

# ROYAL MONETARY AUTHORITY OF BHUTAN



**ANNUAL REPORT 2004/2005**

**January 2006**

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## PREFACE

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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 fiscal year 2004/05. Nevertheless, some important events which have occurred in the recent past have also been covered. Commentaries on the domestic economy are based on information provided by Government authorities, financial institutions, and private sector sources. Comprehensive background data are available in the statistical section, while the annexure provides additional detailed and updated information on some of the economic sectors. An overview of events in the global economy and possible future developments are presented on the basis of the IMF World Economic Outlook, September 2005. The annual accounts of the RMA are published in accordance with the requirements stipulated in the RMA Act of 1982.

This edition of the Annual Report also contains information on the labor market, based on the 2004 Labor Force Survey. The newly re-based gross domestic product is also featured in this report. Also new to this edition, in the Annexure section of the report, are the Public Information Notice on the Staff Report of the IMF Article IV Mission (March 2005), a summary of the study on Housing Credit, and Provisional Macroeconomic Projections. As usual, a list of all the articles published by the RMA, so far, is provided at the end of the report.

Of notable mention within the RMA is the restructuring exercise of the RMA's organizational set-up effective from July 1, 2004. Furthermore, in the beginning of 2005, the Management Secretariat Unit was created in order to coordinate overall activities and provide logistical support to the management. The details of these developments have been outlined in *Annex I*.

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

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

## BOARD OF DIRECTORS

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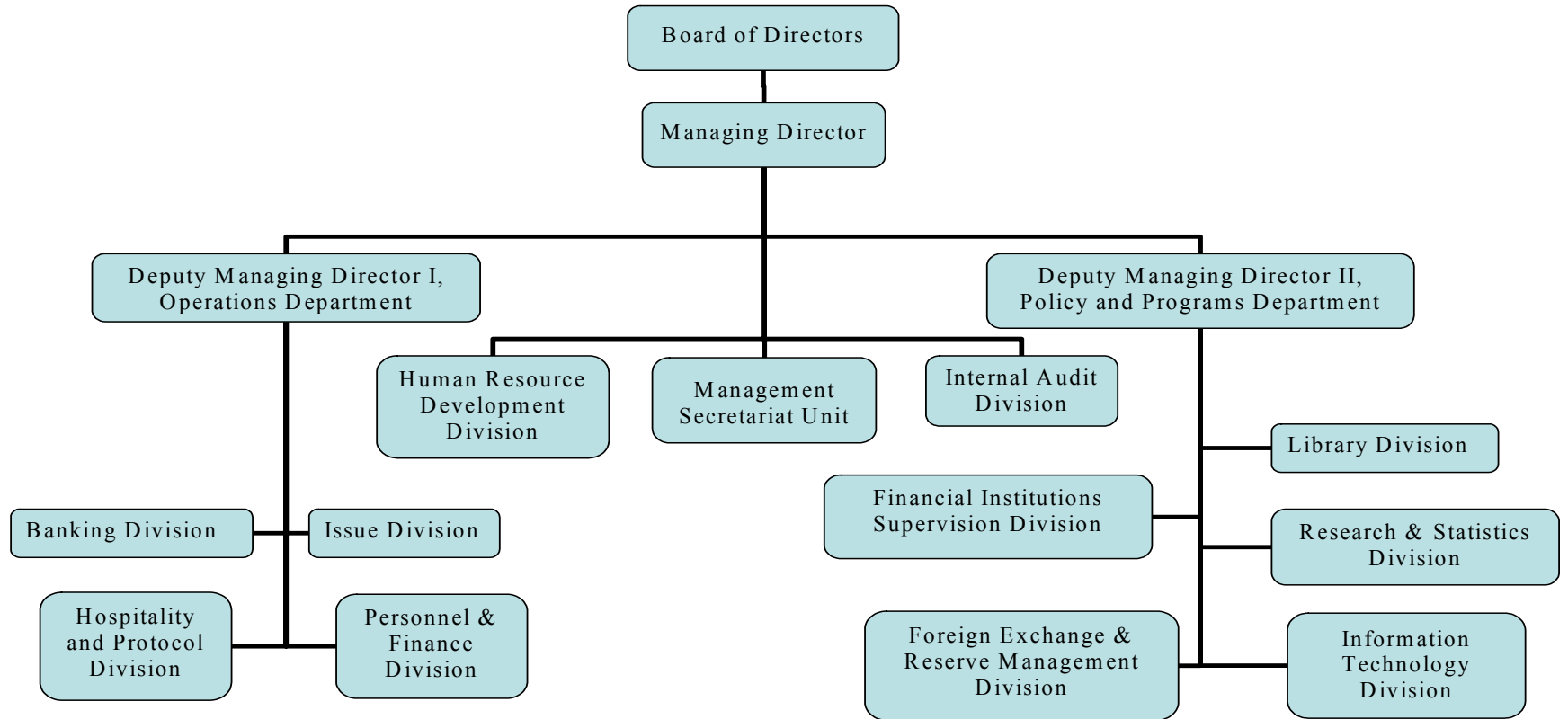
H.E. Lyonpo Wangdi Norbu Minister Ministry of Finance	Chairman
Aum Yanki T. Wangchuk Secretary Ministry of Finance	Vice-Chairperson
Dasho Karma Dorjee Secretary Ministry of Trade & Industry	Director
Mr. Sonam Wangchuk Director Department of Aid and Debt Management Ministry of Finance	Director
Mr. Daw Tenzin Managing Director Royal Monetary Authority of Bhutan	Member Secretary
Mr. Dechen Tshering Deputy Managing Director I Operations Department Royal Monetary Authority of Bhutan	Observer
Mr. Penjore Deputy Managing Director II Policy & Programs Department Royal Monetary Authority of Bhutan	Observer

## MANAGEMENT

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

# ORGANIZATION CHART OF THE RMA





## ABBREVIATIONS AND SYMBOLS

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### 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
BDFCL	Bhutan Development Finance Corporation Limited
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-Sectoral Technical and Economic Cooperation
BIT	Business Income Tax
BNBL	Bhutan National Bank Limited
BOBL	Bank of Bhutan Limited
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 Petroleum Corporation Limited
DPOP	Druk Plaster of Paris Limited
DPR	Detailed Project Report
DRC	Department of Revenue and Customs
DSCL	Druk Satair Corporation Limited
DSML	Druk Stones and Minerals Export Company Limited
EBCC	S.D 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
INGO	International Non Government/Profit Organization
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
RBI	Reserve Bank of India
RGOB	Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited

RMA	Royal Monetary Authority of Bhutan
RSEBL	Royal Securities Exchange of Bhutan Limited
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
STCBL	State Trading Corporation of Bhutan Limited
SWIFT	Society for Worldwide International Financial Telecommunications
TA	Technical Assistance
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

Note: Discrepancies in the totals are due to rounding

## EXECUTIVE SUMMARY

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Among the major developments in the year, the investiture of HRH the Crown Prince Dasho Jigme Khesar Namgyel Wangchuck as the Choetse Penlop on October 21, 2004, marked a historic milestone for the country, assuring and uniting the people in the continuity of the country's monarchy. Another historic development was the unveiling of the country's draft Constitution to the nation for the first time in March 2005. The second draft Constitution, containing updated contents and a simplified Dzongkha text for the benefit of all sections of the society, was distributed in August 2005. Nation-wide consultation meetings between the people of the twenty dzongkhags and His Majesty the King follow the distribution of the draft Constitution. The drafting of the constitution was initiated in November 2001, following a royal decree, introducing a parliamentary democracy under a constitutional monarchy.

Among other highlights, on December 17, 2004, Bhutan became the first country in the world to impose a nation-wide ban on the sale of tobacco products. Also, Bhutan's first population and housing census was conducted from May 30 to 31, 2005.

On the economic front, despite slowdowns in global economic activity in the second half of 2004 and the first half of 2005, Bhutan's economy was estimated to have grown by 8.7 percent in 2004, mainly due to impressive contribution from the construction sector. However, increased economic activity has not translated into corresponding improved employment opportunities for the general population, as the unemployment rate in 2004 increased to 2.5 percent as compared to 1.8 percent in the previous year.

A preliminary exercise was conducted to project the country's macroeconomic scenario, especially taking into account the effect of the Tala project. *A summary of this exercise is provided as Annex IX.* Given the availability of monetary data with the RMA, the exercise was based on the approach used for monetary targeting, assuming a relationship between the money supply and nominal GDP. As per the exercise, the commissioning of the Tala project is expected to cause the real GDP to initially grow by 10 percent in 2006, followed by a 7 percent real GDP growth in 2007, eventually slowing to 4 percent in 2008. In terms of reserves growth, while the Tala project will boost Rupee inflows, Rupee reserves constitute only around 20 percent of the total reserves. Furthermore, several resulting outflows could also counter the growth: imports are expected to increase with the Government assuming additional developmental activities from the Tala revenue, while Tala-related imports are expected to continue for a while even after the commissioning of the project; moreover, debt servicing on the Tala project, expected to start in the year of commissioning, will also add to the Rupee outflow. While Tala will drive economic growth, increased imports and other outflows combined with the fall in grants and loans inflow would counter the overall effect on the GDP.

Keeping pace with the economic activities, monetary expansion picked up again during 2004/05 as compared to the previous year. After slowing to 4 percent at the

end of 2003/04, the annual growth in broad money supply (M2) was recorded at 11 percent as of 2004/05, reflecting the accelerated growth in domestic credit. A significant increase has also been recorded in time and foreign currency deposits with commercial banks. On the other hand, the growth in narrow money (M1) continued to slow, reaching 9 percent at the end of 2004/05 as compared to 14 percent at the end of the previous year. During 2004/05, new currency notes amounting to Nu.322 million were issued as compared to Nu.243 million in 2003/04. Meanwhile, inflation was recorded at 5.5 percent during the second quarter of 2005.

There was a strong growth in credit to government (on account of the purchase of an aircraft for Druk Air Corporation Limited, DACL), pushing domestic credit to grow at a higher level of 61 percent as compared to 16 percent in 2003/04. In addition, credit to the private sector continued to grow strongly at about 30 percent, mainly due to a significant growth in credit to building and construction sector during the review period. With a growth of about 44 percent, the housing sub-sector continues to be the largest credit portfolio of the financial institutions. *A study was conducted in 2005 to review housing credit and its impact, the summarized results of which are provided as Annex VIII.*

According to the report of the RMA's Financial Institutions Supervision Division, the financial sector continued to perform well during the review period, with the overall financial sector non performing loans (NPL) ratio improving from 16 percent to 12 percent. Assets of financial institutions (FIs) grew by 6.4 percent, reaching Nu.22 billion at the end of June 2005.

Within the financial sector, the Bhutan Development Finance Corporation Limited (BDFCL) reduced its rural credit group lending rates from 13 percent to 10 percent, effective from August 1, 2004, keeping with the resolution passed during the 82nd National Assembly. In addition, the BDFCL launched a new saving scheme for farmers to mark the United Nations International Year of Micro Credit 2005, while also recently introducing a mobile banking facility at the grassroots level. Meanwhile, the BNBL launched global credit cards in December 2004, and expanded such services further by entering into an agreement with JCB card of Japan, which will enable cardholders (ASEAN tourists) to use the card for the purchase of merchandise and/or services in Bhutan.

A significant development in Bhutan's balance of payments in 2004/05 was the surge in imports by 64.6 percent from 2003/04. While the purchase of two new Airbus 319 aircraft by the DACL contributed in part to this surge, imports in general from countries other than India increased substantially in 2004/05. Consequently, despite growth in the exports of both goods and services, the huge import bill widened the trade deficit from Nu.4 billion to Nu.10 billion, and the current account deficit from Nu.2.5 billion to Nu.8.4 billion in 2004/05. Within the invisibles account, tourism performance during 2004/05 continued to display strong signs of improvement, following the past years' recessionary global trends and political instability in the region. A total of 11,526 tourists visited Bhutan during 2004/05, while subsequent convertible currency earnings surged to USD 15.3 million from USD 9.2 million in 2003/04. The purchase of the two aircraft, in October and December 2004, also supported the development in tourism. Convertible currency earnings from tourism contributed the largest amount (33 %) to the total services exports in 2004/05.

However, as has been the usual trend, the current account deficit was countered by the capital and financial account balance, resulting in a positive overall balance of payments of Nu.1.5 billion in 2004/05. As also has been the case in the last three years, over 90 percent of the inflows in the capital and financial account were contributed by capital grants (Tala project) and loans to the Royal Government, underscoring the importance of official inflows in countering the current account deficit. While inflows on account of FDI have been increasing steadily, with a three-fold jump in 2004/05, such inflows still constitute only a very small part of the financial account.

Corresponding to the positive overall BOP, gross international reserves grew by 9.5 percent to USD 419 million in 2004/05. However, since the growth in imports was much higher relative to the growth in reserves, the reserve cover of merchandise imports fell from 18.8 months to 12 months as of 2004/05. Even excluding the import of the two aircraft, reserves can finance only 15 months of merchandise imports as of 2004/05, reflecting increased imports in general. More importantly, the inclusion of service imports further lowers the reserve cover of imports: reserves can finance 10.5 months of imports (merchandise + service) as of 2004/05. However, in line with policy initiatives, 9 companies were permitted in 2004/05 to hold foreign currency accounts. Previously this would have implied that while the imports of raw materials and equipment by these companies were financed through the reserves, the hard currency earnings of these companies were less likely to be ploughed back into reserves. This development may also well have caused the higher growth in imports relative to reserves.

Bhutan also continued to benefit from stable macroeconomic conditions in India when the Ngultrum, in tandem with the Indian Rupee, appreciated by 4.4 percent against the US Dollar between June 2004 and June 2005.

On the fiscal front, despite cautious fiscal management, the overall budget deficit grew by around 90 percent during 2004/05, increasing its ratio to GDP from 7 percent to 11 percent. This development reflected the growth in total government expenditure of 25 percent, unmatched by a slower growth in resources. Domestic revenue as well as the inflow of grants from development partners grew at a slower rate of 14 percent (50 percent in the previous year). Of the total resources, the growth in domestic revenue halved to 14 percent, while grants grew at a much slower rate of 13 percent (96 percent in previous year). As per the budget estimates, 65 percent of the overall deficit was financed through domestic borrowings and the rest through external borrowings. By the end of 2004/05, Bhutan's external debt grew by 14.7 percent to USD 606.8 million, and debt service, although higher than the 4.2 percent ratio in 2003/04, remains manageable at 7 percent of the total export of goods and services.

In terms of developments in the policy initiatives to promote private sector growth, the Foreign Direct Investment (FDI) Rules and Regulations 2005, were finalised this year to create a more comprehensive legal framework and increase the transparency of Government policies related to FDI. The RMA is also in the process of revising the Foreign Exchange Regulations 1997 with assistance from the IMF, expanding the legislation to cover all current and capital account transactions. Furthermore, in connection to Bhutan's accession process to the World Trade Organization, the

second working party meeting was successfully completed in September 2005, putting the country on an advanced stage in the accession process.

Continuing its efforts to develop the country's financial system, the RMA, in collaboration with the South Asia Enterprise Development Facility (SEDF), conducted several meetings and in-house seminars for the financial institutions (FIs). Further, a better system for clearing and settling cheques is being developed with assistance from the ADB. The payments system has also been greatly improved with the switch to SWIFT from the use of TELEX services. After the development of the Integrated Central Banking System (ICBS), the RMA's information technology is expected to be upgraded and greatly strengthened. The RMA also joined the International Association of Insurance Supervisors to strengthen insurance regulation and supervision in Bhutan. Meanwhile, the revised draft of the RMA Act of 1982 has been submitted to the Council of Ministers and Cabinet. The revised Act will provide the RMA with clear authority, enabling it to complement the RGOB's activities and further enhance financial sector development.

