounted for 44.6 percent, while capital expenditure filled the residual 55.4 percent of Nu.6.9 billion. Domestic revenues from tax, non-tax and other sources were sufficient to meet current expenditures and even a portion of capital expenses. However, the Government was compelled to rely on grant aid from India and other countries, to finance a further 70.5 percent of capital expenditure. With a budget deficit of Nu.1.9 billion, the Royal Government once again resorted to external borrowing from international aid agencies at concessional rates to meet 60.5 percent of the deficit (Nu.1.1 billion), and used Nu.735.4 million to close the internal resource gap.

During the presentation of the National Budget at the 82nd Session of the National Assembly, the budget outlay for the financial year 2004/2005 has been estimated at Nu.13.6 billion, which is a 9.2 percent increase over the previous year's outlay. Total resources were approximated at Nu.10.2 billion, of which domestic revenue will only meet 42.6 percent of total expenditure and grant aid will supplement it by meeting

Sector	2004/2005 (p)	
	Millions of Nu.	Percent of Total
Health and Education	3,788.7	27.8
Agriculture	1,488.9	10.9
Human Settlements	1,048.9	7.7
Communications	639.5	4.7
Roads	1,441.8	10.6
Energy (excluding mega projects)	575.6	4.2
General Public Services	3,702.1	27.2
Mining & Manufacturing Industries	168.9	1.2
National Debt Service	767.3	5.6
TOTAL	13,621.7	100.0

another 32.1 percent. Of the resulting deficit of Nu.10.2 billion, 40 percent are expected to be covered through external project-tied loans, leaving Nu.1.4 billion to be financed through domestic borrowing. Debt service payments during 2004/2005 are estimated at Nu.767.3 million, which is 5.6 percent of total expenditure and higher than that of the previous period. In 2002/2003, total debt service payments amounted to Nu.353 million (Nu.131.3 million in interest payments and Nu.221.7 million for principal repayment).

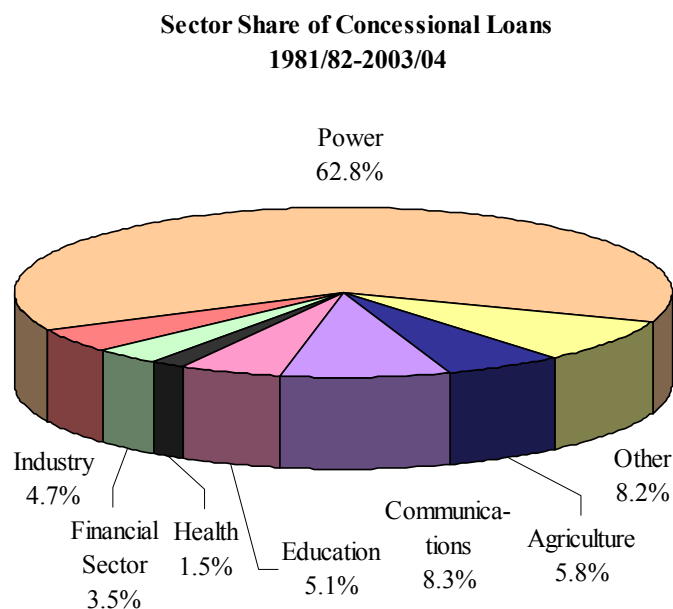
All this clearly indicates an increase in Bhutan's external debt. However, given the fact that the magnitude of external assistance granted to Bhutan has largely come in the form of grants (gifts in cash and kind) that entail no repayment, and bilateral and multilateral concessional loans (which have a long maturity and low interest rates), the Royal Government has not been pressured by high debt servicing. Concessional loans with interest rates ranging from 0.75 to 1.5 percent impose low periodical payments over periods as long as 40 years.



3. CLASSIFICATION OF EXTERNAL DEBT

3.1. Sectoral Disbursements

The first concessional loan can be traced to 1981/1982 with the first SDR loan disbursement from the International Fund for Agricultural Development (IFAD) to the Royal Government for the development of the Small Farms Project. Debt service payments are still being made on this loan. Since then, USD 657.1 million in convertible currency and Rupee loans (commercial loans of USD 30.6 million) have been disbursed to Bhutan by various foreign governments, international multilateral, bilateral, and private financing agencies. Of total loans disbursed to individual sectors, 62.8 percent have been mobilized for the power sector, with the communications sector following in second at 8.3 percent, and agriculture with 5.8 percent.

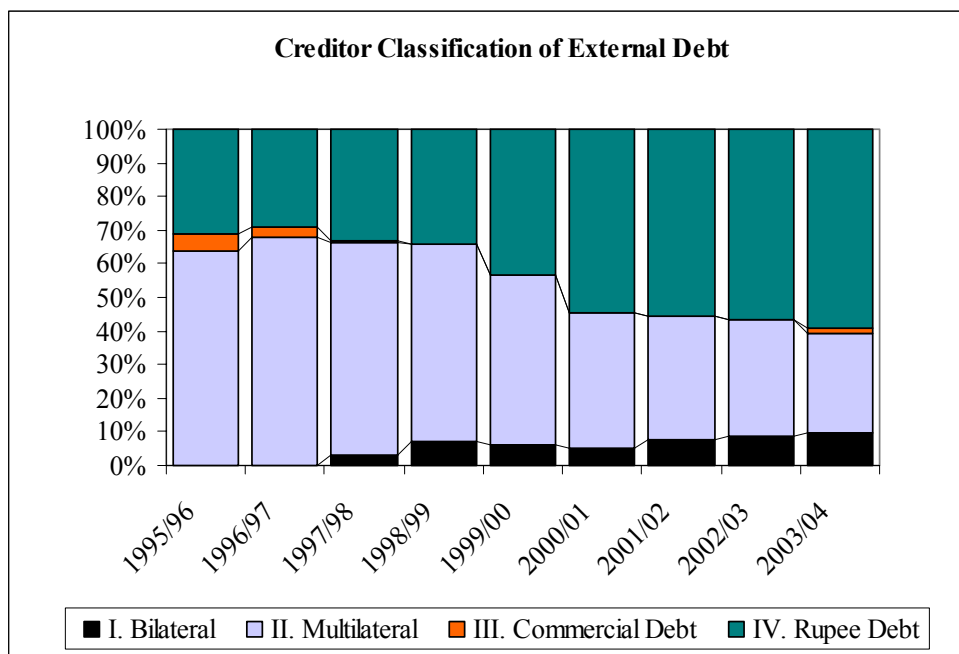


For FY 2003/2004, the power sector was the highest recipient of loan funds, accounting for USD 13.5 million and Rs.3,346.2 million. It was followed by the communications sector with disbursements of USD 7.4 million, the education sector with USD 4.3 million, and USD 0.8 million towards the agricultural sector.

3.2. Creditor Classification

A creditor-wise breakdown of Bhutan's external debt is provided in the tables on the following pages. At the end of June 2004, the total multilateral debt (ADB, EFIC, IFAD, KFAED, IDA) stood at USD 157.5 million and accounted for 29.8 percent of total external debt. Its share has been gradually declining since 1997/1998, with the bilateral loan for Basochu hydropower project and increasingly growing Rupee debt also associated with hydropower, particularly that of Tala. Correspondingly, bilateral debt (Government of Austria) and Rupee debt (GOI) grew by 45.6 and 29.7 percent, respectively, for the fiscal year end 2003/2004. Developments on the debt front also registered the inflow of USD 8 million from the IFC towards the tourism sector; while commercial debt has remained nil since the amortization of the Druk-Air loan in 1998/1999.

The GOI is Bhutan's largest creditor with 56.4 percent of total debt outstanding. However, in terms of convertible currency debt, the ADB is the largest creditor with 42.9 percent of total debt outstanding, followed by the Government of Austria at 25.6 percent, and the World Bank standing in third at 24.3 percent.



Bhutan joined the ADB as a member in 1982. For the past 22 years, the ADB has been actively involved in Bhutan's development, focusing on development activities in the areas of road improvement, rural electrification, urban infrastructure, financial sector reform, and human resources development. The poverty reduction partnership agreement between the Royal Government and the ADB was signed on October 23, 2001.

During the 2003 Country Strategy and Program (CSP) Update (conducted yearly), the ADB announced the plan to extend loans totaling USD 28.2 million to Bhutan over a period of three years (2004-2006). The planned lending program, averaging USD 9.4 million per year, will assist the Royal Government (RGOB) in addressing rural poverty by expanding market access and increasing the coverage of the road network, and developing urban housing for low and medium income groups.

According to the ADB, there are six loan projects in the pipeline during 2004-2006, four of which will directly target poverty reduction. Assistance will be provided:

- i. To expand market access of rural areas through a road network expansion project. The South Asia Sub-regional Economic Cooperation initiative will complement the project to promote cross-border trade.
- ii. To stimulate private sector investment and generate jobs through an industrial estate and dry port development project and a program for small and medium enterprises.

- iii. To help ease the country's housing shortage through an urban housing development project.
- iv. To open up additional rural areas, promote development of export-oriented micro-enterprises, and provide market access to farmers through an integrated rural development project.
- v. To deepen and consolidate financial sector reforms through a financial sector reform program.

To complement the lending program, 14 Technical Assistance (TA) projects are planned over the three years, totaling USD 4.1 million. Notably, an ADB-wide reduction in TA resources has resulted in a substantial reduction in the TA program for Bhutan, from USD 2.2 million to USD 1 million per year.

At the August 2004 CSP Update, ADB endorsed that their lending program to Bhutan in 2005-2006, totaling USD 13.4 million will emphasize sustainable economic growth, including private sector development. The planned lending consists of 4 loans including a standby loan covering the development of the road network, rural areas, urban housing and infrastructure and also small and medium enterprises (SMEs), classified as "poverty intervention projects." The lending program will be supported by 8 technical assistance grants amounting to USD 2.1 million covering agriculture, energy, finance, and law and public sector management.

Looking at 2003, the ADB granted a USD 9.4 million loan and two TAs to improve rural access to electricity under the Rural Electrification and Network Expansion Project. The Japan International Cooperation Agency (JICA) co-financed the third TA to help prepare a Rural Electrification Master Plan. About 80 percent of Bhutan's population is rural, with only 2 percent with access to electricity. The RGOB aims for universal electrification by 2020. Two other grants were awarded by the ADB during the year towards the Road Expansion Network Project (USD 0.5 million) and Strengthening of the Environmental Sector Capacity Project (USD 0.15 million).

Since lending began to Bhutan in 1983, the ADB has approved 19 loans totaling USD 111.2 million, and 85 technical assistance grants amounting to USD 32 million.

Breakdown of Cumulative ADB Lending to Bhutan as at the end of 2003			
Sector	Loans Awarded	(USD million)	
		Loan Amount	% Share
Social Infrastructure	5	33.1	29.8
Transport and Communications	3	19.3	17.4
Energy	3	26.9	24.2
Multisector	2	12.4	11.2
Finance	3	10.5	9.4
Agriculture and Natural Resources	2	7.8	7.0
Industry and Nonfuel Minerals	1	1.2	1.1
TOTAL	19	111.2	100.0

Source: ADB Annual Report 2003.

3.3. External Debt by Currency Composition

Bhutan's external debt is dominated heavily by the Indian Rupee due to increasingly large loans from the GOI (59.2 percent of total external debt at the end of 2003/2004). The share of SDR-denominated debt has declined over the years from 53.2 at the end of 1998/1999 to 29.3 percent end-June 2004, whereas Euro and US Dollar denominated debt have recently been on the rise with inflows of loans for the Austrian funded power project (Basochu Project) and the IFC commercial loan.

Currency	(In Percent of Total External Debt)					
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
SDR	53.2	46.0	37.0	35.1	34.1	29.3
US Dollar	0.3	0.3	0.2	0.1	0.0	1.5
Indian Rupees	34.3	43.2	54.8	55.5	56.4	59.2
Euro*	6.9	6.0	5.3	7.6	8.6	9.6
Kuwait Dinar	5.2	4.5	2.7	1.8	0.9	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

*: Euro includes currencies denominated in Euro and all Euro-area denominated currencies.