## KEY ECONOMIC INDICATORS (+)

Item	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (p)
<b>GDP Growth and Prices</b> (percent change)					
Real GDP at Factor Cost (a)	9.5	8.6	7.1	6.8	8.7
Consumer Prices (c)	3.6	2.7	1.8	4.6	5.5
Wholesale Prices (India) (d)	6.6	1.7	5.7	5.6	7.2
<b>Government Budget</b> (in millions of Nu.) (e)					
Total Revenue & Grants	8686.7	8826.7	7054.3	10618.5	12069.0
Of which: Foreign Grants	3711.0	3748.5	2269.1	4456.2	5033.0
Total Expenditure and Net Lending	11177.6	10052.1	9945.3	12479.6	15601.0
Current Balance	540.1	610.3	204.4	593.2	530.0
Overall Balance	-2490.9	-1225.4	-2891.0	-1861.1	-3532.0
<b>Money and Credit</b> (percent change, end of period)					
Broad Money, M2	6.4	17.6	28.7	4.0	10.7
Credit to Private Sector	57.1	27.7	23.4	32.8	26.3
<b>Interest Rates</b> (end of period)					
One Year Deposits	9-10	9.0	7.0	6.0	4.5
Lending Rate	12-16	12-16	12-16	10-16	10-16
91-day RMA Bills	6.9	4.7	3.5	3.5	3.5
<b>Balance of Payments</b> (in millions of Nu.)					
Trade Balance	-3259.1	-3995.5	-3681.0	-3966.0	-10015.6
With India	-1854.3	-2288.3	-3111.3	-3020.7	-2546.3
Current Account Balance	-1224.6	-2327.4	-3211.9	-2518.0	-8364.3
(In percent of GDP)	-6.3	-10.4	-12.9	-9.1	-26.8
With India	-1118.3	-1527.1	-3679.3	-2620.8	-3149.5
(In percent of GDP)	-5.7	-6.8	-14.7	-9.4	-10.1
Foreign Aid (Concessional Loans net)	2310.0	2846.2	4527.5	4666.2	3467.7
Of which: India	1707.9	1863.2	3116.0	3258.6	2381.5
Errors and Omissions	-1508.9	-1398.7	-4639.0	-5508.3	245.6
Overall Balance	236.2	1242.7	2613.6	370.1	1458.3
(In percent of GDP)	1.2	5.6	10.5	1.3	4.7
<b>External Indicators</b> (end of period)					
Gross Official Reserves in Millions of USD	292.6	315.3	373.3	383.3	419.8
(In months of merchandise imports)	21.0	20.6	23.0	18.8	12.0
External Debt (percent of GDP)	56.3	62.9	77.8	86.6	87.0
Debt-Service Ratio (f)	4.7	4.9	5.0	4.2	7.0



## KEY ECONOMIC INDICATORS, contd. (+)

Item	2000/01	2001/02	2002/03	2003/04 (p)	2004/05(p)
<b>Memorandum Items:</b>					
Nominal GDP (in millions of Nu.)	19520.7	22373.1	24981.7	27745.0	31171.4
Ngultrum per USD (fiscal year period average)	46.4	48.2	47.9	45.4	44.6
Money Supply, M2 (end of period)	9419.8	11076.9	14255.1	14832.3	16415.5
Money Supply, M1 (end of period)	4477.9	5019.5	6793.7	7737.0	8444.8
Counterparts					
Foreign Assets (Net)	12788.9	14348.5	17519.8	16456.8	18719.5
Domestic Credit	2017.9	2280.5	3707.5	4169.1	6553.7
Claims on Private Sector	2137.1	2728.9	3366.7	4470.5	5645.4
Components					
Currency Outside Banks	1483.1	1600.2	1699.0	2015.2	2303.4
Demand Deposits	2889.7	3313.6	5094.7	5721.7	6141.4
Quasi-Money	4942.0	6057.5	7461.3	7095.3	7970.7
Reserve Money , M0, of which	4631.9	5937.6	8008.0	9370.3	9340.1
Banks' Deposits	3045.3	4222.9	6242.9	7261.7	6929.5
Money Multiplier (M2/M0)	2.0	1.9	1.8	1.6	1.8
Income Velocity (GDP/M2)	2.1	2.0	1.8	1.9	1.9
Population Growth Rate (a), (b)	-	3.1	2.4	1.3	2.5
Unemployment Rate (a), (g)	-	1.9	-	1.8	2.5
Per Capita Income (USD) (a), (b)	450.9	499.7	545.2	623.7	834.0

a) On a calendar year basis, e.g., the entry under 2000/01 is for 2000. - b) Source: National Accounts Statistics (November 2004) & Comparative Socio-Economic Indicators for Bhutan (June 2005), NSB. - c) Data till 2002/03 refer to the old CPI (average of the first half of the calendar 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, the CPI for 2003/04 is based on NSB's new quarterly CPI and refers to the average for the third quarter of 2004 and 2004/05 refers to second quarter 2005. - d) Average of first 6 months, except for December 2004 which refers to the fourth quarter average. Source: Reserve Bank of India. Wholesale Price Index of All Commodities, Base 1993-94 = 100. - e) Data for 2003/04 are revised estimates. - f) Debt service payments in percent of exports of goods and services.-(g) National Labour Force Survey (2003,2004), Ministry of Labour & Human Resources.

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## **I. ECONOMIC REVIEW**

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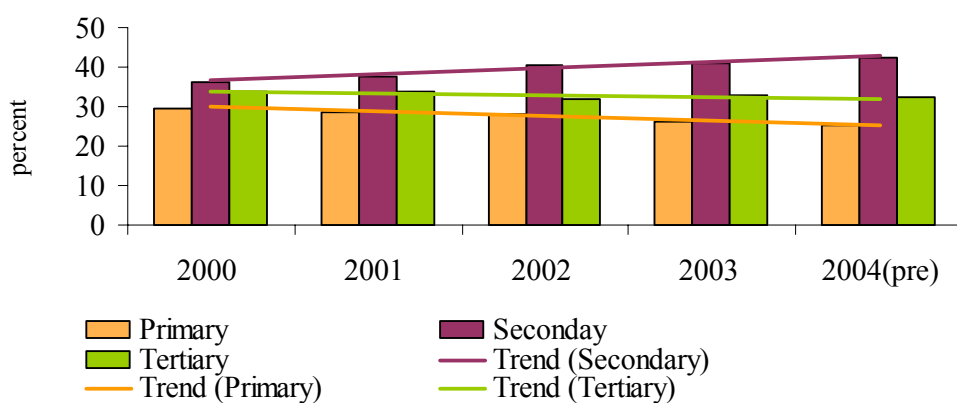
## 1. DOMESTIC ECONOMY

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The Bhutanese economy recorded a strong real growth during 2004 mainly due to impressive contribution from the construction sector. Tourism, in particular, recorded encouraging signs of strong recovery and growth. However, the increased economic activity has not translated into corresponding improved employment opportunities for the general population, as the unemployment rate in 2004 increased to 2.5 percent as compared to 1.8 percent in the previous year.

As per the re-based GDP<sup>1</sup>, real GDP is estimated to have grown by 8.7 percent in 2004, a significant increase from 6.8 percent in 2003, contributed mainly by the performance in the secondary sector of over 5 percentage points. The contributions from other sectors were lower with about 3 percentage points from the tertiary sector and about 1 percentage point from the primary sector. Looking at the details of the sector-wise contribution to the real GDP growth, the construction sub-sector contributed the highest with about 4 percentage points, followed by electricity, agriculture, wholesale and retail trade, restaurants and hotels, and transport, storage, and communications with about 1 percentage point each, whereas, the other sectors had smaller contributions.

**Sectoral Composition of Real GDP**



Composition-wise, the secondary sector (which includes manufacturing, electricity and construction) accounted for 40 percent of the nominal GDP, followed by the tertiary sector (which includes wholesale and retail trade; restaurants and hotels; transport, storage and communications; finance, insurance, real estate and business services; and community, social and personal services), which accounted for 32

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<sup>1</sup> The economic prospects for the review year are outlined on the basis of data provided by the NSB in National Accounts Statistics, November 2004. The GDP has been revised with 2000 as the new base year. Accordingly, data for the past years have also been revised applying the new base. Therefore, the GDP data in this report, particularly for past years, may appear to be inconsistent with data published in the earlier reports.

percent. The primary sector (which includes agriculture proper, livestock production, forestry and logging, and mining and quarrying) accounted for the remaining 28 percent. Looking at the past 5 years trend, while the share of the tertiary sector has remained more or less the same, the share of secondary sector in the overall GDP has been increasing over the years. On the other hand, the share of primary sector shows a decreasing trend over the past 5 years. The drift from the primary sector, more towards secondary sector is a normal behavior of early stages of economic development. Being in its early stage of development, Bhutan is still in the process of developing its essential infrastructures and facilities, which explains the high growth in construction sub-sector during the recent years.

## Real GDP Growth by Sector: 2001 - 2005

Year-to-year change in %

Item	2001	2002	2003	2004 (pre)	2005 (pro)
GDP at Factor Cost	8.6	7.1	6.8	8.7	8.8
Primary Sector	5.7	3.6	1.8	3.4	3.4
Secondary Sector	12.9	14.6	9.0	12.9	12.2
Tertiary Sector	8.3	1.2	10.2	7.9	8.1

pre = preliminary, pro = Projection

### 1.1. Primary Sector

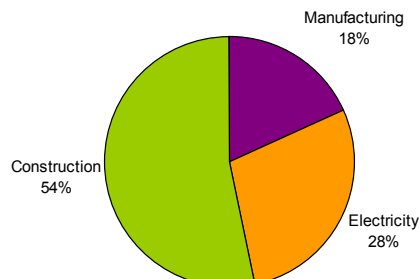
In the primary sector, the growth in 2004 climbed up to 3.4 percent as compared to 1.8 percent in the previous year. Despite multiple measures and facilities provided by the government to improve the well-being of the population dependant on agriculture, this sector's contribution to the overall GDP growth remained low at about 1 percentage point in 2004. Although Bhutan is an agrarian economy with about 80 percent of the population deriving their livelihood from subsistence agriculture, the total arable land is limited to only about 7.8 % of the country's total area.

Growth in the agriculture proper (consisting of principal crops, such as maize, rice, wheat, and major cash crops, such as apples, oranges, potatoes, ginger, and cardamom) improved to 2.6 percent from 1.2 percent in the previous year. The annual growth of livestock production and of mining and quarrying also improved, from 1.4 percent to 4 percent and from 3.4 percent to 7 percent, respectively. The growth in forestry and logging remained at 3 percent, the same as in 2003. Among these sub-sectors, the agriculture proper and livestock production was the highest contributor to the overall GDP growth.

## 1.2. Secondary Sector

In 2004, growth in the secondary sector (industry) increased to 13 percent from 9 percent in the previous year, while contributing over 5 percentage points to the overall GDP growth. The secondary sector is ranked as the largest sector of the economy in terms of its share to the overall GDP. The higher growth in this sector is only due to significant growth in construction, while, manufacturing and electricity recorded lower growth during the review period.

Composition of Secondary Sector 2004



### 1.2.1. Manufacturing

The growth in manufacturing decreased marginally from 7 percent in 2003 to 6 percent in 2004. As clearly indicated by the low contribution of only 0.5 percentage points to the overall GDP growth, this sub-sector has not been able to take off due to inadequate industrial environment and infrastructure, limited business opportunities, and poor private sector participation. Manufacturing represented only 7 percent of nominal GDP in 2004.

Of the eleven major industries that have provided information, Penden Cement Authority Limited (PCAL) remains the biggest in terms of the total value of sales, followed by Bhutan Ferro Alloys Limited (BFAL) and by Bhutan Carbide and Chemicals Limited (BCCL).

### 1.2.2. Electricity

The slower growth of 7 percent as compared to 10 percent in 2003 in electricity can be attributed mainly to the Chukha power project, since the other two major power projects, Kurichhu and Basochu, grew at an increased rate during 2004. Chukha, which produces more than 3/4 of the total electricity of the economy, grew at a slower rate of 1 percent as compared to almost 10 percent in 2003. Meanwhile, total exports of electricity to India rose from Nu.2.6 billion to Nu.2.7 billion in 2004. Electricity is one of the few sub-sectors, in which Bhutan has a comparative advantage and it is envisaged that this sub-sector will be the main driver for economic growth once Tala comes on stream. In 2004, this sub-sector contributed about 1 percentage point to the overall GDP growth and its share to the nominal GDP was 12 percent.

The Tala hydropower project will be commissioned some time in the second half of 2006, after a delay of six months due to adverse geological conditions in the previous year. Meanwhile, the Basochu lower stage hydropower project was commissioned in September 2004 and inaugurated in March 2005. Further, the Royal Government and the Government of India signed a memorandum of understanding in early 2005 for the preparation of detailed project reports on the proposed 992 MW (Stage II) Punatsangchu hydroelectric project and the 670 MW Mangdechu hydroelectric project.

Details of the production and sales of all three projects are available in *Table 4*, while developments in Bhutan's power sector are presented as *Annex VI*.

### **1.2.3. Construction**

The construction sub-sector is estimated to have grown at a significantly higher pace of 19 percent, as compared to 10 percent in the previous year. Correspondingly, this sub-sector's contribution to the overall GDP growth doubled to 4 percentage points in 2004 as compared to the previous year, making it the highest contributor. The performance of this sub-sector continued to reflect the activities related to large power projects - Tala and Basochu - and to a certain extent, construction work carried out by individuals, government departments, and autonomous entities. In 2004, the share of this sub-sector to nominal GDP was 21 percent. 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. The sector-wise investment of the financial institutions reveals that credit towards building and construction sector constitutes the highest share of the total loan portfolio, with an increase of 41 percent during 2004. However, developments in this sub-sector are projected to slow once construction works for major projects are completed.

### **1.3. Tertiary Sector**

During 2004, the real growth in the tertiary sector (services) slowed to 8 percent as compared to 10 percent in 2003. However, the contribution of this sector to the overall GDP growth remained around the same level as the previous year at about 3 percentage points. Within the services sector, a higher growth rate was recorded only in transport, storage and communications. With the number of tourist arrivals increasing every year, services sector could be another area with the favorable outlook for further development. For the Ninth Plan, the Royal Government has identified tourism as a priority sector for development, next to the hydropower projects. The decision to set up a hotel management and training institute in Thimphu is already in the pipeline and there is further plan to develop and promote new tourism products including retreat meditation, river rafting, mountain biking, rock climbing, and skiing.

#### **1.3.1. Wholesale and Retail Trade, Restaurants and Hotels**

The real growth in wholesale and retail trade, restaurants and hotels decreased significantly from 18 percent in 2003 to 10 percent in 2004. Correspondingly, its contribution to the overall GDP growth also decreased from 2 percentage points to 1 percentage point in 2004. However, this sub-sector still remains one of the largest contributors to the overall GDP growth following the construction sub-sector. This is the only sub-sector with active private sector participation in the recent year. The sub-sector's share to nominal GDP represented 9 percent in 2004.

#### **1.3.2. Transport, Storage, and Communication**

In line with the significant growth in construction, the growth of transport, storage and communications also increased substantially from 4 percent in 2003 to 10 percent in 2004. Its contribution to the overall GDP growth also increased from 0.4

percentage points to 0.9 percentage points. The higher growth was mainly due to increased construction activities in the country. With the increase in the telecommunications coverage and facilities, substantial development in communications has also taken place during the recent years. The sub-sector's share to nominal GDP represented 10 percent in 2004.

### 1.3.3. Financing, Insurance, Real Estate, and Business Services

Despite increased activities in the financial sector, the real growth in finance, insurance, real estate and business services fell significantly to 3.6 percent in 2004 from 11 percent in the previous year, resulting in a lower contribution of only 0.2 percentage point to the overall GDP growth. The sub-sector's share to nominal GDP represented only about 5 percent in 2004. The financial sector is at a relatively early stage of development. With the limited investment opportunities in the country, Bhutanese banks have over Nu.4 billion of liquidity lying idle with the RMA. Nevertheless, the financial sector plays a crucial role in facilitating the other sectors of the economy in their daily performances, the effects of which on GDP are difficult to measure.

### 1.3.4. Community, Social and Personal Services

Community, social and personal services (government administration and defense) grew at a lower rate of 6 percent in 2004 as compared to 8 percent in 2003, with its contribution falling from 0.7 to 0.5 percentage points. Its share to nominal GDP stood at 8 percent in 2004.

## 1.4. Tourism

FY 2004/05 displayed encouraging indicators of strong recovery and growth in Bhutan's tourism sector from the previous year's performance. Tourist arrivals increased by 67.7 percent to 11,526 from 6,872 as of 2003/04. Similarly, foreign exchange revenue for 2004/05 grew to USD 15.3 million from the previous fiscal year's earnings of USD 9.2 million.

Selected Tourism Indicators 2000-2004					
Item	2000	2001	2002	2003	2004
Tourist Arrivals	7559	6393	5599	6261	9249
Of which: Cultural	6633	5925	5242	5823	8742
Trekking	926	468	357	438	507
% Change in arrivals	5.6	-15.4	-12.4	11.8	47.7
Gross Receipts <sup>1</sup>	10.5	9.2	8.0	8.3	12.5
% Change in receipts	18.0	-12.4	-13.2	4.3	50.2
Government Revenue	4.1	3.3	2.8	2.9	4.4
% Change in Govt. Revenue	17.1	-19.5	-15.2	4.4	50.6

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

Other highlights in this sub-sector include the arrival of 2 new Airbus aircrafts for the DACL, while updates on foreign direct investment in the tourism sector reveal that the Bhutan Resorts Corporation Limited (joint venture between Bhutan Tourism Corporation Ltd. and Maha/Aman Resorts, Singapore) and the Bhutan Eco Ventures Limited (joint venture between Bhutan International Company and M/s. HPL

Properties, West Asia, Private Limited, Singapore) inaugurated their Paro resorts. Further information on the tourism sector and FDI ventures is presented in *Annex V*.

### 1.5. Labour Market

As per the Labour Force Survey 2004, which is the latest information available, the unemployment rate in Bhutan increased to 2.5 percent in 2004 as compared to 1.8 percent in the previous year. There has been a general concern that the unemployment may become a pressing issue in the future due to the capital-intensity of our major projects and an increasing number of people entering the labor market each year.

Around 37 percent of the total population falls under the economically active labor force. With a relatively large share of the population in the lower age group of the economically active population, unemployment is highest among school

leavers in the age group of 15-19 years. The majority of the total employed population is engaged in agriculture, accounting for 63 percent of the total employed population. The community, social and personal services sub-sector has absorbed about 8 percent and the manufacturing sub-sector about 6 percent of all employed persons. Employment opportunities in other sub-sectors are negligible. Although 2004 recorded an impressive performance in the construction sub-sector, its contribution in terms of employment has been at a low 3 percent due to a large mismatch of skills.

**Total Employed Persons by Economic Activity in Bhutan**

	2003	2004	share in 2004(%)
<b>Total</b>	<b>221800</b>	<b>210100</b>	<b>100</b>
1 Agriculture and forestry	167200	132800	63.2
2 Mining and quarrying	400	100	0.0
3 Manufacturing	4500	12600	6.0
4 Electricity, gas and watersupply	1000	1000	0.5
5 Construction	2900	6900	3.3
6 Wholesale & retail trade; repair of motor vehicles & motorcycles, & personal & household goods	6900	4800	2.3
7 Hotels and restaurants	1300	1400	0.7
8 Transport, storage and communications	200	2600	1.2
9 Financial intermediation	300	2500	1.2
10 Real estate, renting & business activities	1300	9700	4.6
11 Public administration & defence; compulsory social security	19500	10000	4.8
12 Education	3500	3900	1.9
13 Health and social work	2700	2400	1.1
14 Other community, social & personal service activities	500	15700	7.5
15 Private households with employed persons	1300	600	
16 Not classifiable by economic activity	8300	3100	1.5

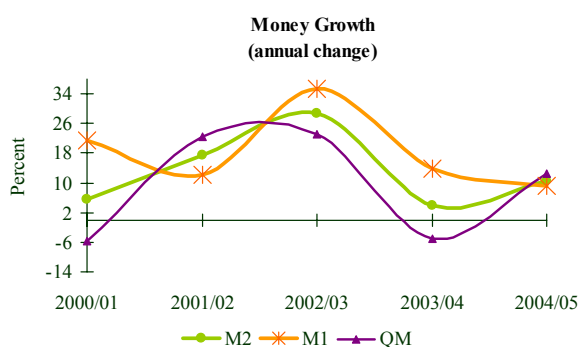


## 2. MONEY, CREDIT, AND PRICE DEVELOPMENTS

In line with the economic activities, developments in the monetary sector have also been on the upward trend during the year. Domestic credit grew strongly, pushing the money supply growth to a higher level. The data on sector-wise investment by the financial institutions show that the largest share of credit continues to be absorbed in the building and construction sector, followed by trade and commerce, and the manufacturing sector. Monetary developments have a limited impact on prices, as inflation in Bhutan is influenced more by price developments in India. Following the price developments in India, the inflation rate in Bhutan is recorded at 5.5 percent in the 2<sup>nd</sup> quarter of 2005.