Creditors Ranked by Cumulative Disbursement : 1981/82-2003/04

(In millions of USD)

Agency	Sector								Total
	Agriculture	Communications	Education	Health	Financial Sector	Industry	Power	Other	
Government of India*							356.9	13.4	370.2
Asian Development Bank	5.9	17.6	17.0	10.1	14.7	0.8	15.2		81.2
World Bank	11.3	11.9	16.2		3.3	7.2			49.9
KFAED					4.7	23.0			27.7
Government of Austria							40.9		40.9
IFAD	21.1								21.1
Mitsui & Co. (Japan)		1.7							1.7
EFIC Australia		0.8							0.8
West LB Ltd.		22.6							22.6
IFC								8.0	8.0
Others								32.8	32.8
Total	38.3	54.6	33.2	10.1	22.8	31.0	413.0	54.2	657.1

* The exchange rate used for conversion is based on the FY average and also the simple average of FY averages for the 15-year group (1981/82 - 1995/96).

External Debt Outstanding by Creditor Category

Creditor Category	<i>In millions of USD</i>									
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
I. Bilateral	0.0	0.0	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5
II. Multilateral	72.8	74.5	80.6	85.0	88.3	88.3	94.4	107.7	142.0	157.5
III. Commercial Debt	7.9	5.7	3.4	1.1	0.0	0.0	0.0	0.0	0.0	8.0
IV. Rupee Debt	55.2	36.6	34.8	44.7	51.6	75.1	129.9	161.9	228.7	313.2
Total External Debt	136.0	116.8	118.7	135.1	150.3	173.8	236.8	291.8	405.5	529.2
	<i>Percentage Share of Total External Debt</i>									
I. Bilateral	0.0	0.0	0.0	3.2	6.9	6.0	5.3	7.6	8.6	9.6
II. Multilateral	53.6	63.8	67.9	62.9	58.8	50.8	39.8	36.9	35.0	29.8
III. Commercial Debt	5.8	4.8	2.9	0.8	0.0	0.0	0.0	0.0	0.0	1.5
IV. Rupee Debt	40.6	31.4	29.3	33.1	34.3	43.2	54.8	55.5	56.4	59.2

EXTERNAL DEBT OUTSTANDING BY INDIVIDUAL CREDITOR CATEGORIES

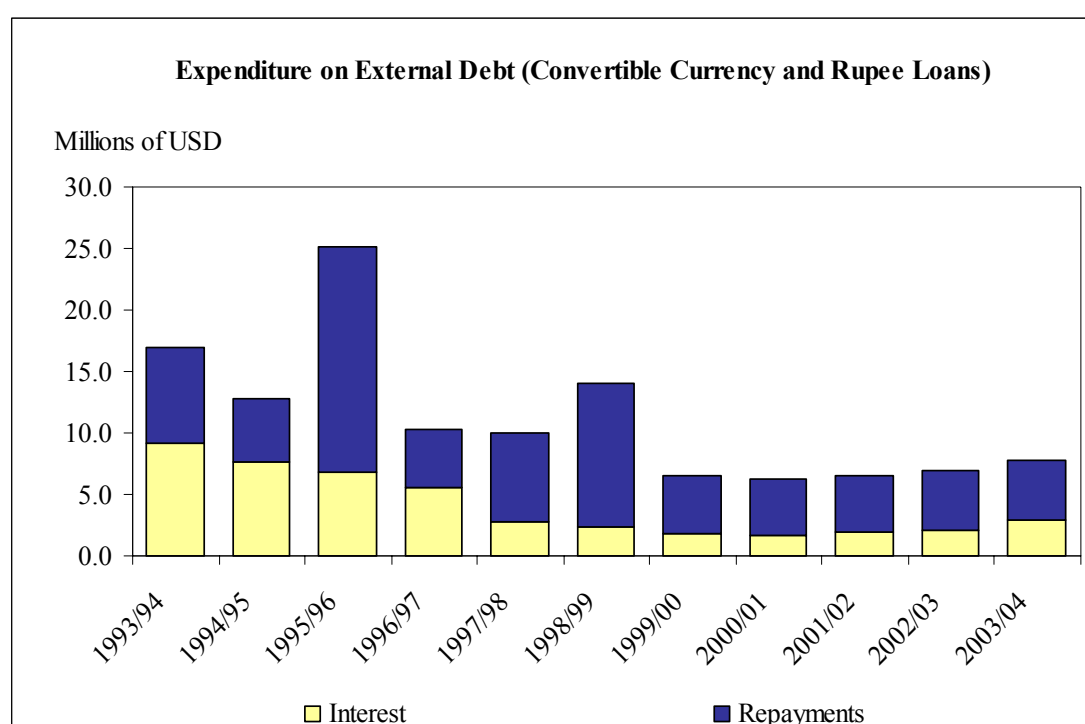
Creditor Category	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	<i>(In Millions of USD and Rupees/Ngultrum)</i>									
I. Convertible Currency Debt	80.7	80.2	84.0	90.4	98.7	98.7	106.9	129.9	176.8	216.0
I. Multilateral	72.8	74.5	80.6	85.0	88.3	88.3	94.4	107.7	142.0	157.5
Asian Development Bank	28.3	31.2	36.3	40.4	43.2	43.2	47.4	55.4	75.8	82.4
EFIC (Australia)	0.8	0.8	0.8	0.7	0.5	0.5	0.4	0.3	0.2	0.1
IFAD	9.8	10.9	11.4	12.2	12.7	12.7	12.5	13.7	19.6	20.3
KFAED	14.5	11.1	10.9	9.6	7.9	7.9	6.5	5.1	3.6	2.1
World Bank (IDA)	19.4	20.5	21.3	22.1	24.0	24.0	27.6	33.2	42.9	52.5
II. Bilateral	0.0	0.0	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5
Government of Austria	0.0	0.0	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5
III. Commercial Debt	7.9	5.7	3.4	1.1	0.0	0.0	0.0	0.0	0.0	8.0
West LB Ltd (Druk Air Loan)	7.9	5.7	3.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0
IFC										8.0
II. Rupee Debt	1,734.8	1,256.7	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3
Government of India	1,421.1	1,256.7	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3
State Bank of India	313.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amex Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	<i>(In percent of Total Convertible Currency/ Rupee Outstanding Debt)</i>									
Convertible Currency Creditors										
ADB	35.1	38.9	43.2	44.7	43.8	43.8	44.3	42.6	42.9	38.2
EFIC	1.0	1.0	0.9	0.7	0.5	0.5	0.4	0.2	0.1	0.0
Government of Austria	0.0	0.0	0.0	4.7	10.5	10.5	11.8	17.1	19.6	23.4
IFAD	12.2	13.6	13.5	13.5	12.9	12.9	11.7	10.5	11.1	9.4
KFAED	18.0	13.9	13.0	10.7	8.0	8.0	6.1	3.9	2.1	1.0
World Bank	24.0	25.6	25.3	24.4	24.3	24.3	25.9	25.5	24.3	24.3
West LB Ltd.	9.8	7.1	4.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
IFC										3.7
Rupee Creditors										
Government of India	81.9	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State Bank of India	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amex Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Department of Aid and Debt Management.

4. DEBT SERVICE⁴

4.1. Actual Debt Service Payments (Historical)

Debt service payments peaked in 1995/1996 at USD 25.1 million. Since then, debt service has declined to USD 10 million in 1997/1998, before increasing to USD 14.1 million in 1998/1999. During 2003/2004, debt service payments increased to USD 7.8 million, a 13 percent rise over the previous period. The graph below provides a year-wise breakdown of debt service payments since 1991/1992 for interest and principal repayments.



The debt service ratio (as a percent of total export of goods and services) has fluctuated from a low 5.3 percent in 1990/1991 to 22.7 percent in 1995/1996 and a manageable 4.1 percent in 2003/2004, a notable improvement over the last year's ratio of 5 percent. Similarly, debt service payments as a ratio of current receipts is another measure of debt service capacity. From 5.3 percent in 1990/1991 and 4.3 in 2002/2003, at the end of June 2004, this ratio stood at 3.7 percent. In spite of its growing debt, this asserts that Bhutan's ability to service its debt obligations has gradually improved over the years and has exceeded its capability 10 years ago (*see key external debt indicators in Section 1*). Meanwhile, the interest payments to current receipts ratio and debt service to gross international reserves have also exhibited substantial improvement over time, declining to 1.4 and 2 percent, respectively, at the end of the period under review.

⁴ Debt service projections are not disclosed here due to unavailability of information.

4.2. Debt Service by Creditor Category

The table on the next page provides a breakdown of debt service payments by creditor category that corresponds to the creditor-wise debt outstanding provided in Section 3.2. The share of multilateral debt in total debt service was 59.7 percent for the year ending 2003/2004. Collectively, multilateral and bilateral debt payments accounted for 69.3 percent of total debt service in 2003/2004. Rupee debt payments constituted the remaining 30.7 percent of total debt service.

BHUTAN'S DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY

Creditor Category	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	<i>(In Millions of USD)</i>									
I. Multilateral	0.92	1.22	1.26	0.90	0.95	0.94	0.95	1.30	1.18	1.68
	2.41	4.86	2.18	2.45	2.70	2.63	2.63	2.71	2.95	2.96
II. Bilateral	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.40	0.75
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Commercial Debt	0.72	0.55	0.38	0.21	0.04	0.00	0.00	0.00	0.00	0.00
	2.26	2.26	2.26	2.26	1.13	0.00	0.00	0.00	0.00	0.00
IV. Rupee Debt	6.03	4.98	3.85	1.69	1.34	0.88	0.73	0.61	0.52	0.46
	0.45	11.24	0.39	2.46	7.93	2.01	1.89	1.82	1.83	1.93
Total	7.66	6.75	5.49	2.80	2.34	1.82	1.68	1.94	2.10	2.89
	5.12	18.36	4.83	7.16	11.76	4.64	4.51	4.52	4.78	4.88
Total Debt Service	12.79	25.11	10.32	9.96	14.09	6.46	6.19	6.46	6.88	7.77
	<i>(Ratios)</i>									
Debt Service Ratio*	14.2	22.7	8.9	8.0	12.1	4.9	4.7	4.9	5.0	4.1
Debt Service/Current Receipts**	14.2	20.8	8.5	6.8	10.2	4.2	4.1	4.2	4.3	3.7
Interest Payments/Current Receipts	8.5	5.6	4.5	1.9	1.7	1.2	1.3	1.3	1.3	1.4
Debt Service/Gross Reserves	10.6	17.3	5.9	4.6	5.5	2.2	2.1	2.0	1.8	2.0

Source: Department of Aid and Debt Management.

*: Debt service payments as a percentage of total exports of goods and services.

** : Current Receipts include receipts from trade, services, income and transfers excluding official and private transfers.

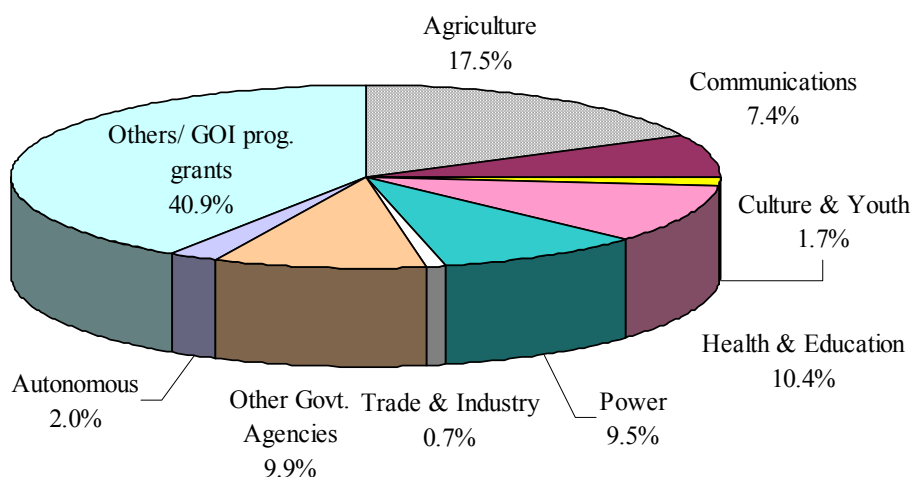
Inconsistencies may occur due to rounding.

5. GRANT ASSISTANCE

Grant aid is anticipated to support 32.1 percent of budget expenditure in 2004/2005 (provisional). In the last fiscal year, grant aid supplemented domestic income to meet 70.5 percent of capital expenditure. Therefore, grants constitute an essential portion of total revenue for the government. Bhutan has received over Nu.34,000 million in program and project-related grant aid since 1990/1991. The GOI is Bhutan's largest grant donor followed by DANIDA, JICA, the Netherlands Government, and the UNDP.