### 2.1 Monetary Survey

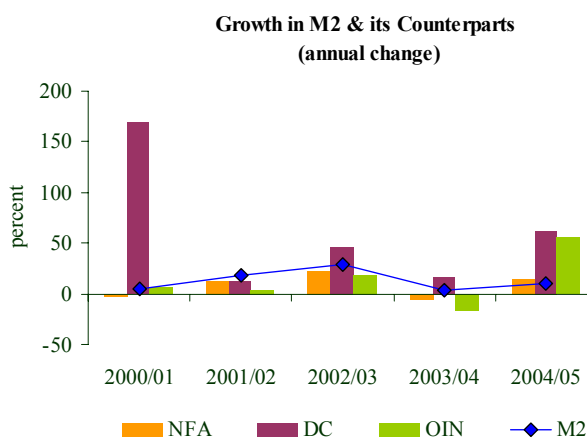
At the end of FY 2004/05, the annual growth in broad money supply (M2) picked up again to about 11 percent, after slowing to 4 percent at the end of the previous year. This reflected mainly the accelerated growth in quasi money (QM) and domestic credit (DC), while narrow money (M1) growth continued to slow down.



Of the two major elements of M2 on the component side, M1 growth continued to slow, reaching 9 percent as compared to 14 percent in the previous year, reflecting slower growth in its constituents, currency in circulation and demand deposits. Currency in circulation grew at a lower annual rate of 14 percent as compared to 19 percent in the previous year and the growth of demand deposits also decreased in the review period. In particular, the growth in current account deposits was much lower this year at negative 2 percent, as compared to 10 percent in the previous year.

With the increase in both time and foreign currency deposits, QM (the other major element of M2) had a positive growth of 12 percent, following a negative growth of about 5 percent at the end of 2003/04.

During the same period, reserve money (M0) decreased marginally from Nu.9,370 million to Nu.9,340 million, resulting mainly from the decrease in commercial banks' deposits with the RMA from Nu.7,262 million to Nu.6,930 million during the review period.



On the counterpart side, all the major elements, namely net foreign assets (NFA), DC, and other items net (OIN), had positive growth, unlike the previous year, where only DC had a positive growth. NFA grew by 14 percent from a negative growth of 6 percent in the previous year, out of which net convertible currency assets increased by 15 percent, and net Rupee assets by about 9 percent. DC growth accelerated to 62 percent from 16 percent in the past year due to a growth in credit to the government. Credit to government grew by 62 percent, mainly because of the credit availed to the government to purchase the aircraft for the DACL. On the other hand, credit to the private sector slowed marginally to 26 percent as compared to 33 percent during the previous year.

### Money Supply, M2 – Its Counterparts and Components

Item	Annual change in %			End of period
	2001/02	2002/03	2003/04	2004/05
<u>MONEY SUPPLY, M2</u>	17.6	28.7	4.0	10.7
<u>MONEY SUPPLY, M1</u>	12.1	35.3	13.9	9.1
<u>Counterparts</u>				
1. Foreign Assets (Net)	12.2	22.1	-6.1	13.7
2. Domestic Credit	13.0	45.7	16.2	61.6
Claims on Govt. (Net)	19.7	37.5	-290.9	62.0
Claims on Private Sector	27.7	14.9	35.9	29.3
Others <sup>1)</sup>	-12.1	121.4	118.4	0.2
3. Other Items (Net) <sup>2)</sup>	3.1	18.6	-16.7	55.8
<u>Components<sup>+</sup></u>				
4. Currency Outside Banks	7.9	6.2	18.6	14.3
5. Demand Deposits <sup>3)</sup>	14.7	53.8	12.3	7.3
6. Quasi-Money <sup>4)</sup>	22.6	23.2	-4.9	12.3

*\*) 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.*

## 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.

## 2.2. Monetary Policy Instruments

While ensuring the sustainability of the exchange rate arrangement, the Royal Monetary Authority of Bhutan 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. At the end of June 2005, the CRR instrument alone accounted for Nu.2,024.7 million and there were Nu.200 million worth of RMA discount bills (maturity of 91 days) outstanding, at a weighted discount rate of 3.5 percent.

### **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.

In order to provide adequate liquidity to meet credit growth and support investment and export demand in the economy, RMA revised the volume of CRR downward from the existing rate of 20 percent to 13 percent of total deposit liabilities with effect from March 1, 2004. The rate of interest payable on CRR balances has also been revised from 3 percent to 1.5 percent per annum.

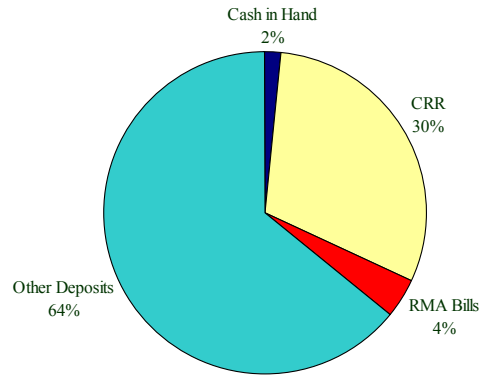
### **RMA Discount Bills**

The RMA discount bills (maturity of 31 days) were introduced in December 1993 at the discount rate of 11 percent. From April 1994, the maturity period of the bills were extended to 91 days. Till October 29, 2001, the selling procedure was based on auctions and after that it was discontinued and tap sales were introduced.

### 2.3. Review of Developments in Commercial Banking

As per the money and banking statistics, commercial banks' activities expanded with total assets of the two commercial banks (BOBL and BNBL) growing at 6 percent to Nu.18.7 billion from Nu.17.7 billion during FY 2004/05. This development can be attributed to the significant increase in credit to the Government to Nu.1950 million as of June 2005 from Nu.320 million as of June 2004. Meanwhile, credit to the private sector by the commercial banks achieved a lower growth of 26 percent, as against a growth of 33 percent in the previous year.

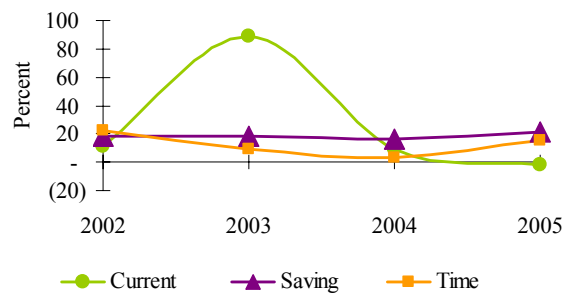
Composition of Commercial Banks' Reserves with the RMA (June-end 2005)



The commercial banks' reserves with the RMA decreased by 6 percent to Nu.6.7 billion during the FY 2004/05 from Nu.7.1 billion in the previous year, representing roughly 36 percent of their total assets. Of the total reserves, 30 percent were held as CRR, 4 percent were invested in RMA Bills, 2 percent as cash in hand, while the remaining 64 percent were held as current deposits with the RMA. The commercial banks' cash in hand and other deposits with the RMA amount to Nu.4.4 billion, representing about 24 percent of their total assets. In addition to reserves, the banks held Nu.1.5 billion in Indian Rupees and Nu.1.4 billion in convertible currencies as at the end of the FY 2004/05.

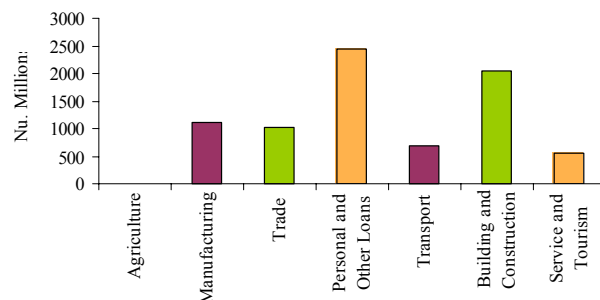
Looking at the liabilities, total deposits (including foreign currency deposits) grew at a higher rate of 10.3 percent as compared to 2.6 percent in 2003/04. This reflects higher growth of 15 percent in time deposits as compared to 4 percent in 2003/04 and the slow rate of decrease in foreign currency deposits to 20 percent from 49 percent in the previous year.

Growth in Deposit Liabilities of the Banks



The total loan portfolio of the commercial banks increased by 56 percent to Nu.8 billion during the review period. The sector-wise distribution of credit reveals that the largest share of the credit portfolio continued to go to building and construction (26 percent), followed by manufacturing (14 percent), the trade and commerce sector (13

Sector-wise Investment of Commercial Banks (June 2005)





percent), while the remainder went to other sectors.

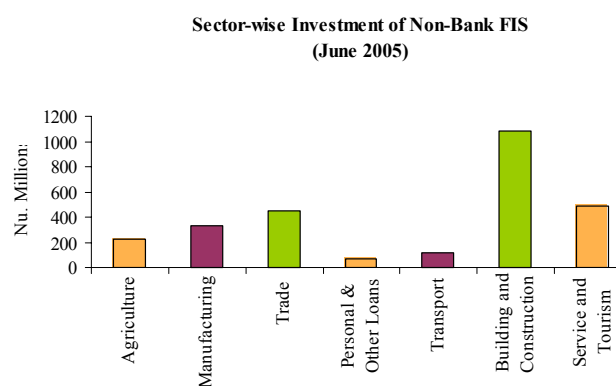
## 2.4. Review of Developments in Non-Bank Financial Institutions

During FY 2004/05, the total assets of the NBFIs, namely the RICBL and the BDFCL, rose by 9 percent to Nu.2930 million as compared to 6 percent in previous year. This increase was mainly due to the noticeable growth in foreign assets.

NBFIs' total reserves, which have been declining over the years, have decreased further by 21 percent to Nu.105 million during the FY 2004/05 from Nu.133 million in the previous year. Total reserves represent roughly 4 percent of their total assets. Of the total reserves, 87 percent were in the form of demand deposits with the commercial banks and the remaining 13 percent were held as cash. The cash in hand amounts to Nu.14 million as at June ending 2005. The significant improvement in foreign assets from a decline of 139 percent to an increase of 84 percent was mainly due to an increase in convertible currency assets. Convertible currency assets increased by 87 percent as compared to the decrease of 145 percent during the previous FY, whereas India Rupee assets decreased by 12 percent as compared to the increase of 66 percent in the previous year.

On the liabilities, there has been some indication of shift from foreign liabilities to domestic borrowing during the year. The growth in domestic borrowing from the financial institutions increased from negative 16 percent during the previous FY to 10 percent, while foreign liabilities further decreased by 6 percent. The change in the borrowing scenario of the NBFIs is an indication of an increase in the inter-institution borrowings, which is enhanced by the availability of liquidity with the commercial banks and the NPPF, combined with a more competitive lending rate in the domestic market.

Corresponding to the increase in borrowing, the total loan portfolio also increased by 13 percent to Nu.2.8 billion during the review period. As per the sector-wise distribution of credit by the NBFIs during the review year, the highest share of credit went to building and construction (39 percent), followed by service and tourism (18 percent), trade and commerce (16 percent), manufacturing (12 percent), while the remainder was invested in other sectors.



A detailed description of the developments in the financial sector, including information on NPPF and RSEB, is presented in *Annex III*.

## 2.5. Prices

The quarterly CPI reported an annual inflation rate of 5.5 percent in the second quarter of 2005, the highest rate recorded in years. Correspondingly, the purchasing power of Ngultrum is recorded at 92 Chhetrum in the second quarter of 2005.

The new quarterly index gives a more reliable picture of actual price developments than the old index, which was based on the 1979 Expenditure Survey, and, which, therefore, was outdated. There is now a much wider coverage of items in the consumer basket and the weights of the items are allocated according to the changing consumption patterns. 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.

Price developments show that the increase in the prices of food items was higher than the increase in prices of non-food items, which increased by 6.2 percent and 5.1 percent, respectively, during the second quarter of 2005. The price of food and non-alcoholic beverages, with a weight of over 29 percent of the expenditure basket, increased by 5.8 percent. The price of housing, water electricity, gas and other fuels, which constitutes 25.7 percent of the expenditure basket, increased by 9.2 percent. Actual rental for housing, which is one of the growing concerns of the population, increased by about 10 percent during the second quarter of 2005.

The global increase in prices of petroleum has a limited direct impact on the Bhutan's CPI since the weight allocated to it is only 3.2 percent. However, since Bhutan is an import-dependant country and almost all the items in the consumer price basket are imported items, the indirect effect of the global oil price increase has some impact on Bhutan's price developments. As per an RBI analysis, it has been estimated that every US dollar increase in crude oil prices could potentially add 15 basis points to their wholesale price index as a direct effect and another 15 basis points as an indirect effect, in the absence of any countervailing policy intervention.

Meanwhile, there has been a decrease in prices of communication, and recreation and culture by about 10 percent and 3 percent, respectively. The reduction in the prices of communication is due to the decrease in prices of telephone, tele-fax, and internet services by 10.9 percent.

The increase in the price of food items in Thimphu, as measured by the Thimphu food price index (TPI), was higher than the overall food price increase. The TPI recorded an increase of 8.8 percent in the second quarter 2005, reflecting an increase in almost all the food items. The highest increase was seen in the prices of vegetables, fruits, and pulses by 13.5 percent, followed by other food items by 12.2 percent, and milk, cheese, and eggs by 11.2 percent. Cheese and its products, which have the highest weight in the food expenditure basket (24.9%), recorded an increase of 7.1 percent. The purchasing power of the Ngultrum based on the TPI is estimated at 91 Chheltrum during the second quarter ending of 2005.

### 3. EXTERNAL SECTOR

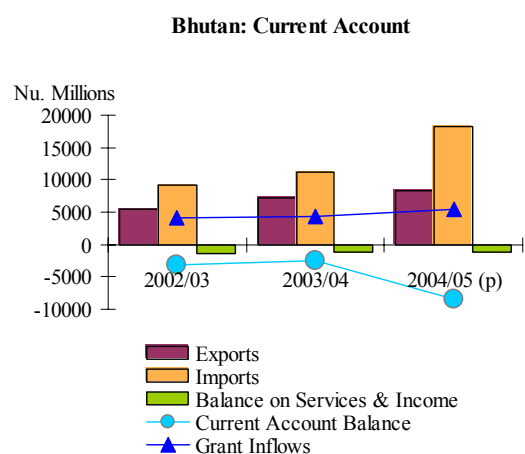
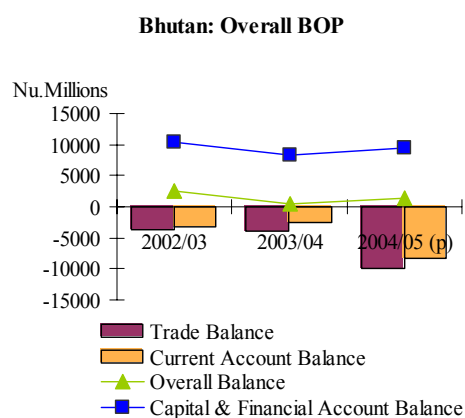
Bhutan's economic outlook during 2004/05 as indicated by developments in the balance of payments, continued to be characterized by increased merchandise exports, and substantial inflows from grants, loans, and FDI, recording an overall balance of Nu.1.5 billion. Equally significant in 2004/05 was the huge increase in imports, especially from countries other than India (COTI), attributable in part to the DACL's purchase of new aircrafts.

The net inflows in the capital and financial account, nonetheless, outsized the huge trade deficit, as well as deficits in the invisibles account and caused gross international reserves to increase by 9.5 percent over 2003/04, to USD 419.8 million. However, since the growth in imports over 2003/04, at 64.6 percent, was much higher relative to the growth in reserves, the reserve cover of merchandise imports fell from 18.8 months to 12 months as of 2004/05. Even excluding the import of the new aircrafts, reserves can finance only 15 months of merchandise imports as of 2004/05, reflecting increased imports in general.

More importantly, the inclusion of service imports implies an even lower reserve cover of imports: reserves can finance 10.5 months of imports (merchandise + service) as of 2004/05. However, in line with policy initiatives, 9 companies were permitted in 2004/05 to hold foreign currency accounts. Previously this would have implied that while imports of raw materials and equipment by these companies were financed through the reserves, the hard currency earnings of these companies were less likely to be ploughed back into reserves. This development may also well have caused the higher growth in imports relative to reserves.

As in the last three years, over 90 percent of the inflows in the capital and financial account were contributed by capital grants (Tala project) and loans to the Royal Government, underscoring the importance of official inflows in countering the current account deficit.

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 1.8 percent between FY





2003/04 and 2004/05. And the debt service ratio<sup>2</sup> has worsened from 4.2 percent to 7 percent in 2004/05. A feature on Bhutan's external debt has been attached as *Annex VII*.

### 3.1 Overall Balance of Payments

A major reclassification has been made in the current account of the balance of payments, following the recommendations of the March 2004 IMF multi-sector/GDDS mission. Grant inflows to hydropower projects, namely, Tala, have been reclassified from current to capital transfers, reducing the current account surpluses of the past to deficits, while significantly increasing the capital and financial account surplus.