Of the total grants of Nu.4,456.2 million received in 2003/2004, 51.3 percent were contributed by the Government of India (down from 58.7 percent in 2002/2003), followed by DANIDA with Nu.579.2 million (13 percent), Nu.321.6 million from the Government of Netherlands (7.2 percent) and Nu.203 million from the European Union (EEC) (4.6 percent of total grants). On the whole, there has been an average increase in grants by 16.2 percent over the past 10 years, with a 27.3 percent reduction recorded during 2001/2002. Though grants increased by 66.2 percent in the previous fiscal year, as of 2003/2004, there was a slight fall in grant inflows by 0.6 percent.

Sector Share of Grants: 2003/2004



Of all the individual sectors (excluding program grants from India), the agricultural sector has been the maximum recipient of grant aid since 1990/1991, with a share of 14.9 percent, or Nu.5,113.9 million. Next are the health and education, power, and communications sectors with shares of 14.5, 11.6, and 10.9 percents, respectively. The general pattern of grant aid has not shifted over the years, though in recent years, there has been a tremendous growth in power grants and rising aid for the promotion of culture and youth development, trade and industrial development, as well as capacity building of other government agencies.

During FY 2003/2004, the agricultural sector received the highest grant receipts amounting to Nu.780.9 million (an increase by 64.4 percent over the previous year), followed by health and education (Nu.465.2 million), and Nu.421.8 million for the power sector. This was a general increase across all major sectors from 2003/2004. However, grant levels for the communications, culture and youth, and health and education sectors dropped by 22.8, 28.6, and 26.1 percent, respectively. In the previous year, the health and education sector received the largest aid of Nu.629.2 million, followed by agriculture (Nu.4,74.9 million), and communications (Nu.426.8 million).

Individual Grant Donors: 1993/1994 - 2003/2004

In Millions of Ngultrum

Agency	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Govt. of India	721.4	1168.9	947.6	1045.1	1928.5	2187.9	2551.2	945.3	2631.8	2287.2
DANIDA	173.0	155.3	218.2	135.6	385.2	318.7	394.8	534.8	525.8	579.2
JICA	313.4	0.0	475.0	0.0	0.0	7.1	0.0	4.2	0.0	50.0
Govt. of Netherlands	60.6	253.6	84.0	66.8	88.8	74.4	147.6	274.5	201.0	321.6
UNDP	18.5	21.9	44.5	100.3	122.1	140.8	51.4	132.7	85.6	53.1
Govt. of Austria	45.8	1.9	22.0	85.3	170.7	143.0	174.2	44.2	68.7	32.7
HELVETAS	26.1	106.0	18.1	15.0	147.2	75.8	94.3	0.0	0.0	0.0
Swiss Dev. Cooperation	42.0	29.9	62.2	49.5	200.6	106.2	66.8	62.6	103.5	122.5
EEC	60.4	107.8	33.5	57.1	35.1	29.9	18.0	112.5	130.8	203.0
UNCDF	85.0	43.9	118.2	88.4	37.4	10.6	27.2	26.9	26.6	25.1
Others	198.5	464.9	208.7	173.1	146.9	179.7	185.4	559.3	707.9	781.8
Total	1744.7	2354.0	2232.1	1816.3	3262.6	3274.1	3711.0	2696.9	4481.7	4456.2
Percentage Change on the Previous Year										
Total	19.8	34.9	-5.2	-18.6	79.6	0.4	13.3	-27.3	66.2	-0.6

Sector-Wise Classification of Grant Assistance: 1990/1991 - 2003/2004

In millions of Ngultrum

Period	Sector									Total
	Agriculture	Communications	Culture & Youth	Health & Education	Power	Trade & Industry	Other Govt. Agencies	Autonomous	Others*	
1990/1991	205.7	21.3	0.8	54.9	25.9	1.2	7.5	10.2	425.3	752.71
1991/1992	249.6	120.7	2.6	155.5	30.2	9.0	8.8	27.3	182.3	785.89
1992/1993	258.8	359.6	24.2	163.4	14.6	0.0	51.7	32.8	325.0	1230.11
1993/1994	427.9	108.9	28.6	187.8	130.8	0.6	271.7	0.0	300.0	1456.22
1994/1995	487.1	291.2	15.3	251.7	228.8	7.5	169.6	0.0	293.5	1744.7
1995/1996	543.9	194.4	33.6	305.7	675.8	4.2	296.6	0.0	300.0	2354.2
1996/1997	361.6	421.1	68.3	457.4	109.2	28.0	511.6	0.0	275.0	2232.1
1997/1998	80.4	229.3	23.3	267.3	85.3	7.6	323.2	0.0	800.0	1816.3
1998/1999	316.9	138.5	84.0	652.8	410.5	27.9	808.1	23.9	800.0	3262.6
1999/2000	238.5	357.2	57.6	367.4	458.0	28.0	951.8	15.6	800.0	3274.1
2000/2001	212.4	363.6	69.1	422.3	323.0	12.1	1486.2	21.3	800.0	3711.0
2001/2002	475.1	379.0	128.2	599.6	653.6	47.8	371.4	42.1	0.0	2696.9
2002/2003	474.9	426.8	105.5	629.2	395.2	24.7	398.7	26.7	2000.0	4481.7
2003/2004	780.9	329.6	75.3	465.2	421.8	30.0	439.3	90.0	1824.0	4456.2
Total	5113.9	3741.1	716.3	4980.2	3962.5	228.9	6096.2	289.8	9125.0	34254.8
<i>Percentage Share of Total Grant Aid</i>										
Sector Total	14.9	10.9	2.1	14.5	11.6	0.7	17.8	0.8	26.6	100.0

(*): Others include program grants from the Government of India.

ADDRESS AT THE ROYAL MONETARY AUTHORITY

By

**International Monetary Fund Executive Director B.P. Misra
December 22, 2004**

It gives me great pleasure to be here with you today, at the Royal Monetary Authority in Thimphu, and share a few of my ideas regarding Global Economic Policies and their relevance to economic issues facing Bhutan. I also wish to speak on the Indian Rupee's long association with Bhutan and the unique currency arrangement that has enabled Bhutan enjoy the macroeconomic conditions that have prevailed in India.

The World Economic Outlook

Despite the recent slowing, the global economic recovery remains solidly established, and now embraces all the world's regions. Despite a noticeable slowing in the momentum of the recovery from the second quarter of 2004, partly reflecting the impact of rising oil prices as well as 'soft patches' in the United States and Japan, global GDP growth in 2004 is nonetheless expected to average 5 percent, with activity in emerging market and developing countries being particularly buoyant. Inflation particularly in emerging markets is likely to be modestly higher, and current account deficits in oil importing countries including the United States, to be somewhat larger. The outlook for oil prices remains a key short term risk. To date oil prices have slowed, but not stalled global economic recovery.

With global interest rates still very low in real terms, monetary policy in most developed and developing countries will need to be tightened over time, although the pace and extent varies with individual circumstances. The dollar has depreciated by 9 percent against the euro and by 6 percent against the yen over the past 6 months, and by 2 percent in nominal effective terms, with most of the decline having taken place since September. The US current account deficit has further increased in the course of 2004. Official financing declined through mid year, but was offset by an increase in private capital inflows. The exchange rates of most emerging Asian countries have been stable or have depreciated modestly in nominal and real terms. The exchange rates of some other emerging market countries have been more volatile.

Global financial conditions remain generally favorable. Financial markets have lowered their expectations for economic growth in the light of the increase in oil prices, although equity prices have been comparatively buoyant since late October. Mature and emerging market spreads have fallen to low levels since last April-May. Many sovereign borrowers have met their external financing targets for 2004 and have embarked on their 2005 financing program. Euro-denominated debt has increased substantially in the past year, giving the debt of some sovereigns a more diversified currency composition.

There is a need for bold leadership in resolving some of the issues confronting the international community. Despite the fact that past episodes of crises have expressed various deficiencies of the international financial system, progress towards developing a sound system has been slow. Accumulation of foreign exchange reserves by several

Asian countries seems not only linked to the exchange rate policies and related trade, as well as employment implications, but also the lack of confidence of these countries in the existing architecture. Our constituency has been urging the IMF to take concrete steps to redesign the international financial architecture. There is also a need to move swiftly in reviving trade talks. The protectionist postures by developed countries need to be shed, particularly in agriculture and textile sectors, especially when developing countries have started, at last, to get out of their protectionist mindset. Developing countries are increasingly realizing that trade is not a zero-sum game, but a win-win proposition for both the trading partners. In this context, as presented eloquently by most eminent policy makers in industrialized countries, the recent protectionist measures by some countries against business process outsourcing misses out not only the efficiency gains from such outsourcing, but also the employment gains from resources saved in the process and deployed in other employment generating sectors.

The State of the Bhutanese Economy

Bhutan's macroeconomic performance over the past two years has been impressive. Aided by prudent policy making and strong support from the donor community, GDP growth targets have been exceeded, but without compromising the commitment to preserving the environment and culture. Major investments have been made in housing, schools, hospitals and roads. Hydropower capacity has been developed with the construction and commissioning of new projects. Remarkable progress has been made in improving the social indicators with educational levels rising across the country. The 8 percent growth targets in the Ninth Plan are ambitious, but appear to be feasible, provided that external assistance is forthcoming.

In my morning meetings with the political leadership of the nation, I have complemented the continued emphasis on modernization of the economy. A number of new laws have been passed to facilitate commercial activity. The government has passed a progressive foreign direct investment policy and new foreign investments have been seen in the tourism sector. Personal income taxation introduced in 2002, so as to expand the revenue base and to check the potential growth in income inequality, was a positive step. However, I have learnt that large cuts in personal income tax have recently been approved. The tax-GDP ratio has consistently remained less than 10 percent and well below the developing countries' average of 26 percent.

Bhutan has successfully formulated the Poverty Reduction Strategy Paper (PRSP) after all round consultations with the line ministries and civil society. The external assistance, including grants and borrowings, is expected to fund around 80 percent of the capital expenditure, or around 42 percent of the total budget outlay for 2004-05. While the Royal Government would like to finance all the capital expenditures of the 9th Plan through grants, the overall grants available are likely to be significantly below the requirement and would have to be compensated by domestic borrowing. Domestic borrowing is expected to finance around 7 percent of the budget of the financial year 2004-05, as against about 6 percent in the revised budget of 2003-04.

External grants are expected to increase in the coming years such that overall plan targets will be met. The projections are based on what remains from the 9th Plan

overall resources anticipated after taking into account the revenues of the past 3 financial years. The projected resource gap of about 4-5 percent of GDP is proposed to be covered through concessionary loans of about 3-4 percent of GDP and the balance through domestic borrowings of about 2-3 percent of GDP. It is estimated that projected deficits would push the government debt (excluding debt related to power projects, which are not financed through the budget) from around 30 percent of GDP at end 2003 to 35-40 percent of GDP over the medium term, despite a favorable average GDP growth – interest differential. A rapid growth in the debt of the public sector from 41 percent of GDP in 2000 to 74 percent of GDP in 2004 is seen.

Timely completion and operationalization of hydel projects taken up is a priority area. Bhutan has already created over 400 MW of generation capacity that is also catering to the needs of India. We eagerly await the Tala mega project of 1020 MW capacity that will come on stream in early 2006, and will give Bhutan export power to India.

The PRSP is a live document which can form the basis of development in Bhutan. For this the following steps are suggested:

- The PRSP should identify measures underpinning the projected rise in the revenue to the GDP ratio as also detail the expected contribution from the Tala hydel project to the budget.
- The PRSP framework does not provide details on Bhutan's debt dynamics. A debt sustainability analysis for public and publicly guaranteed debt needs to be incorporated in the PRSP.
- More details on external financing would need to be projected. Shortfalls in external financing and the continued heavy reliance on external grants highlight the need for strong donor coordination. Making sure that aid projections are realistic would reduce the volatility in government outlays.
- The links between the PRSP development objectives and spending allocations in annual budgets could be strengthened significantly.
- Underestimation of recurrent expenditures in key social sectors – education and health - could be substantial.
- Some institutional arrangements could be taken to improve poverty monitoring and evaluation.