#### Bhutan's Balance of Payments

Item	2003/04	2004/05	2003/04	2004/05
	Millions of Ngultrum		Millions of USD	
<b>A. Current Account</b>	<b>-2518.0</b>	<b>-8364.3</b>	<b>-55.4</b>	<b>-187.5</b>
Goods	-3966.0	-10015.6	-87.3	-224.5
Exports	7157.5	8297.8	157.6	186.0
Imports	-11123.5	-18313.4	-244.9	-410.6
Services	-365.4	-449.3	-8.0	-10.1
Credit	1421.1	2070.7	31.3	46.4
Debit	-1786.5	-2520.0	-39.3	-56.5
Income	-740.3	-740.7	-16.3	-16.6
Credit	436.3	537.2	9.6	12.0
Debit	-1176.6	-1277.9	-25.9	-28.6
Current Transfers	2553.8	2841.3	56.2	63.7
Credit	4865.6	6056.9	107.1	135.8
Debit	-2311.8	-3215.6	-50.9	-72.1
<b>B. Capital and Financial Account</b>	<b>8396.4</b>	<b>9576.9</b>	<b>184.9</b>	<b>214.7</b>
Capital Transfers	4666.8	4161.6	102.8	93.3
Foreign Direct Investment	157.0	401.4	3.5	9.0
Portfolio Investment	0.0	0.0	0.0	0.0
Net Official Flows	4666.2	3467.7	102.8	77.7
Other Loans	363.3	89.2	8.0	2.0
Other Investment	-1456.9	1456.9	-32.1	32.7
<b>C. Net Errors and Omissions</b>	<b>-5508.3</b>	<b>245.6</b>	<b>-121.3</b>	<b>5.5</b>
<b>D. Overall Balance</b>	<b>370.1</b>	<b>1458.3</b>	<b>8.1</b>	<b>32.7</b>

<sup>2</sup> Debt Service Ratio - Debt service payments as a percentage of the export of goods and services.

## Current Account

While exports of both goods and services expanded in 2004/05, imports also grew considerably, resulting in an increased current account deficit of Nu.8.4 billion from Nu.2.5 billion in 2003/04. This represents 26.8 percent of GDP.

## Trade Account<sup>3</sup>

In 2004/05, Bhutan's trade deficit almost tripled, from Nu.4 billion in 2003/04, to Nu.10 billion. While, imports in general from countries other than India have increased substantially, the purchase of 2 new aircrafts by the DACL have also contributed to the sudden jump in imports in 2004/05.

### Power and Non-power Breakdown of Exports, 2004

Item	2004		2003
	Millions of Nu.	% Share of total	Millions of Nu.
Power Exports	2,711.7	32.8	2,603.5
Top Non-power Exports			
Ferro-silicon	748.4	9.0	596.9
Carbide	706.1	8.5	640.8
Ingots	438.7	5.3	34.4
Portland Cement	357.4	4.3	406.0
High tenacity yarn of polyesters	327.2	4.0	5.3
Mineral & aerated water	262.2	3.2	225.5
Particle Board	246.9	3.0	184.6
Oranges	220.0	2.7	145.8
Other Non-power Exports (remainder)	2,252.5		1,347.3
<b>Total exports</b>	<b>8271.1</b>		<b>6190.1</b>

### Selected Top, Specific Commodity Imports, 2004

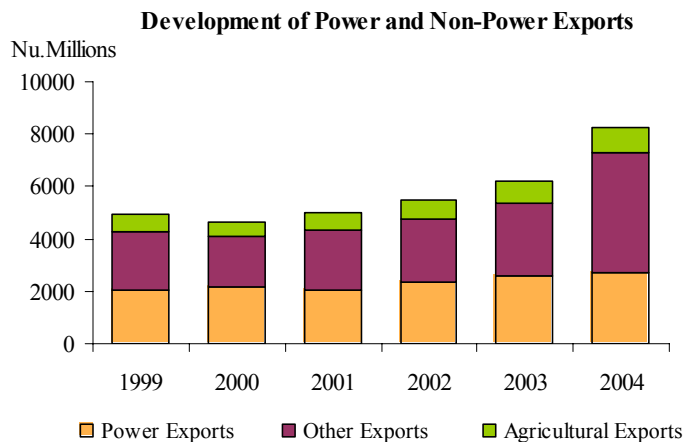
Item	2004		2003
	Millions of Nu.	% Share of total	Millions of Nu.
Aeroplanes and other aircrafts	4,107.5	22.0	
High speed diesel	1,008.6	5.4	813.3
Yarn of polyester, partially oriented	354.3	1.9	
Petrol	339.9	1.8	255.0
Copper & related articles, other	334.8	1.8	0.11
Rice	317.8	1.7	459.3
Beer made from malt	248.2	1.3	277.2
Cars (petrol), below 1000 c.c.	229.0	1.2	263.5
Other imports (other categories)	11,699.5		9530.0
<b>Total imports</b>	<b>18,639.5</b>		<b>11,598.52</b>

Source: Department of Revenue and Customs.

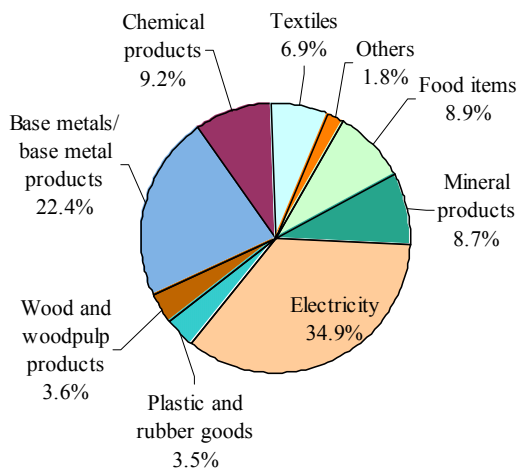
<sup>3</sup> The trade account is compiled on the basis of trade data generated by the Department of Revenue and Customs (DRC) and other surveys. Commencing 2002/2003, the DRC has been able to provide half-yearly trade data, thereby enabling the use of fiscal year aggregated data for the balance of payments, supplemented by calendar-year information for the composition of trade.

Merchandise exports growth was robust during 2004/05, increasing by 15.9 percent over 2003/04, supported by the combined exports of electricity from the Chukha and Kurichhu projects. Strong growth was also experienced in the export of fruits, textiles, plastic products, mineral products, and base metal and base metal products. Meanwhile, merchandise imports, at Nu.18.3 billion increased by 64.6 percent from Nu.11.1 billion in 2003/04. Apart from the sizable imports of food products, mineral oil and fuel, plastic and rubber products, textiles, and machinery and mechanical imports, the surge in imports can also be attributed to the DACL's recent purchase of new aircrafts for its fleet.

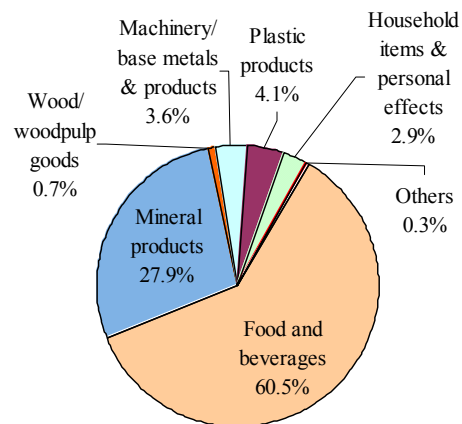
In the composition of trade<sup>4</sup>, hydropower remains the country's dominant export, with sales from the Chukha and Kurichhu projects to India accounting for 32.8 percent of overall merchandise exports, earning Bhutan Nu.2,711.7 million in 2004. Other major export commodities to India in 2004 included mineral products, textiles, and base metal and base metal products. On the other hand, vegetables and fruits, mineral products, and plastic products were the top three exports to COTI in 2004. The export of fresh fruits in 2004 was 1.6 times higher than that in 2003, while accounting for 47.5 percent of total COTI exports.



**Composition of Merchandise Exports to India: 2004**



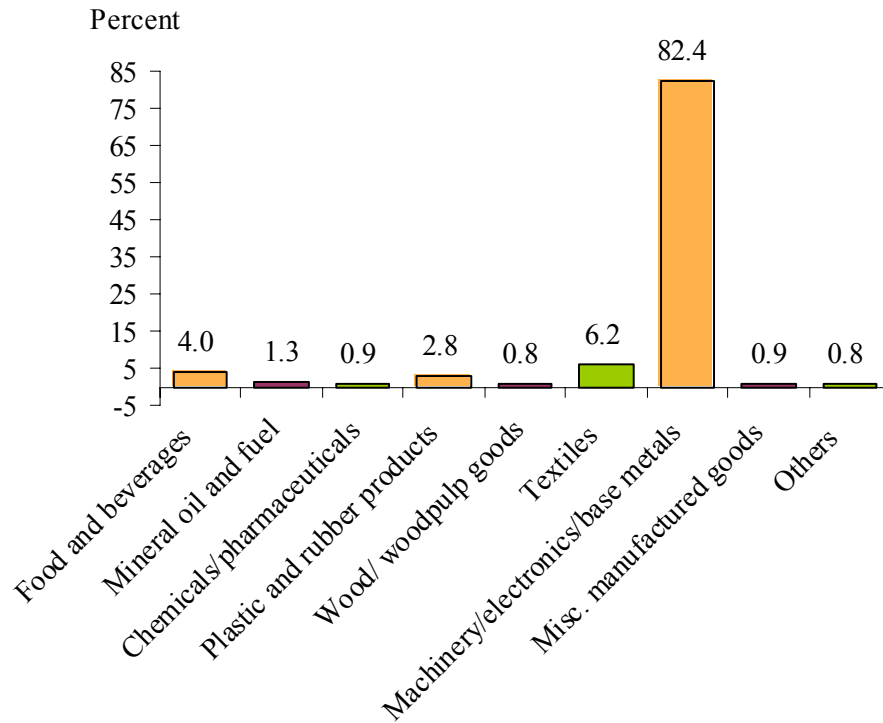
**Composition of Merchandise Exports to COTI: 2004**



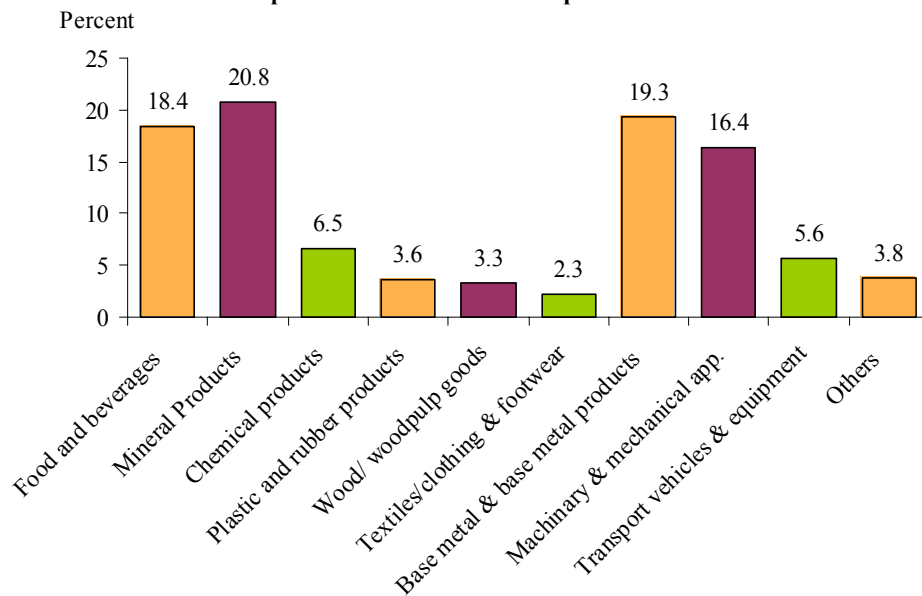
<sup>4</sup> Data available from the DRC on a calendar year basis.

Meanwhile, major categories of imports from India included mineral oils and fuel, base metal and base metal products, machinery and mechanical appliances, food and beverages, chemical products, and vehicles and parts, with the largest share going to mineral products, making up 20.8 percent of total Indian imports during 2004.

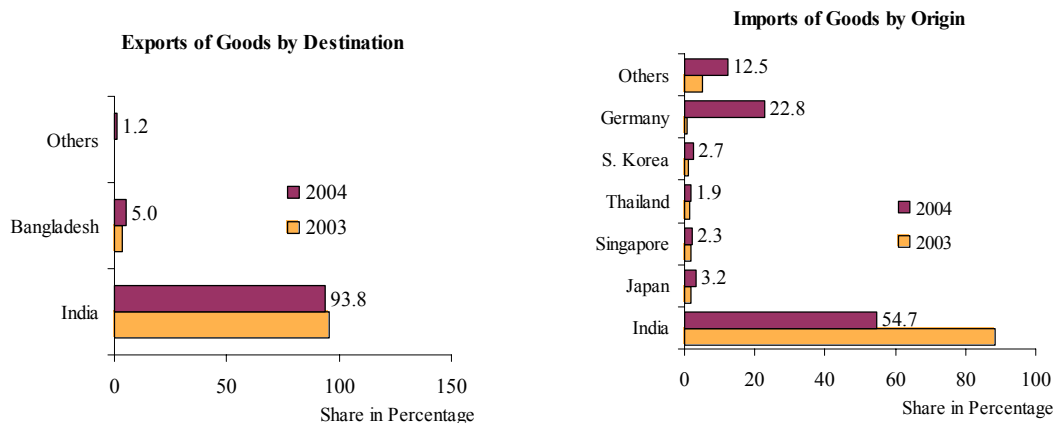
### Composition of Merchandise Imports from COTI: 2004



### Composition of Merchandise Imports from India: 2004



Popular imports from COTI cover machinery, electronic items, textiles, oil and other food products and plastic/rubber goods. Aside from animal products and products of precious or semi precious metals, all other categories of imports from COTI increased substantially in 2004. Imports in the broad category of machinery, mechanical appliances, base metals and electronic items increased more than seven-fold over 2003. However, within this broad category, imports of vehicles including aircraft and parts, accounted for 52 percent of the total COTI imports.



In terms of the direction of trade, India continues to be Bhutan's largest destination for exports, accounting for 93.8 percent of the country's total exports in 2004. Bangladesh follows in second place, accounting for 5 percent of total exports. As for imports, 54.7 percent of Bhutan's total imports in 2004 were from India. Germany, mainly on account of the new aircrafts, accounted for 22.8 percent of total imports. Japan, South Korea, Singapore, Austria and Thailand were also among the key sources of imports in 2004.

## Invisibles

### Summary of Overall Invisibles Receipts

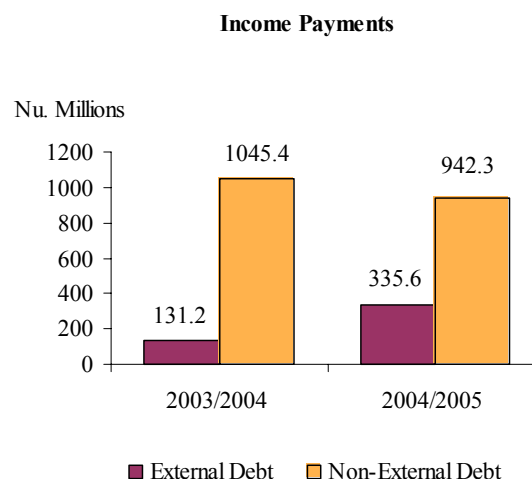
	Millions of Nu.		
	2002/2003	2003/2004	2004/2005 (p)
Travel	501.0	671.2	957.2
Transportation	172.0	208.2	533.7
Insurance and GNIE	476.8	491.4	513.8
Misc.	44.2	50.3	65.9
Transfers	4,364.9	4,865.6	6,056.9
Income	561.4	436.3	537.2

GNIE: Government not included elsewhere.

The deficit in the service account in 2004/05 grew by 23 percent over 2003/04. The export of travel services grew by 42.6 percent with convertible currency earnings from tourism contributing the largest amount (33 %) to the total services export in 2004/05. However, import of travel services grew at a higher rate of 52.1 percent. Travel related to education and business to India and health-related travel to COTI witnessed a significant jump in 2004/05. While there was also a major increase in the import of financial services from India, increased coverage in data collection has resulted in a huge business services debit figure for 2004/05. Even though both the

export and import of services increased in 2004/05, services imports were higher, resulting in a net outflow of Nu.449.3 million.

With a net outflow of Nu.740.7 million, the income account deficit in 2004/05 increased marginally by 0.05 percent from 2003/04. On the credit side, there was a significant increase in investment income from COTI. On the other hand, on the debit side, while payments of interest on convertible currency debt increased by 6.4 percent, interest payments on Indian rupee debt increased by more than 10 fold, from Nu.20.8 million to Nu.218.1 million, with the start of interest payments for Kurichhu in addition to Chukha. Kurichhu debt service accounted for around 16 percent of the total outflow of income.

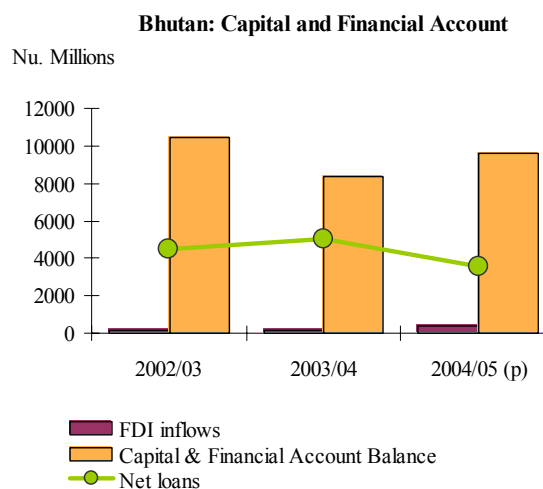


Outward remittances to COTI from aid-related projects and programs are estimated against the foreign aid (concessional loans and grants) received by Bhutan. Such aid-related transfers accounted for 97.8 percent of the total COTI current transfer payments of Nu.1.4 billion during 2004/05. On the other hand, Indian labor remittances were calculated on the basis of 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.1.8 billion for 2004/05.

At Nu.3.2 billion, the large current transfer outflows were more than matched by current transfer receipts of Nu.6.1 billion, which were mainly in the form of grants. Both grants from COTI and budgetary grants from India figured at well over Nu.2 billion each. Additionally, non-resident Bhutanese remittances increased to an equivalent of Nu.69.2 million in 2004/05, by 18.7 percent from 2003/04. Consequently, a net inflow for current transfers of Nu.2.8 billion was recorded for the fiscal year, an 11.3 percent growth over 2003/04.