Bhutan's Exchange Rate Regime

The Indian rupee circulates freely in Bhutan alongside the ngultrum and is used interchangeably as a medium of exchange. However, the arrangement between India and Bhutan does not resemble other monetary unions in terms of symmetry of currency use or agreement on a single institution to formulate monetary policy. A true monetary union is accompanied by a single institution with a clear responsibility for formulating monetary policy for all countries in the union. However there are a

number of cases where the currency of a large country is accepted as legal tender in smaller neighbors, but without the existence of a monetary union.

You are aware that the Bhutanese economy was largely unmonetized until the early 1960s and the Indian rupee remained the main currency until the 1980s. The ngultrum was introduced in 1974 alongside the Indian rupee and was not expected to replace it completely. The Royal Monetary Authority was established in 1982 and its responsibilities have grown over time. The RMA's mandate includes the responsibility to 'regulate the availability of money and its international exchange', to 'promote monetary stability' to 'manage the country's reserves,' and to 'be the country's banker and financial adviser to the government.'

The RMA is charged with the responsibility for maintaining reserves at a level for adequate transactions of Bhutan, but the RMA has consistently maintained reserves at well over 100 percent of currency issue. Initially most of the currency was backed by the Indian rupee reserves, but now around two thirds of reserves are in convertible currencies. While the legislation does not commit the RMA to ensuring full convertibility of ngultrum for Indian rupees, although this continues as an unwritten commitment and is viewed as essential to ensure the sustainability of the exchange rate arrangement. There are no exchange restrictions on current account transactions in Indian currency and the peg to the Indian rupee and its free circulation have been beneficial for Bhutan, given its trade pattern which has been directed mainly towards India. Given the absence of trade restrictions on the flow of goods between the two countries, we face an inability to measure the amount of Indian rupees in circulation in Bhutan. The impact of this, however, should be limited, given the confidence in the ngultrum afforded by the policy of unlimited convertibility for current account transactions.

Managing excess liquidity has been a challenge for the RMA. Following the liberalization of lending rates in 1997 to encourage lending, and removing the limit on interest rate spreads, deposit rates in Bhutan have been comparable or slightly higher than those of India. The RMA has allowed banks to invest the rupees in Indian bank deposits as a way of reducing excess liquidity and the measure is intended to avoid shortages of rupees in Bhutan.

Conclusion

Bhutan's currency regime is unique and shares key characteristics with other fixed exchange rate regimes. A non-reserve currency, the Indian rupee has been chosen as an anchor currency because of Bhutan's strong economic ties with India and the integrated trade pattern. The continued use of the Indian rupee alongside the ngultrum is beneficial to Bhutan and has allowed Bhutan to share the stable macroeconomic conditions that have prevailed in India.

Thank you.

ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF CONDITION
BANKING DIVISION

(Amount in Nu.)

ASSETS	June 30, 2004 Nu	June 30, 2003 Nu
1. Cash and Bank Balances	241,711,653.41	140,675,450.06
Local Currency in Hand	125,249.00	43,196.00
Balances with Domestic Banks	241,586,404.41	140,632,254.06
2. Foreign Assets	11,047,374,063.36	10,526,856,255.33
Foreign Currencies in Hand	38,742,958.02	50,804,594.56
Bank Balances	266,591,704.54	322,782,109.47
Time Deposits	3,181,377,344.18	6,025,104,000.00
Short Term Deposits	5,757,343,713.09	2,394,946,743.59
Investment with Asset Managers	1,721,250,000.00	1,650,395,000.00
Reserve Tranche at IMF	65,388,683.48	66,832,234.64
SDR Holding at IMF	16,679,660.05	15,991,573.07
3. Gold and Precious Metals	43,759,729.59	42,599,253.30
Gold	42,780,191.19	42,360,572.10
Silver	979,538.40	238,681.20
4. Advance to Government	37,000,000.00	56,000,000.00
Advance against net operating surplus	37,000,000.00	56,000,000.00
5. Staff Loans	813,901.46	1,116,066.97
6. Earmarked Assets Against Fund	7,321,195.40	7,148,758.82
HQ Building Current a/c	46,255.85	217,158.78
Gratuity Deposit Accounts	7,068,913.87	6,613,419.74
Clearing Fund Assets	206,025.68	318,180.30
7. Net Fixed Assets	84,530,187.61	86,542,587.80
Gross Block	102,998,981.73	99,492,261.77
Accumulated Depreciation	18,468,794.12	12,949,673.97
8. Commemorative Coins (at cost)	23,980,018.52	23,456,749.41
Gold	18,329,589.73	18,525,889.93
Silver	4,140,838.55	3,390,027.00
Others	1,509,590.24	1,540,832.48
9. Other Assets	31,859,284.95	24,846,736.97
Interest accrued on foreign investments	21,691,897.56	14,798,204.50
Sundry Assets	10,167,387.39	10,048,532.47
	11,518,350,034.30	10,909,241,858.66

**ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF CONDITION
BANKING DIVISION**

(Amount in Nu.)

LIABILITIES	June 30, 2004 Nu	June 30, 2003 Nu
1. Capital & Reserves	980,271,852.91	1,257,855,851.93
2. Fund Balances	84,900,060.68	82,780,385.17
Building Fund	75,848,785.13	75,848,785.13
Clearing Fund	206,025.68	318,180.30
Gratuity Fund	8,845,249.87	6,613,419.74
3. Income and Expenditure Statement (Surplus Payable to Government)	51,410,677.26	71,468,261.36
4. Government Deposits	414,859,353.57	281,703,627.28
MoF Refundable Deposits Account	109,741,772.22	107,423,688.52
Govt. consolidated account	116,533,032.56	
Reserve Tranche at IMF	65,388,683.48	66,832,234.64
Foreign Currency Accounts	123,195,865.31	107,447,704.12
5. Commercial Banks Deposits	7,261,717,397.54	6,242,909,517.34
Bank of Bhutan	5,540,188,066.88	5,081,667,871.00
Bhutan National Bank	1,721,529,330.66	1,161,241,646.34
6. Deposits of other Financial Institutions	19,089,301.89	19,334,676.36
Asian Reinsurance Corporation	19,089,301.89	19,334,676.36
7. International Institutions' Deposits	6,626,143.40	3,419,750.69
IMF Account - 1	1,009,758.24	1,032,069.51
IMF Account - 2	25,175.58	25,752.60
IBRD Account "A"	1,829,714.22	1,829,714.22
IDA Account "A"	517,938.04	517,938.04
ADB Account A	3,243,557.32	14,276.32
8. RMA Discount Bills	200,000,000.00	700,000,000.00
9. Other Liabilities	2,499,475,247.05	2,249,769,788.53
Sundry Deposits	2,947,157.44	409,908.63
Others	2,496,528,089.61	2,249,359,879.90
	11,518,350,034.30	10,909,241,858.66

This is the Statement of Condition of Banking Division referred to in our report of even date.