### Capital and Financial Account

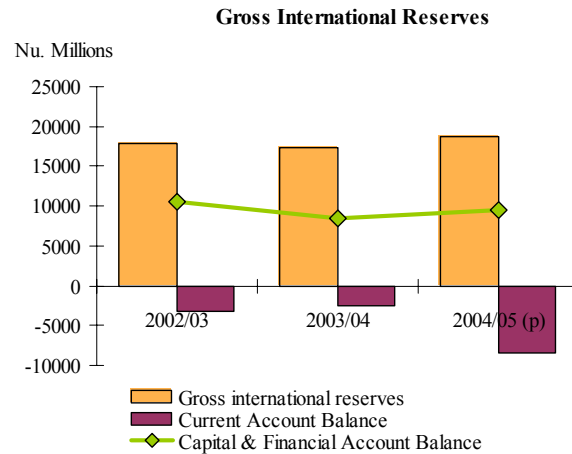
Bhutan's capital and financial account has always been in surplus, largely because of the official inflows of grants and loans, countering the deficits in the current account persistent since 1999/00. The capital and financial account surplus increased by 14 percent over 2003/04 to Nu.9.6 billion in 2004/05. Even while financial inflows continue to be dominated



by concessional loans from foreign governments and international aid agencies, grants to Tala alone accounted for 51 percent of the total inflows in the account. With the winding down of the Tala project, however, there was a fall in the grant inflows and loan disbursements (Royal Government) by 18.2 percent in 2004/05. FDI inflows, on the other hand, increased by almost three-fold from 2003/04 to Nu.401.4 million. Despite this increase, FDI inflows still constitute only a very small part of the total capital and financial account balance

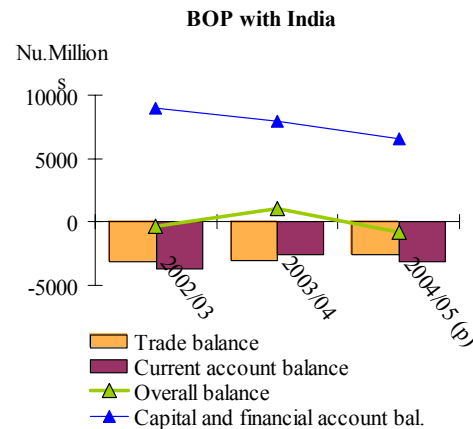
After provisions for errors and omissions, and despite the current account deficit, Bhutan's balance of payments recorded an overall surplus of Nu.1.5 billion for the fiscal year 2004/05, driven by the combined grants and financial account inflows.

Corresponding to this increase in the overall balance of payments is the improvement in the country's international reserves to USD 419.8 million from USD 383.3 million in 2003/04. Rupee reserves decreased by 18 percent from Rs.4.4 billion to Rs.3.6 billion, whereas, convertible currency reserve levels grew by 17.5 percent to USD 337.7 million.



### 3.1.1. Balance of Payments with India

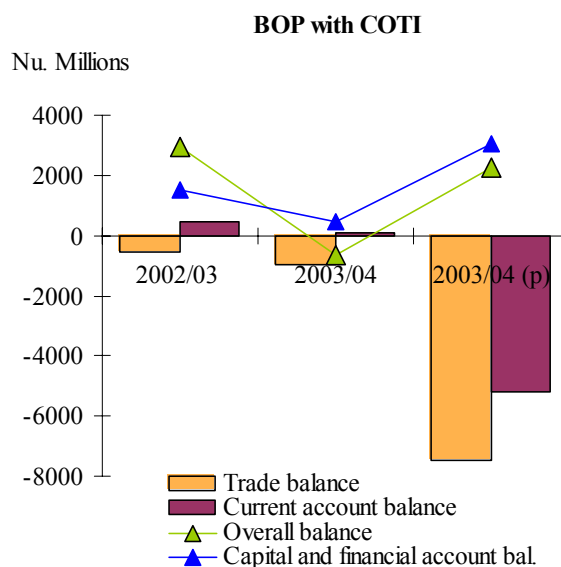
Despite a lower growth in merchandise imports from India of 3.4 percent to Nu.10.1 billion in 2004/05, imports outsized exports, which grew by 11.9 percent to Nu.7.6 billion. However, the better performance of exports resulted in a smaller trade deficit of Nu.2.5 billion in 2004/05 from the Nu.3 billion deficit in 2003/04. As such, the trade deficit as a percentage of GDP also fell from 11.2 percent to 9.7 percent in 2004/05. Substantially large outflows in the services account countered the combined effects of the improvement in the trade deficit and the large inflows of grants, to increase the current account deficit from Nu.2.6 billion to Nu.3.1 billion (10.1 percent of GDP).



Due to the persistent and increased current account deficit and lower inflows of financial aid in the form of reduced capital transfers for Tala and hydropower project-related loans from the Government of India, Bhutan's BOP with India was negative, with an overall balance of (-) Nu.784.6 million.

### 3.1.2. Balance of Payments with Countries Other Than India

COTI imports surged in 2004/05, growing from Nu.1.3 billion to Nu.8.2 billion, partly on account of the purchase of new aircrafts. While exports also grew by 86 percent to Nu.0.7 billion, the surge in imports led to a trade deficit of Nu.7.5 billion or 24 percent of GDP. In the services account, due to better tourism, transportation, and communication receipts, there was a surplus to the extent of Nu.435.6 million as of 2004/05, after a services account deficit in the previous year of Nu.165.7 million. The surplus in the income account also increased by 90 percent to Nu.230.5 million, due to highly improved earnings from foreign investments. Similarly, overall current transfers grew by 17 percent, steered by the inflow of grants in excess of transfer payments. In the end however, the huge trade deficit countered the invisibles account surplus to a current account deficit of Nu.5.2 billion. In relation to nominal GDP, the current account deficit with COTI stood at 16.7 percent for the fiscal year under review.



Meanwhile, at Nu.3 billion, the capital and financial account balance with COTI grew six-fold over the balance in 2003/04. As such, in spite of the large current account deficit, and after providing for possible errors and omissions, the overall balance was positive for 2004/05 at Nu.2.2 billion, up from a negative balance of Nu.662.6 million in 2003/04.

### 3.2 External Debt and Debt Service

The stock of external debt outstanding grew by 14.9 percent during fiscal year 2004/05 to USD 607.8 million. Of this figure, 38.8 percent consisted of convertible currency outstanding loans, amounting to USD 235.6 million, a 9.1 percent increase over the previous year. The remaining 61.2 percent of outstanding debt are Rupee loans of Rs./Nu.16,603.8 million, which is a 16.7 percent increase from last year's outstanding balance of Rs./Nu.14,222.3 million. Both convertible currency and Rupee loan disbursements in 2004/05 decreased by 17.6 and 20.6 percent, respectively, over the previous year.

Corresponding to the growth in total debt, the ratio of outstanding debt to GDP grew marginally, from 86.6 percent in 2003/04 to 87 percent in the current period. Meanwhile, total debt as a percentage of gross international reserves has also increased from 138.1 percent in 2003/04 to 144.8 percent in 2004/05.



## External Debt Indicators

*End of Period*

Item	2001/02	2002/03	2003/04	2004/05 (p)
Debt Outstanding (in millions)	291.8	405.5	529.2	607.8
Total (USD)				
Convertible Currency (USD)	129.9	176.8	216.0	235.6
Indian Rupees (Rs.)	7803.6	10963.7	14222.3	16,603.8
Debt Outstanding/GDP (%) <sup>1)</sup>	62.9	77.8	86.6	87.0
Debt Service Ratio (%) <sup>2)</sup>	4.9	5.0	4.2	7.0

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 2002/03, all external debt for Bhutan related to soft loans or concessional debt. The only commercial loan had been procured by the Government in 1988/89 to purchase an airplane, and repayments on this loan were completed in 1998/99. However, during 2003/04, external commercial debt (non-sovereign) was revived with the IFC disbursement of a convertible currency loan to Bhutan's private tourism sector. Notably, 64.9 percent of all cumulative loans (both concessional and commercial convertible currency and Rupee) have been disbursed to the power sector, while another 27.6 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 Government of India (Rupee loans), with an outstanding Rupee debt of Rs./Nu.16,603.8 million (USD 372.2 million), followed by the ADB, the World Bank, and the Austrian Government, with outstanding debt figures of USD 87.8 million, USD 58.8 million and USD 57.7 million, respectively.

Expenditure on Rupee debt 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 5.3 million for fiscal year 2004/05, of which 49.9 percent, or USD 2.6 million, were spent on principal repayments. The convertible currency debt service ratio declined from 24.2 percent to 12.2 percent at the end of June 2005. Meanwhile, on the Rupee side, debt service on the Chukha and Kurichhu hydropower loans amounted to Rs./Nu.492.3 million, of which Rs./Nu.218.1 million were spent on interest and Rs./Nu.274.2 million on principal repayments during 2004/05. The Rupee debt service ratio rose from 1.4 to 5.8 percent for the period under review.

### 3.3. Exchange Rate Developments

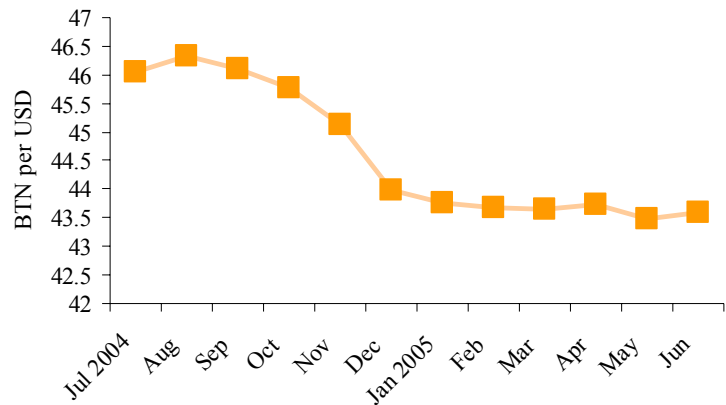
Being pegged at par to the Indian Rupee, movements in the Ngultrum vis-à-vis other major currencies reflects developments in the Indian foreign exchange market, and resulting movements of the Indian Rupee. Bhutan continues to benefit in terms of exchange rate stability as India's foreign exchange reserves continue to accumulate at unprecedented levels and growth remains robust.

From a monthly average of Nu.46.04 per US Dollar at the start of the review year, the Ngultrum averaged 43.58 per US Dollar at the end, continuing to appreciate against the US Dollar. Between June 2004 and June 2005, the exchange rate vis-à-vis the US Dollar appreciated by 4.4 percent. The Ngultrum averaged 44.61 per USD in 2004/05 as against Nu.45.41 per USD in 2003/04, reflecting an appreciation of 1.8 percent.

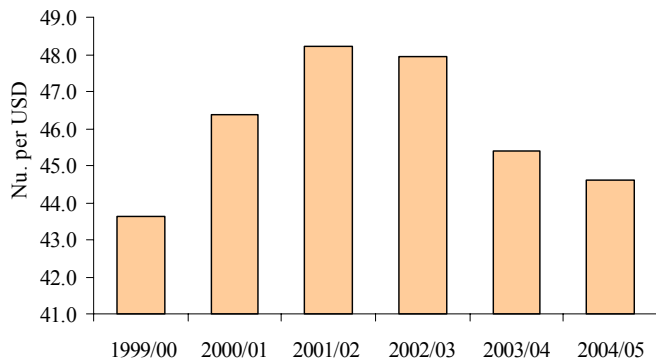
Among other major currencies, the Japanese Yen appreciated by 0.8 percent against the US Dollar between June 2004 and June 2005. The Yen averaged 107 per US Dollar in 2004/05 as against 110.9 in the previous year.

The Euro appreciated against the US Dollar by 0.2 percent between June 2004 and June 2005, continuing in its appreciation of 4.1 percent over the previous corresponding period.

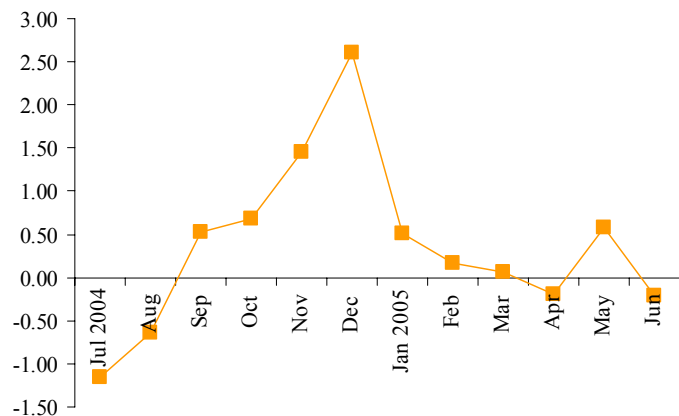
**BTN vis-à-vis USD  
(Monthly Movements, 2004/2005)**



**BTN/USD (Fiscal Year Average)**



**Appreciation (+) / Depreciation (-) of BTN vis-a-vis the USD**



## 4. GOVERNMENT FINANCE

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Despite cautious fiscal management, the overall budget deficit grew by around 90 percent during 2004/05, increasing its ratio to GDP to 11 percent from 7 percent in the previous year. This development reflected the growth in total government expenditure of 25 percent, unmatched by a similar growth in resources. The total outlay for 2004/05 increased to around Nu.16 billion as compared to the previous year's outlay of around Nu.13 billion. The budget for the financial year 2004/05 gives high priority for the development of rural infrastructure in the country. A major portion of the FY 2004/05 outlay was allocated for the development of rural electrification, feeder and farm roads, and an expansion of the education infrastructure.

### **Budget 2004/05 Target**

#### **A. Social Sector**

- Expansion of education infrastructure through construction of schools and hostels, development of teacher's training institutes, and support for higher studies through scholarship programs.
- Ensure universal access to primary health care and adequate support for the development of health infrastructure. Expansion of referral hospitals in different regions.
- Covers other preventive, promotive and rehabilitative health programs to ensure healthier and longer life.
- Provisions for Rural Water Supply Schemes to increase access to potable water in rural areas.

#### **B. Information and Communications**

- Creation of Local Area Networks in all the Dzongkhags and a Wide Area Network for Thimphu.
- Establishment of pilot multipurpose community tele-centers in rural communities.
- Implementation of a rural telecommunication network in the country.
- Maintenance and expansion of transport infrastructure in the country.

#### **C. Human Settlements**

- Third Phase of the Chang Jiji housing project and provide low-income housing in the Dzongkhags.
- Implementation of the Thimphu and Phuentsholing urban infrastructure plans, and continuation of urban infrastructure development tasks in other towns of the country.

#### **D. Energy**

- Continued effort on the expansion of rural electrification.
- Preparation of a detailed project report for the 870 MW Punatsangchhu Hydro-power project, with the assistance from the Government of India.

#### **E. Agriculture**

- Provision of subsidized farm equipment and machinery to the farmers.
- Establishment of vocational training programs for young farmers and community leaders.
- Enhance the capacity of the national research program nationwide.

Highlighting the importance of the decentralization process in the country, in the review year around 42 percent of the total outlay have been allocated to general public service, of which 57 percent were kept for capital expenditure and the remainder for meeting the sector's current expenditure. In order to further develop the private sector that is capable of generating the much needed employment opportunities and enhance the income of the majority of the Bhutanese population, the Government allocated around 28 percent of the total outlay to the economic and public services sector. Of these, around 75 percent were allocated for capital expenditure and the remaining 25 percent for current expenditure. Around 22 percent of the total outlay have been allocated for the development of the education and health sectors in the country.

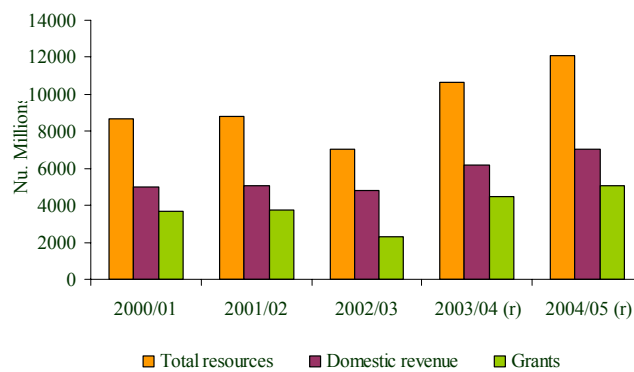
#### 4.1. Revenue and Grants

During 2004/05, total resources, including grants, increased by 13.7 percent to around Nu.12 billion over the previous year's Nu.11 billion. Domestic revenue, including other receipts, amounted to Nu.7 billion, of which almost half came from tax revenue. Tax revenue grew by 2.9 percent over the previous year to Nu.3.5 billion, while non-tax revenue, which constituted 45.4 percent of the domestic revenue, grew significantly by 71.3 percent. The remaining domestic revenue was collected from other sources.

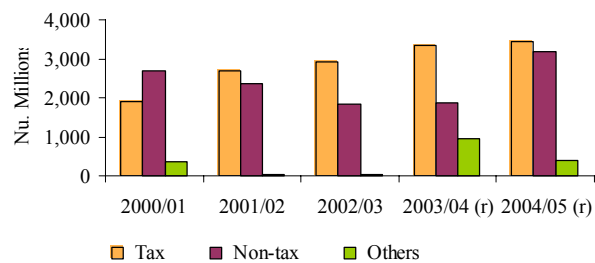
Going into details of tax revenue, corporate income tax accounted for 55.8 percent of the domestic revenue. CHPCL continued to be the highest contributor (Nu.562.1 million), followed by the PCAL (Nu.82.7 million). Business income tax from tourism, contractors, and other miscellaneous businesses amounted to Nu.423.2 million. The contribution from personal income tax (PIT) amounted to Nu.84.6 million, a decrease of around Nu.28.9 million as compared to the previous year's collection. The sales tax collection amounted to Nu.567.9 million, half of which came from taxes on goods and services.

Dividends and transfers of profits from public enterprises alone contributed Nu.1.9 billion to non-tax revenue during the year. CHPCL again was the highest contributor to the dividend collection, followed by PCAL and Bhutan Telecom. And on the transfer of profit, the RMA was the highest contributor followed by Bhutan Lottery.

Composition of Resources



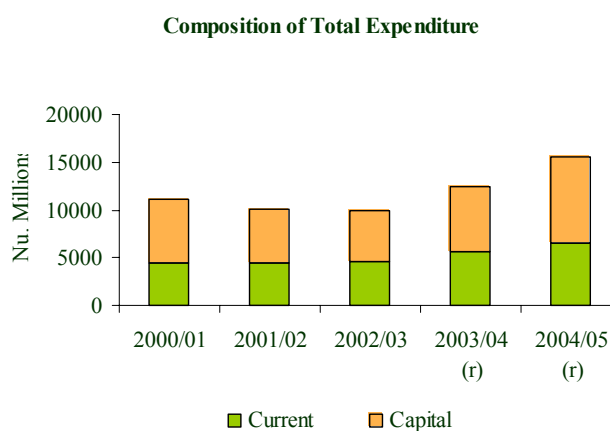
Domestic Revenue



Foreign grants, which finance a major portion of development activities, increased at a slower rate of 13 percent to Nu.5033 million, as compared to 96 percent in the previous year, reflecting slower growth in the inflow of grants from both India and other development partners. The grants from India and other countries increased by 15 percent and 11 percent as compared to 146 percent and 62 percent in the previous year, respectively.

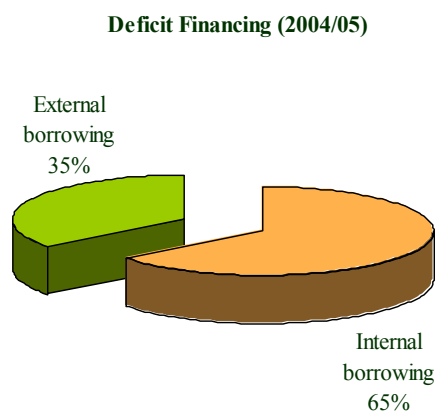
#### 4.2. Expenditure

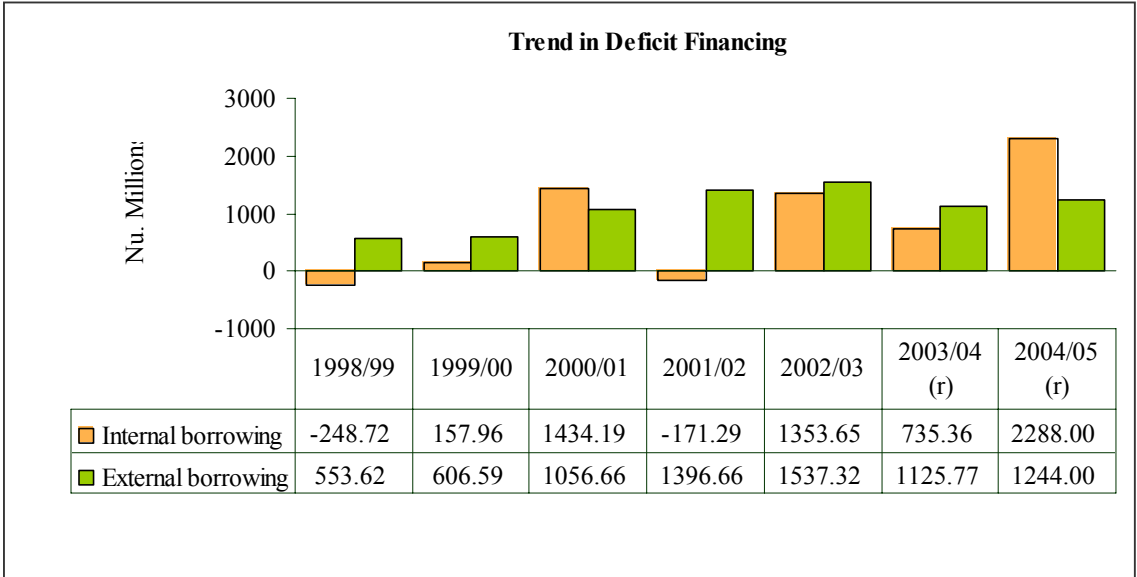
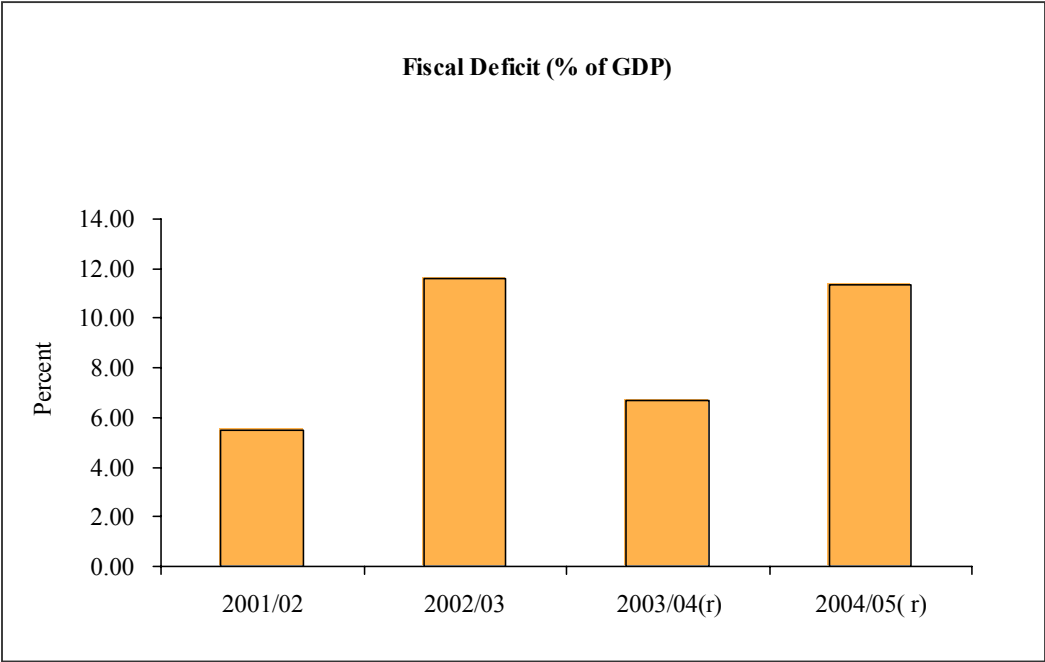
Total expenditure during 2004/05 amounted to Nu.16 billion, 25 percent higher than that of previous year. This increase in total expenditure can be attributed to higher growth in capital expenditure, which increased by 32 percent as compared to 29 percent in the previous period. This higher capital expenditure was mainly due to the purchase of aircraft for DACL. The overall capital expenditure is estimated at about 27.3 percent GDP, while the ratio of capital expenditure to total expenditure is estimated at 54.6 percent in this revised budget. The current expenditure increased at a slower rate of 17 percent to Nu.6.5 billion as compared to 22 percent in 2003/04. The primary reason for the increase in current expenditure is the revision of salaries for the civil servants during the year and interest payments on Druk Air bonds.



#### 4.3. Financing the Deficit

As a result of the developments in government finance, the resource-expenditure gap widened by 90 percent to Nu.3,532 million from Nu.1,861 million in the previous year. The budget deficit accounted for 11.3 percent of the estimated GDP. Of the overall deficit, 35 percent (Nu.1.2 billion) were met through external borrowings, while the remaining 65 percent (Nu.2.3 billion) were financed from domestic sources.







## Summary on 2005/06 Budget Estimates

Total budget outlay for the financial year 2005/06, the fourth year of the ongoing Ninth Five-Year Plan, is estimated at Nu.14.7 billion. The budget for 2005/06 is planned not only to meet the current expenditure with domestic revenue, but also to achieve the overall plan objectives with the fairly substantial capital expenditure.

A bulk of the budget is allocated for capital expenditure, constituting over 54 percent of the total outlay. Of the total capital expenditure, about 54 percent of the expenditure relate to the economic and public sector, consisting of agriculture, mining and manufacturing industries, energy, roads, communications and transport, and housing and public amenities. 26 percent of the total capital expenditure are allocated to the health and education sector. General public services, cultural services, public debt service, and lending constitute the remaining 20 percent. The current expenditures have been kept higher by over 15 percent against the previous year's estimates. This increase is largely on account of the salary raise for civil servants, the interest subsidy to DACL, and interest on government short-term loans. Of the current expenditure, which forms 46 percent of the total outlay, a major portion (34 percent) is allocated to the health and education sector, followed by economic and public services at 24 percent, with the remaining resources going to sectors, such as cultural services, general public services, public debt service, and lending. The current expenditure on general public services of Nu.2,063 million is among the highest.

On the resource side, domestic revenue is estimated at Nu.7,388 million, which is expected to finance 49 percent of total expenditure. Of the domestic revenue, 60 percent are expected to be contributed by tax revenues mainly collected from excise duties and corporate taxes. The tax revenues continue to be the main source of financing the current expenditure, while the non-tax revenue contributes 40 percent to the domestic revenue. About 68 percent of the total non-tax revenue is contributed by dividends collected from government corporations. With the improvement in project-tied grants from the Government of India, the grants are expected to increase by 9 percent over the 2004/05 estimates. The estimated grants of Nu.5.5 billion during the review period are sufficient to finance 71 percent of the capital expenditure.

As a result of the above developments, the budget deficit for the year 2005/06 is projected at Nu.1.7 billion, which is lower by more than half of the 2004/05 deficit. Of the overall deficit, about 48 percent will be financed through external borrowings and the rest through internal sources. The resource gap represents 2.3 percent of GDP.

## 5. WORLD ECONOMY<sup>5</sup>

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Following a temporary slowdown in mid-2004, global GDP growth picked up through the first quarter of 2005, with robust services sector output more than offsetting slowing global growth in manufacturing and, latterly, trade. In the second quarter, however, in part reflecting the impact of higher oil prices, signs of a renewed “soft patch” emerged, with leading indicators turning downward and business confidence weakening in most countries. While global manufacturing and trade are now strengthening, and leading indicators have picked up, the continuing rise in crude oil and refined product prices – latterly exacerbated by the catastrophic effects of hurricane Katrina – is an increasingly important offset.

Global output growth is expected at 4.3 percent in 2005 and 2006, after 4.0 percent and 5.1 percent in 2003 and 2004, respectively.

In advanced economies, GDP growth in the United States has eased moderately, but is projected to remain the highest in the G-7, underpinned by solid productivity growth; despite the appalling cost in life and property from hurricane Katrina, the direct impact on GDP growth – as is generally the case for natural disasters – appears likely to be moderate. The indirect effects – particularly as a result of higher gasoline prices – may be more of a concern; with household savings at record lows, this increases the risk of a sharp slowing in private consumption growth especially if the housing market, which is becoming increasingly richly valued, were to weaken. In the Euro Area, the tentative recovery in domestic demand in the second half of 2004 has slowed considerably. While incoming data are broadly consistent with a strengthening of activity in the second half of 2005, GDP growth forecasts for 2005 have been marked down, particularly for Italy; risks remain to the downside, given continued weak final domestic demand and the Euro area’s lack of domestic resilience to external shocks. In contrast, Japan’s economy is regaining momentum, with GDP growth rising sharply in the first quarter of 2005 and recent data pointing to continued, if more sedate, expansion thereafter. GDP growth is expected to average about 2 percent in both 2005 and 2006, with downside risks coming primarily from external factors.

Output growth in advanced economies is expected at 2.5 percent in 2005, increasing to 2.7 percent in 2006, after 1.9 percent and 3.3 percent in 2003 and 2004, respectively.

While growth prospects for emerging market and developing countries in aggregate have remained broadly unchanged, this disguises substantial changes in regional and individual forecasts, reflecting the impact of oil and other commodity price changes, exposure to global manufacturing and trade, as well as country – specific factors. GDP growth in China has continued to exceed expectations; with substantial liquidity remaining in the banking system, risks of a rebound in credit and investment growth remain a concern. Growth in India has also remained robust with the continued expansion in services, including information technology, and accelerating industrial production.

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<sup>5</sup> The overview is presented on the basis of the World Economic Outlook, September 2005, International Monetary Fund.



Output growth in other emerging market and developing countries is expected at 6.4 percent in 2005, falling to 6.1 percent in 2006, after 6.5 percent and 7.3 percent in 2003 and 2004, respectively. Output growth in Bhutan is expected at 7.7 percent in 2005, increasing to 13.3 percent in 2006, after 6.8 percent and 7.9 percent in 2003 and 2004, respectively, which is quite similar to the output growth in developing Asia, apart from the effect of Tala coming on stream in 2006.

Global headline inflation has picked up slightly in response to higher oil prices, but remains at moderate levels. Among the major industrial countries, core inflation appears generally contained, inflationary pressures well-anchored, and wage increases moderate, although the impact of higher oil prices – and, in the United States, rising unit labor costs – will need to be carefully watched. Inflationary pressures have risen somewhat more in emerging markets, with forecasts for 2005 revised upward in most regions. With inflationary expectations in these countries generally less well anchored, the impact of oil price or other shocks is inevitably more pronounced; in addition, overheating pressures in some countries with large external surpluses are playing an increasing role.

Consumer prices (year-to-year changes) in advanced economies are expected at 2.2 percent in 2005 and 2.0 percent in 2006, after 1.8 percent and 2.0 percent in 2003 and 2004, respectively. Consumer prices in other emerging market and developing economies are expected at 5.9 percent in 2005, falling to 5.7 percent in 2006, after 6.0 percent and 5.8 percent in 2003 and 2004, respectively. More or less in line with rising inflation in India, consumer prices in Bhutan are expected at 5.0 percent in 2005 and 2006, after 1.8 percent and 4.5 percent in 2003 and 2004, respectively. In other words, the inflationary climate in Bhutan might heat up substantially in the near future.

### Summary Overview of the *World Economic Outlook* Projections

Percentage change on the previous year

Indicator	Actual		Projections	
	2003	2004	2005	2006
<b>World Output<sup>1)</sup></b>	<b>4.0</b>	<b>5.1</b>	<b>4.3</b>	<b>4.3</b>
Advanced economies	1.9	3.3	2.5	2.7
Other emerging market and developing countries	6.5	7.3	6.4	6.1
Memorandum items:				
Developing Asia	8.1	8.2	7.8	7.2
Bhutan	6.8	7.9	7.7	13.3
<b>Consumer Prices</b>				
Advanced economies	1.8	2.0	2.2	2.0
Other emerging market and developing countries	6.0	5.8	5.9	5.7
Memorandum items:				
India	3.8	3.8	3.9	5.1
Bhutan	1.8	4.5	5.0	5.0

Source: World Economic Outlook, September 2005, International Monetary Fund, p. 2, p. 214, and p. 222.- 1) Real GDP.

## 6. MACROECONOMIC INDICATORS FOR THE SAARC REGION

Selected economic statistics of SAARC member countries have been compiled in the table below, based on information available with their respective central banks, to give a comparative overview of economic conditions in the region. The table has been updated based on data available in the websites and Annual Reports of the central bank of respective countries.

According to available estimates among the SAARC member countries, the economies of Bhutan, Maldives, and Pakistan grew at over 8 percent each in fiscal year 2004/05. Inflation continues to be among the lowest in Maldives and Bhutan. Both exports and imports for the SAARC region have grown by an average of 15 and 29 percents, respectively.

While Bhutan's external debt to GDP ratio is still the highest in the region, the debt service ratio is still one of the lowest in the region.

### Selected Economic Indicators for the SAARC Region

Statistics / Indicators *)	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (p)
<b>I. Growth in Real GDP</b>					
a) Bangladesh (1995/96 prices)	5.4	4.4	5.3	5.8	5.7
b) Bhutan (2000 prices) 1/	9.5	8.6	7.1	6.9	8.7 (p)
c) India (1993/94 prices)	4.4	5.8	4.0	8.5 (qe)	6.9 (re)
d) Maldives (1995 prices)	4.8	3.5	6.5	8.4	8.8
e) Nepal (1994/95 prices)	4.7	-0.3	2.7	3.5	..
f) Pakistan (1980/81 prices)	1.8	3.1	4.8	6.4	8.4
g) Sri Lanka (1996 prices)	6.0	-1.5	4.0	6.0	5.4
<b>II. Inflation: CPI Percent Change 2/</b>					
a) Bangladesh (1995/96=100)	1.7	3.6	5.0	5.6	7.4
b) Bhutan (Third Quarter, 2003=100)	..	..	..	4.6	5.5
c) India (1982=100; for industrial workers)	2.5	5.2	4.1	3.5	4.2
d) Maldives (1995=100)	-1.2	0.7	0.9	-2.8	6.4
e) Nepal (1995/96=100)	2.4	2.9	4.8	4.0	..
f) Pakistan (2000/01=100)	2.5	4.4	1.9	8.5	8.7
g) Sri Lanka (1995-1997=100)	8.1	13.4	6.6	1.0	16.8
<b>III. Government Budget (as percent of GDP) 3/</b>					
<b>Total Revenue and Grants</b>					
a) Bangladesh	10.7	11.4	11.2	11.4	..
b) Bhutan	44.5	39.5	28.2	38.3	38.7
c) India	9.2	8.9	9.4	9.6	9.7 (re)
d) Maldives	32.3	33.0	33.1	33.7	..
e) Nepal	13.5	13.5	14.9	14.9	..
f) Pakistan 4/	13.3	14.2	14.9	14.3	13.7
g) Sri Lanka	17.2	17.0	17.0	16.2	15.8