M/s P.K. Mitra & Company
Chartered Accountants
Kolkata, India

**ROYAL MONETARY AUTHORITY OF BHUTAN
STATEMENT OF CONDITION
ISSUE DIVISION**

(Amount in Nu.)

ASSETS	June 30, 2004	June 30, 2003
1. Short term deposits held outside Bhutan in Foreign Currencies	2,023,682,656.00	1,667,019,656.00
2. Indian Rupees held in Bhutan	84,840,600.00	98,078,300.00
	2,108,523,256.00	1,765,097,956.00

(Amount in Nu.)

LIABILITIES	June 30, 2004	June 30, 2003
1. Notes and coins in Circulation	2,108,398,007.00	1,765,054,760.00
2. Notes and coins held in Banking Division	125,249.00	43,196.00
	2,108,523,256.00	1,765,097,956.00

This is the Statement of Condition of Issue Division referred to in our report of even date.

**M/s P.K. Mitra & Company
Chartered Accountants
Kolkata, India**

**ROYAL MONETARY AUTHORITY OF BHUTAN
INCOME AND EXPENDITURE STATEMENT**

(Amount in Nu.)

Particulars	June 30, 2004	June 30, 2003
INCOME	191,942,516.53	208,991,072.70
Amount brought forward	-	-
Interest, Discount, Exchange, Commission etc.	191,942,516.53	208,991,072.70
EXPENDITURE	140,424,244.70	137,522,811.34
Interest	85,668,010.40	98,461,667.80
Security Printing and Minting	16,996,853.20	11,053,014.24
Establishment	21,996,682.77	15,852,519.39
Remittance of Treasure	75,904.00	74,934.00
Agency & Contractual Services	1,180,641.41	1,259,400.00
Stationery & Supplies	832,066.02	870,903.17
Printing and Publications	87,353.50	164,625.00
Postage & Telecommunications	1,832,511.71	1,667,806.28
Rent, Taxes and Insurance	301,825.55	262,326.46
Power, Water etc.	245,338.30	267,887.36
Auditors' Fees & Expenses	210,530.25	199,388.00
Directors' Fees & Expenses	54,023.00	64,445.00
Depreciation and Repairs	6,799,139.26	5,109,225.38
Staff Superannuation Funds	2,715,265.00	1,093,459.00
Miscellaneous	1,428,100.33	1,121,210.26
Available Balance	51,518,271.83	71,468,261.36
Less :		
Transfer to General Reserve	-	-
Prior Period Adjustments	107,594.57	-
Applied to redemption of Government Securities	-	-
Surplus Payable to Government	51,410,677.26	71,468,261.36

This is the Income and Expenditure Statement referred to in our report of even date.

M/s P.K. Mitra & Company
Chartered Accountants
Kolkata, India

ARTICLES PUBLISHED BY THE RMA

This list is designed to inform readers about articles featured by the Royal Monetary Authority (RMA) in its various regular publications – the Annual Report under the Annexure Section, the quarterly Selected Economic Indicators under the Annexure Section, and the Monthly Bulletin under the Special Feature Section.

Annual Report

1. “The Royal Monetary Authority of Bhutan: Functions, Organization Structure, and Future Plan” [2001/2002, 2002/2003, 2003/2004]
2. “Chronology of Important Financial Sector Developments” [2001/2002, 2002/2003, 2003/2004]
3. “Financial Institutions” [2001/2002, 2002/2003, 2003/2004]
4. “Tourism” [2001/2002, 2002/2003, 2003/2004]
5. “The Power Sector in Bhutan” [2001/2002, 2002/2003, 2003/2004]
6. “Interest Rates” [2001/2002, 2002/2003, 2003/2004]
7. “Bhutan’s External Debt: A Status Report” [2001/2002, 2002/2003, 2003/2004]
8. “Overview of Developments in the Financial Sector, 2002” [2002/2003, 2003/2004]

The above-mentioned features will be updated annually, with the latest updates featured in this edition of the RMA Annual Report 2003/2004.

Selected Economic Indicators

Articles featured from December 2002 onwards.

1. “Bhutan Balance of Payments: Methodology, Compilation Practices, and Data Sources” [December 2002]
2. “Revision of the Consumer Price Index” [December 2002]
3. “Bhutan Beverages Company Limited (BBCL)” [December 2002]
4. “Development of Imports from Thailand” [March 2003]
5. “Summary of the National Budget 2002/2003” [June 2003]
6. “Druk Air Corporation Limited: An Overview” [September 2003]
7. “Highlights of the National Budget 2004/05” [June 2004]
8. “Restructuring of the Royal Monetary Authority of Bhutan” [June 2004]

Monthly Bulletin

1. “Performance of Financial Institutions During 2001” [June 2002]
2. “Price Developments” [July 2002]
3. “Revised Estimates of Government Budget 2001/02” [August 2002]
4. “9th Five-Year Plan Outlay” [September 2002]
5. “External Debt” [October 2002]

6. "Revision of the Consumer Price Index" [November 2002]
7. "Bhutan Beverages Company Limited (BBCL)" [December 2002]
8. "A Leap Into Modernization – The FDI Policy" [January 2003]
9. "Tourism" [February 2003]
10. "Profile on Bhutan's Public Limited Companies" [March 2003]
11. "Real Effective Exchange Rate of the Ngultrum" [May 2003]
12. "Forestry and Logging in Bhutan" [June 2003]
13. "Druk Air Corporation Limited: An Overview" [July 2003]
14. "Restructuring of the Royal Monetary Authority of Bhutan" [June 2004]

READERS' FEEDBACK ON THE ANNUAL REPORT

Dear Reader:

We would appreciate any and all comments, or suggestions, that you might have regarding the content and format of the Annual Report. Please feel free to contact us at the following address:

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Research and Statistics Division
Royal Monetary Authority of Bhutan
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Thimphu
Bhutan

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

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

Thank you.