Statistics / Indicators *)	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (p)
<b>Expenditure and Net Lending</b>					
a) Bangladesh	14.8	14.9	14.6	14.8	..
b) Bhutan	57.3	44.9	39.8	45.0	50.1
c) India	15.6	15.9	16.8	17.1	16.3 (re)
d) Maldives	36.7	37.7	38	37	..
e) Nepal	19.4	19.0	18.5	18.6	..
f) Pakistan	17.2	18.8	18.6	17.3	18.3
g) Sri Lanka	26.7	27.5	25.4	23.7	23.5
<b>Overall Budget Balance</b>					
a) Bangladesh	-4.1	-3.1	-3.4	-3.4	..
b) Bhutan	-12.8	-5.5	-11.6	-6.7	-11.3
c) India	-5.7	-6.2	-5.9	-4.5	-4.5 (re)
d) Maldives	-4.4	-4.7	-4.9	-3.3	..
e) Nepal	-5.9	-5.4	-3.6	-3.7	..
f) Pakistan	-4.3	-4.3	-3.7	-3.0	-3.3
g) Sri Lanka	-9.5	-10.4	-8.5	-7.6	-7.7
<b>IV. Trade and Balance of Payments 5/</b>					
<b>Exports Growth Rate (US\$ values)</b>					
a) Bangladesh	12.6	-7.6	9.5	15.9	14.1
b) Bhutan	-13.0	4.2	8.9	39.7	18.0
c) India	21	-1.6	20.3	21.1	24.1
d) Maldives	18.8	1.4	20.1	14.9	13 (p)
e) Nepal	11.7	-20.1	-14.1	12.5	..
f) Pakistan	9.1	2.3	19.1	13.8	15.9
g) Sri Lanka	19.8	-12.8	-2.4	9.2	12.2
<b>Imports Growth Rate (US\$ values) 6/</b>					
a) Bangladesh	11.4	-8.7	13.1	13.0	20.1
b) Bhutan	-8.4	9.9	1.7	29.1	67.6
c) India	1.7	1.7	19.4	27.3	37
d) Maldives	-3.4	1.3	-0.5	20.2	30.7 (p)
e) Nepal	6.7	-15.1	6.6	18.4	..
f) Pakistan	6.2	-7.5	20.1	20	37.6
g) Sri Lanka	22.4	-18.4	2.2	9.3	19.9
<b>Trade Balance (US\$ million)</b>					
a) Bangladesh	-2011	-1768	-2215	-2319	-3297
b) Bhutan	-70	-83	-77	-87.3	-224.5
c) India	-14370	-12703	-10690	-15454 (r)	-38130 (p)
d) Maldives	-233	-236	-212	-262.3	-369.8 (p)
e) Nepal	-767	-697	-901	-1105.7	..
f) Pakistan	-1269	-294	-444	-1208	-4353
g) Sri Lanka	-1798	-1158	-1407	-1539	-2243
<b>Current Account (percent of GDP)</b>					
a) Bangladesh	-2.5	0.3	0.3	0.3	-0.6
b) Bhutan	-6.3	-10.4	-12.9	-9.1	-26.8
c) India	-0.6	0.7	1.2	1.7	-0.9 (p)
d) Maldives	-8.2	-9.4	-5.6	-4.4	..
e) Nepal	4.9	4.3	2.6	2.4	..
f) Pakistan	0.5	4.0	4.9	1.9	-1.4
g) Sri Lanka	-6.4	-1.4	-1.4	-0.4	-3.3
<b>Capital and Financial Account (percent of GDP)</b>					
a) Bangladesh	2.4	1.7	1.6	0.5	..
b) Bhutan	15.2	22.2	41.9	30.3	30.7
c) India	1.9	1.8	2.1	3.4	4.6 (p)
d) Maldives	3.8	5.1	9.5	12.7	..
e) Nepal	-5.4	-7.5	-2.6	-4.2	..
f) Pakistan	-0.9	-1.5	-0.2	-2.1	1.5
g) Sri Lanka	2.7	3.6	2.7	4.0	3.2

Statistics / Indicators *)	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (p)
<b>V. External Debt (end of period)</b>					
<b>Total External Debt (percent of GDP)</b>					
a) Bangladesh	31.7	33.4	33.0	31.7	..
b) Bhutan	56.3	62.9	77.8	86.6	87.0
c) India	22.6	21.2	20.3	17.8	17.4 (p)
d) Maldives	28.5	29.0	34.8	38.1	..
e) Nepal	48.8	52.1	49.1	49.5	..
f) Pakistan	49.5	45.6	40.0	35.0	31.0
g) Sri Lanka 7/	61.0	60.3	62.4	64.1	65.0
<b>Debt Service Ratio (percent of X G &amp; S)</b>					
a) Bangladesh	8.8	9.9	9.4	7.5	..
b) Bhutan	4.7	4.9	5.0	4.2	7.0
c) India	16.6	13.4	16.4	16.3	6.2 (p)
d) Maldives	4.2	4.3	4.3	3.7	3.8 (p)
e) Nepal	6.2	8.1	9.7	..	..
f) Pakistan	32.7	36.7	22.8	32.5	15
g) Sri Lanka	14.7	13.2	13.2	11.6	11.5
<b>VI. Exchange Rate Per US Dollar 8/</b>					
a) Bangladesh	53.9	57.4	57.9	58.8	61.5
b) Bhutan	46.4	48.2	47.9	45.4	44.6
c) India	46.4	48.2	47.9	45.4	44.6
d) Maldives	11.8	12.8	12.8	12.8	12.8
e) Nepal	73.6	76.5	78.0	73.9	72.5
f) Pakistan	58.2	61.6	58.6	57.6	59.1
g) Sri Lanka	83.6	93.1	96.7	97.3	101.7
<b>VII. Monetary Aggregates (end of period)</b>					
<b>Narrow Money (M1) Annual Growth</b>					
a) Bangladesh	12.4	8.1	10.7	13.9	16.5
b) Bhutan	21.3	12.1	35.3	13.9	9.1
c) India	11.0	11.4	12.0	22.2	11.7
d) Maldives	11.1	-5.9	13.9	11.6	19.7
e) Nepal	15.7	9.3	8.6	12.6	5.7 (#)
f) Pakistan	3.0	15.2	26.2	24.0	18.4
g) Sri Lanka	9.1	3.2	14.0	16.0	16.6
<b>Broad Money (M2) Annual Growth</b>					
a) Bangladesh	16.6	13.1	15.6	13.8	16.8
b) Bhutan	5.5	17.6	28.7	4.0	10.7
c) India 9/	16.8	14.1	12.7	16.7	12.2
d) Maldives	4.1	9.0	19.3	14.6	32.6
e) Nepal	15.2	4.4	9.8	13.5	5.8 (#)
f) Pakistan	9.0	15.4	18.0	19.62	19.26
g) Sri Lanka	12.9	13.6	13.4	15.3	19.6
<b>Reserve Money (M0) Annual Growth</b>					
a) Bangladesh	10.9	24.3	3.3	8	12.5
b) Bhutan	-4.8	27.9	33.0	17.0	-0.3
c) India	8.1	11.4	9.2	18.3	12.1
d) Maldives 10/	5.0	8.0	18.8	-1.9	27.7
e) Nepal	15.7	11.9	2.5	14.8	..
f) Pakistan	7.1	9.6	14.5	15.44	17.61
g) Sri Lanka	4.7	7.0	12.3	11.9	20.6
<b>Income Velocity of Money (GDP/M2)</b>					
a) Bangladesh	2.91	2.77	2.64	2.56	2.43
b) Bhutan	2.07	2.02	1.75	1.87	1.90
c) India	1.71	1.60	1.49	1.48	1.46
d) Maldives	2.41	2.30	2.07	2.02	..
e) Nepal	1.92	1.89	1.84	1.77	..
f) Pakistan	2.7	2.5	2.3	2.2	2.2
g) Sri Lanka	2.79	2.76	2.69	2.65	2.61
<b>Money Multiplier (M2/M0)</b>					
a) Bangladesh	4.61	4.19	4.69	4.94	5.13
b) Bhutan	2.00	1.84	1.78	1.58	1.76
c) India	4.33	4.52	4.80	4.76	4.79
d) Maldives	1.76	1.78	1.78	2.08	2.16
e) Nepal	3.04	2.84	3.04	3.00	..
f) Pakistan	2.86	3.01	3.1	3.22	3.26
g) Sri Lanka	4.60	4.88	4.92	5.08	5.02

- (p) provisional (r) revised (qe) 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.  
 (#) Data is for the first 9 months of FY 2004/05  
 1/ GDP data for Bhutan was rebased to 2000 in 2005. Data are 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 are quarterly averages compiled with third quarter 2003 as the base (data for 2003/04 is the average for the third quarter of 2004 and for 2004/05, the second quarter 2005). 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. For example, entry under 2001/02 is for CY 2001.  
 6/ Import values are fob except for Bhutan which is cif. (india & srilanka?)  
 7/ Including banking sector external liabilities.  
 8/ Data on exchange rates from International Financial Statistics, IMF. Represents the period average for July-June end.  
 9/ 2004/05 data adjusted for conversions in the banking system since October 11, 2004; 2002/03 data adjusted for mergers in the banking system since May 3, 2002.  
 10/ Excludes Maldives Monetary Authority Certificate of Deposits.

<b>Sources:</b>	
Bangladesh	: Annual Report 2003/2004, Bangladesh Bank; Economic Trends Oct. 2005, 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 2004-05, Reserve Bank of India (RBI); Handbook of Statistics on the Indian Economy, RBI 2004-05.
Maldives	: Annual Report 2003, Maldives Monetary Authority (MMA); MMA website; Quarterly Economic Bulletin, December 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 2004-2005, State Bank of Pakistan.
Sri Lanka	: Annual Report 2004, Central Bank of Sri Lanka.

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## **II. ADMINISTRATION AND OPERATIONS**

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## **BOARD MEETINGS**

During the FY 2004/05, there were three meetings (37<sup>th</sup>, 38<sup>th</sup>, and 39<sup>th</sup>) of the RMA's Board of Directors. The main issues discussed and passed during these meetings were the restructuring of the RMA organization with the creation the Operations Department and the Policy and Programs Department, changes in the By-Laws of the RMA dated October 17, 2000, membership in the International Association of Insurance Supervisors (IAIS), and the Internal Audit Charter.

## **DEVELOPMENT OF THE FINANCIAL SECTOR**

### ***Insurance Regulation***

The Insurance Unit was created in 2003 under the FISC to regulate and supervise insurance business in Bhutan as a part the RMA's efforts to strengthen insurance regulation and supervision in Bhutan. In 2000, Bhutan joined the South Asian Insurance Regulatory Forum (SAIRF). In 2004, the RMA's proposal to join the 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 conducted, in order to carry out a detailed study on the insurance activities of the RICBL. The RMA joined IAIS in 2005 and later received formal endorsement during the 12th Annual Conference held on October 21, 2005, in Vienna, Austria. The Insurance Unit has developed off-site returns for the insurance industry, while technical assistance from the ADB is also under way to strengthen the legal and regulatory framework of the Insurance Unit.

### ***SWIFT Service***

Bhutan became a member of SWIFT (Society for Worldwide Interbank Financial Telecommunications) towards the end of 2004 and the SWIFT services became available from March 5, 2005, when the RMA, BOBL, and BNBL went live on the SWIFT network. The SWIFT network is regarded as the most secure, efficient, and cost-effective means of communication used mostly by banks all over the world. The Telex services, which used to be the predominant means of communication for international financial transactions, have become obsolete and are not regarded safe and efficient anymore. Almost all of the banks in western countries, as well as Japan and India have discontinued the use of Telex services for financial transactions. As a result, it became necessary for the RMA and other banks in Bhutan to migrate to SWIFT communication from Telex Services. With this step forward, Bhutanese banks will comply with the international standards due to the adoption of technology, which is common to institutions and banks in 202 countries around the Globe and as a result, bring about more efficiency in international payments and settlements.

## **TECHNICAL ASSISTANCE**

### ***IMF TA for Bhutan's Balance of Payments (BOP) and International Investment Position (IIP) Statistics***

As a follow-up on the IMF/GDDS (General Data Dissemination System) Mission in March 2004, the RSD received technical assistance (TA) from the IMF in the field of balance of payments and the international investment position statistics during January 27 – February 7, 2005. The TA Mission reviewed the findings of the IMF/GDDS mission and provided assistance in the design of a new standardized quarterly survey to collect information for the BOP and IIP. The development of this survey constitutes a key element in the RMA's strategy to improve the coverage, quality, and timeliness of the country's BOP statistics. The RSD is in the process of compiling quarterly BOP statistics on the basis of this survey. Other future plans of the RSD include the establishment of a BOP Task Force to ensure the smooth flow of data and to enhance the quality of BOP and related statistics.

### ***The 2005 Article IV Consultation Mission***

The 2005 Article IV Consultation Mission from the IMF, was in Thimphu from 16-31 March 2005. The Fund staff reviewed the country's macroeconomic developments and policies. During their visit, they met with various senior officials from the Government, corporations, private sector, and non-governmental organizations to discuss Bhutan's macroeconomic issues and challenges. Based on their findings, the Mission prepared the Staff Report, consisting of important policy recommendations. The Mission also made a presentation on Bhutan's Public Debt Dynamics, which was attended by researchers and senior officials from various government agencies. Bhutan is placed on a twenty-four month cycle for Article IV Consultations. The Public information Notice (PIN) of the IMF concerning the 2005 Article IV consultation with Bhutan has been added to the annexure for information.

### ***IMF TA for Internal Audit***

The Internal Audit Division was set up in April 1999 to carry out regular inspections of business procedures, the personnel structure, and other matters relating to internal management. At the request of the RMA, the IMF provided two technical assistance missions during the year to further enhance the RMA's audit functions. During the first mission (13th February – 4th March, 2005), the Internal Audit Division, in conjunction with the IMF Advisor, undertook a risk assessment of all functions within the RMA. An Internal Audit Charter was established, defining the Audit's roles and responsibilities, and ensuring the independence and authority of the Internal Audit. The second visit (22nd May – 10th June, 2005) focused mainly on staff training and assisting the Audit staff to undertake risk-based audits. The Advisor ran a day and half training course on "Introduction to Risk Based Auditing", which was attended by the Audit staff from the RMA and the FIs. The Internal Audit, in consultation with the Advisor, finalized the Annual Plan for 2005/06, which was based on the risk assessment undertaken during the previous visit.



## **NUMBER OF STAFF**

As of June 2005, the total staff strength of the RMA stood at 155, consisting of 3 executives, 59 officers and 93 general support staff. In addition, Mr. Klaus Dornseif from the International Monetary Fund has been with the RMA as a full-time Advisor.

## **MEETINGS, TRAINING, SEMINARS, VISITS**

As in the past, the RMA actively participated at various international fora, including the annual meetings of the ADB, the ACU, IMF-World Bank Meetings, the FDI Round Table, and WTO meetings. Further, to strengthen the financial sector development, the RMA, in collaboration with SEDF, conducted several rounds of meetings and in-house seminars for the financial institutions in the RMA.

In order to provide an informal forum for the Bhutanese financial players to discuss and deliberate on issues pertaining to the Bhutanese financial sector, the second RMA Annual Meeting with the FIs was held on April 27-28, 2005, Thimphu. The meeting was chaired by the Managing Director, Mr. Daw Tenzin, and was attended by senior officials from all the financial institutions. Some of the highlights of the meeting were the review of the 1<sup>st</sup> RMA Annual Meeting's action plan, Bhutan's accession to the WTO in regard to financial services, achievements/challenges faced by the Bhutanese financial institutions, issues relating to the Prudential Regulations 2002, and other matters of mutual interest (interest rates/ corporate governance/ internal controls and systems).

The management continued to give top priority to the human resource development of the RMA, in order to further strengthen central banking capacity building by deputing most of the division chiefs and officials from various divisions to attend meetings, seminars, and other relevant training in-country and abroad.

## **ANNUAL AUDITED ACCOUNTS OF THE RMA FOR 2004/05**

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 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 (*Annex XI*).

During the year, the total assets of the RMA registered a growth of 3 percent over the previous year, from Nu.13.40 billion as at the end of June 2004 to Nu.13.84 billion as at June 30, 2005. About 98 percent of the total assets of the RMA consisted of foreign assets in the form of cash, bank balances, fixed deposits, and portfolio assets.

On the liabilities side, foreign financial liabilities of the RMA to the IMF, Government agencies, and other foreign financial institutions, such as the World Bank, ADB and, ARC increased significantly from Nu.148.9 million as at June 30, 2004, to Nu.507.8 million as at June 30, 2005. The increase in liability to the IMF was due to the application of a revised accounting treatment for IMF membership in order to make the presentation consistent with the International Financial Reporting Standard (IFRS).

There has been a depletion of capital and reserves of the RMA by around 2.7 percent from Nu.1.12 billion at the end of the previous year to Nu.1.09 billion at the end of June 2005, mainly due to a significant decrease in the revaluation reserves as a result of the constant appreciation of the Ngultrum vis-à-vis the US dollar.

The RMA's operating surplus transferable to the Royal Government increased significantly from Nu.51.4 million in 2003/04 to Nu.217.4 million in 2004/05. The significant increase in the operating surplus has resulted from an increase in the interest income on investment (by 84 %), due to a rise in world interest rates, coupled with an increase in the volume of RMA's foreign investments. Interest expenditure, mainly on account of the use of central bank policy instruments – the RMA bills and the CRR – decreased by 39 percent during the year, due to a downward revision of interest rates and reduction of volume of these instruments.

With regard to Ngultrum notes and coins in circulation, the recorded growth at the end of June 2005, was 14 percent, up from Nu.2.1 billion as of the end of the previous financial year to Nu.2.4 billion. It may be noted that the amount of foreign assets in relation to Ngultrum and coins in circulation works out to be about six times larger.

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### **III. STATISTICAL SECTION**

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**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 2004 (%)
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (pre)	2005 (pro)	
1. Agriculture, livestock and forestry	3161	3540	4230	4702	5048	5569	6037	6909	7401	8132	8943	25.6
1.1 Agriculture proper	1555	1753	1896	2123	2291	2516	2682	3001	3196	3452	3728	10.9
1.2 Livestock production	802	975	1351	1486	1607	1748	1930	2032	2210	2386	2577	7.5
1.3 Forestry and logging	804	812	983	1094	1150	1305	1425	1877	1995	2294	2638	7.2
2. Mining and quarrying	206	268	307	312	360	301	404	440	581	720	864	2.3
3. Manufacturing	1013	1259	1307	1433	1557	1659	1889	1937	2129	2299	2506	7.2
4. Electricity	1026	1123	1594	1789	2313	2475	2674	2963	3420	3796	7972	12.0
5. Construction	985	1047	1218	1476	2056	3043	4093	5061	5616	6739	8222	21.2
6. Wholesale and retail trade, restaurants and hotels	894	1121	1266	1449	1598	1834	2091	2106	2500	2819	3178	8.9
7. Transport, storage, and communications	714	849	1016	1233	1637	1881	2261	2559	2812	3206	4007	10.1
8. Financing, insurance, real estate, and business services	529	559	680	984	986	1196	1324	1248	1440	1541	1654	4.9
9. Community, social & personal services (Government administration and defense)	757	935	1183	1365	1641	1773	1950	2080	2302	2507	2733	7.9
Less : Imputed bank service charges	-91	-28	-126	-144	-193	-210	-350	-321	-456	-588	-758	
Gross Domestic Product	9193	10673	12675	14600	17002	19521	22373	24982	27745	31171	39321	100.0

Source : National Statistical Bureau - National Accounts Statistics November 2004. \*) The base year has been changed from 1980 to 2000, while the figures have been calculated on the basis of the 1993 System of National Accounts. (Pre) = Preliminary. (Pro) = Projection.

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

At 2000 Prices in Millions of Ngultrum

Sector	Year											Growth from 2003 to 2004 (%)
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (pre)	2005 (pro)	
1. Agriculture, livestock and forestry	4834	4933	5124	5244	5323	5569	5849	6033	6134	6327	6528	3.1
1.1 Agriculture proper	2173	2239	2274	2319	2403	2516	2617	2690	2721	2792	2866	2.6
1.2 Livestock production	1470	1584	1618	1643	1663	1748	1888	1943	1969	2048	2130	4.0
1.3 Forestry and logging	1190	1110	1233	1283	1257	1305	1345	1401	1443	1487	1531	3.0
2. Mining and quarrying	281	325	322	309	310	301	352	389	402	430	461	7.0
3. Manufacturing	1317	1486	1529	1532	1590	1659	1839	1848	1980	2099	2204	6.0
4. Electricity	2394	2451	2284	2293	2501	2475	2497	2759	3021	3233	3362	7.0
5. Construction	1243	1245	1316	1545	2149	3043	3769	4681	5127	6101	7261	19.0
6. Wholesale and retail trade, restaurants and hotels	1149	1342	1471	1504	1616	1834	2057	2028	2387	2626	2888	10.0
7. Transport, storage, and communications	1184	1304	1480	1658	1775	1881	2020	2112	2204	2424	2667	10.0
8. Financing, insurance, real estate, & business services	735	631	744	1049	1010	1196	1276	1230	1365	1414	1478	3.6
9. Community, social & personal services (Government administration and defense)	1145	1314	1498	1564	1745	1773	1889	1962	2124	2251	2386	6.0
Less : Imputed bank service charges	-109	-32	-140	-155	-196	-210	-346	-334	-481	-530	-549	
Gross Domestic Product	14174	14997	15628	16542	17824	19521	21202	22707	24262	26375	28684	8.7

Source: National Statistical Bureau - National Accounts Statistics November 2004. \*) The base year has been changed from 1980 to 2000, while the figures have been calculated on the basis of the 1993 System of National Accounts. (Pre) = Preliminary. (Pro) = Projection.

**TABLE 3. SALES OF MAJOR INDUSTRIES**

Millions of Ngultrum

Industry	Period										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
										I	II
(1) Army Welfare Project	198.6	232.0	237.93	234.9	255.0	283.8	255.0	190.4	233.8	68.4	52.3
Exports to India	73.4	101.7	89.65	64.6	55.7	74.0	66.3	28.8	20.8	6.4	4.2
Exports to Countries other than India	-	-	-	-	-	-	-	-	0.0	-	-
Sales within Bhutan	125.3	130.2	148.28	170.3	199.3	209.8	188.6	161.6	213.1	62.0	48.1
(2) Bhutan Board Products Ltd.	348.0	428.7	383.82	257.1	228.6	294.1	288.8	491.5	546.2	-	158.3
Exports to India	330.4	402.6	363.35	247.6	213.9	255.8	80.3	-	418.7	-	139.0
Exports to Countries other than India	-	-	-	-	-	-	-	-	0.0	-	1.1
Sales within Bhutan	17.6	26.1	20.47	9.5	14.7	38.3	5.8	-	26.2	-	18.2
(3) Bhutan Carbide & Chemicals Ltd.	561.2	560.3	583.64	569.3	474.6	675.9	707.5	703.4	731.6	191.0	192.2
Exports to India	542.6	555.2	583.58	546.8	448.0	509.4	704.7	687.0	714.7	190.1	189.9
Exports to Countries other than India	-	-	-	-	-	-	-	-	0.0	-	-
Sales within Bhutan	18.6	5.1	0.06	22.6	26.6	166.4	2.8	16.4	16.9	1.0	2.3
(4) Bhutan Fruit Products Ltd.	133.2	107.2	112.27	124.9	108.8	111.6	133.9	122.4	174.1	29.9	39.5
Exports to India	119.5	90.0	95.93	104.9	89.2	87.0	107.9	98.9	145.0	25.8	29.1
Exports to Countries other than India	9.8	8.9	7.33	7.8	7.4	6.9	4.2	4.9	8.5	1.4	1.4
Sales within Bhutan	3.9	8.4	9.01	12.2	12.3	17.7	21.8	18.6	20.5	2.7	9.0
(5) Bhutan Polythene Company	25.5	24.1	15.84	26.7	21.8	46.9	46.7	28.8	59.2	12.9	16.0
Exports to India	14.1	14.4	3.71	1.0	8.6	11.5	11.5	10.1	5.3	0.1	0.0
Exports to Countries other than India(*)	4.2	0.9	0.00	9.1	-	-	-	-	0.0	-	-
Sales within Bhutan	7.3	8.7	12.13	16.7	13.2	35.3	25.9	18.6	53.8	12.8	16.0
(6) Penden Cement Authority Ltd.	209.5	265.5	564.71	684.5	696.7	763.9	814.3	896.1	851.8	251.2	338.2
Exports to India	124.2	206.8	454.39	433.7	236.0	316.5	258.1	254.7	265.1	66.5	140.8
Exports to Countries other than India	0.3	-	0.33	-	-	-	-	-	0.0	-	-
Sales within Bhutan	85.1	58.7	109.99	250.8	460.7	447.4	556.1	641.4	586.7	184.7	197.4

**TABLE 3. CONTINUED**  
**SALES OF MAJOR INDUSTRIES**

Millions of Ngultrum

Industry	Period										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
										I	II
(7) Bhutan Ferro Alloys Ltd.	497.1	522.9	488.43	534.7	428.4	579.0	643.2	658.1	748.3	184.9	159.5
Exports to India	497.1	522.9	488.43	534.7	428.4	579.0	643.2	658.1	712.9	182.4	157.7
Exports to Countries other than India	-	-	-	-	-	-	-	-	24.2	1.7	1.2
Sales within Bhutan	-	-	-	-	-	-	-	-	11.2	0.7	0.6
(8) Bhutan Agro Industries Ltd.	12.4	18.1	24.75	21.4	19.7	27.9	27.7	26.1	34.9	6.6	9.7
Exports to India	7.1	5.4	14.42	14.5	8.9	13.3	8.2	6.9	11.5	1.4	1.7
Exports to Countries other than India	0.6	1.4	1.74	1.7	2.4	1.8	0.7	0.7	2.8	-	0.2
Sales within Bhutan	4.8	11.3	8.58	5.1	8.4	12.7	18.8	18.5	20.6	5.2	7.8
(9) Eastern Bhutan Coal Company	47.5	45.0	78.72	97.1	126.5	141.0	133.4	110.7	26.0	54.8	51.5
Exports to India	24.2	23.4	19.76	41.4	10.5	8.3	22.1	18.5	8.5	8.6	14.3
Exports to Countries other than India	14.5	-	18.46	26.7	47.2	50.5	29.7	14.5	0.0	8.0	13.8
Sales within Bhutan	8.7	21.6	40.50	29.0	68.8	82.2	81.7	77.6	17.6	38.1	23.4
(10) Druk Satair Corporation Ltd.	45.6	49.9	59.08	77.4	94.0	98.3	106.0	118.4	140.4	41.0	50.6
Exports to India	38.8	41.7	49.50	62.3	79.7	74.6	83.9	94.7	112.3	31.0	38.1
Exports to Countries other than India	-	-	0.72	1.6	7.3	8.9	2.1	2.6	2.1	1.8	2.4
Sales within Bhutan	6.8	8.3	8.86	13.5	6.9	14.9	20.0	21.1	26.0	8.1	10.1
(11) Druk Plaster & Chemicals Ltd.	-	-	-	-	-	-	-	-	31.3	8.2	8.5
Exports to India	-	-	-	-	-	-	-	-	31.3	8.1	8.5
Exports to Countries other than India	-	-	-	-	-	-	-	-	0.0	0.1	0.0
Sales within Bhutan	-	-	-	-	-	-	-	-	0.0	0.0	0.0
<b>TOTAL</b>	<b>2078.8</b>	<b>2253.8</b>	<b>2549.2</b>	<b>2627.9</b>	<b>2446.5</b>	<b>3022.4</b>	<b>2944.4</b>	<b>2854.2</b>	<b>3476.3</b>	<b>848.8</b>	<b>1076.3</b>
Exports to India	1771.4	1964.2	2162.7	2051.4	1578.9	1929.4	1986.2	1857.7	2445.9	520.4	723.5
Exports to Countries other than India	29.3	11.2	28.6	46.8	65.6	68.1	36.7	22.7	37.7	13.1	20.1
Sales within Bhutan	278.1	278.5	357.9	529.7	801.9	1024.9	921.4	973.8	992.7	315.3	332.8

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.-(11) Plaster of Paris

**TABLE 4. SALES FROM POWER PROJECT OPERATIONS**

Millions of Ngultrum

	Total Sales				Domestic Sales				Exports		
	Total	Basochu	Chukha	Kurichhu	Total	Basochu <sup>1</sup>	Chukha <sup>2</sup>	Kurichhu <sup>3</sup>	Total	Chukha <sup>4</sup>	Kurichhu <sup>5</sup>
<b>2000</b>	<b>2307.4</b>		<b>2307.4</b>		<b>117.8</b>		<b>117.8</b>		<b>2189.6</b>	<b>2189.6</b>	
<b>2001</b>	<b>2237.9</b>		<b>2175.1</b>	<b>62.8</b>	<b>140.5</b>		<b>140.2</b>	<b>0.3</b>	<b>2097.4</b>	<b>2034.9</b>	<b>62.5</b>
<b>2002</b>	<b>2594.1</b>	<b>91.1</b>	<b>2132.6</b>	<b>370.5</b>	<b>246.8</b>	<b>91.1</b>	<b>149.5</b>	<b>6.2</b>	<b>2347.4</b>	<b>1983.1</b>	<b>364.3</b>
<b>2003</b>	<b>2875.0</b>	<b>107.3</b>	<b>2337.3</b>	<b>430.4</b>	<b>271.4</b>	<b>107.3</b>	<b>151.3</b>	<b>12.8</b>	<b>2603.5</b>	<b>2186.0</b>	<b>417.5</b>
<b>2004</b>	<b>3077.4</b>	<b>192.2</b>	<b>2361.8</b>	<b>523.5</b>	<b>365.7</b>	<b>192.2</b>	<b>158.4</b>	<b>15.1</b>	<b>2711.7</b>	<b>2203.3</b>	<b>508.4</b>
Jun	374.4	14.4	296.8	63.1	28.3	14.4	12.3	1.6	346.1	284.6	61.5
Jul	383.4	18.9	344.1	20.4	32.4	18.9	12.7	0.8	351.0	331.4	19.6
Aug	418.6	18.7	336.1	63.8	33.4	18.7	12.9	1.7	385.3	323.2	62.0
Sep	468.2	43.5	359.6	65.1	58.0	43.5	12.6	1.9	410.2	347.0	63.2
Oct	445.4	46.3	332.0	67.0	61.5	46.3	13.3	1.9	383.9	318.7	65.2
Nov	214.3	22.0	149.8	42.5	36.4	22.0	13.0	1.3	177.9	136.8	41.2
Dec	120.5	11.0	80.5	28.9	26.0	11.0	13.8	1.2	94.5	66.8	27.7
<b>2005</b>											
Jan	86.6	7.1	58.2	21.3	22.8	7.1	14.7	1.1	63.7	43.6	20.2
Feb	68.6	5.1	43.5	20.0	19.8	5.1	13.7	1.0	48.8	29.8	19.0
Mar	106.6	8.3	69.4	29.0	23.4	8.3	14.0	1.1	83.2	55.4	27.9
Apr	127.9	7.8	89.2	30.9	51.2	7.8	42.5	0.9	76.6	46.7	29.9
May	283.1	14.3	209.4	59.3	29.2	14.3	13.2	1.7	253.9	196.2	57.6
Jun	285.6	15.0	208.9	61.7	29.7	15.0	13.0	1.8	255.9	195.9	59.9
Percentage change on the previous year											
<b>2004</b>	7.0	79.0	1.0	21.6	34.7	79.0	4.7	17.6	4.2	0.8	21.8
<b>2005</b>											
Jan	-4.0	134.0	-10.0	-5.4	25.8	134.0	1.1	72.8	-11.5	-13.2	-7.7
Feb	5.2	118.5	2.7	-2.6	19.8	118.5	0.9	67.1	0.2	3.6	-4.7
Mar	11.3	210.3	9.8	-3.3	34.4	210.3	1.3	21.4	6.2	12.2	-4.0
Apr	-20.3	170.7	-22.2	-27.9	199.8	170.7	224.3	-14.5	-46.6	-54.1	-28.3
May	17.5	125.0	17.8	4.2	42.4	125.0	3.7	19.4	15.1	18.9	3.9
Jun	-23.7	3.7	-29.6	-2.3	5.0	3.7	6.0	9.6	-26.1	-31.1	-2.6

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



**TABLE 5. TOURIST ARRIVALS AND REVENUES (\*)**

Number of Tourists and Revenues in Millions of US Dollar

Period	1999		2000		2001		2002		2003		2004		2005	
	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue
Jan	148	0.1	65	0.1	185	0.2	55	0.1	192	0.2	89	0.1	334	0.2
Feb	322	0.3	223	0.2	355	0.4	269	0.2	98	0.1	358	0.4	631	0.6
Mar	1145	1.4	1066	1.3	553	0.8	862	1.1	654	0.8	831	1.1	2166	2.9
Apr	604	0.8	995	1.4	1632	2.3	683	1.1	1215	1.8	1304	2.0	1474	2.2
May	395	0.4	415	0.6	276	0.4	296	0.4	397	0.5	448	0.6	700	0.9
June	108	0.1	187	0.2	146	0.1	79	0.1	176	0.2	313	0.3	315	0.4
July	132	0.1	162	0.2	129	0.1	114	0.1	112	0.1	276	0.3		
Aug	348	0.3	307	0.3	252	0.2	213	0.2	198	0.2	476	0.4		
Sept	1069	1.4	683	1.0	868	1.5	760	1.2	612	0.9	1248	1.9		
Oct	1856	2.7	2247	3.7	1308	2.1	1474	2.4	1456	2.2	2263	3.6		
Nov	841	1.1	996	1.5	517	0.8	643	0.9	862	1.1	1198	1.5		
Dec	190	0.1	213	0.2	172	0.2	151	0.1	289	0.3	445	0.5		
<b>Total</b>	<b>7158</b>	<b>8.9</b>	<b>7559</b>	<b>10.5</b>	<b>6393</b>	<b>9.2</b>	<b>5599</b>	<b>8.0</b>	<b>6261</b>	<b>8.3</b>	<b>9249</b>	<b>12.5</b>	<b>5620</b>	<b>7.2</b>

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

TABLE 6. 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
<b>1997</b>	9286.6	7341.8	1006.8	6335.0	1944.8	14.7	449.1	223.8	1252.3	5.0
<b>1998</b>	11250.9	10840.4	2540.3	8300.1	410.5	-1479.4	411.4	174.0	1301.4	3.0
<b>1999</b>	12665.8	12895.6	3306.9	9588.8	-229.9	-2097.7	372.1	140.2	1352.5	3.0
<b>2000</b>	15661.0	15073.7	3711.2	11362.5	587.3	-1499.4	332.6	126.7	1624.3	3.0
<b>2001</b>	16312.7	14823.3	3405.1	11418.2	1489.4	-1255.7	315.2	117.4	2308.7	3.7
<b>2002</b>	20252.7	17303.7	4567.0	12736.7	2949.0	-455.9	252.0	117.8	3031.5	3.7
<b>2003*)</b>	20165.5	16802.8	3575.9	13227.0	3362.6	-2035.0	1102.6	227.1	3711.7	356.2
<b>2004</b>										
Jan	20914.3	17867.2	4180.6	13686.6	3047.0	-2365.8	1112.3	175.0	3814.4	311.1
Feb	20185.9	17847.3	4195.8	13651.6	2338.5	-3149.3	1112.7	192.9	3870.6	311.6
Mar	20380.9	17258.5	3502.4	13756.1	3122.4	-2586.6	1171.0	121.8	4104.6	311.6
Apr	21002.8	17647.1	4544.0	13103.1	3355.7	-2411.8	1167.5	145.6	4141.6	312.8
May	21005.4	17263.9	3245.5	14018.4	3741.6	-2105.2	1165.2	152.0	4216.1	313.4
Jun	20625.9	16456.8	3314.3	13142.5	4169.1	-1818.3	1202.5	210.8	4259.7	314.3
Jul	19578.1	15396.3	2264.2	13132.0	4181.8	-1867.3	1186.5	174.7	4420.3	267.7
Aug	20422.1	15804.8	2427.0	13377.8	4617.2	-1586.5	1187.0	188.7	4559.8	268.2
Sep	20687.2	16192.7	2904.2	13288.5	4494.5	-1899.7	1201.6	174.4	4747.2	271.0
Oct	21933.9	17162.5	4704.0	12458.5	4771.3	-1789.6	1344.3	158.7	4788.6	269.3
Nov	23170.0	18124.5	6121.6	12002.9	5045.5	-1565.2	1344.9	146.1	4849.9	269.8
Dec	23045.3	17327.3	5446.6	11880.8	5718.0	-936.3	1308.8	135.8	4963.4	246.3
<b>2005</b>										
Jan	22798.4	17335.1	5546.0	11789.1	5463.4	-1274.6	1309.1	199.8	4982.2	246.8
Feb	24444.9	19200.4	5334.9	13865.5	5244.5	-1568.9	1309.5	166.0	5090.5	247.3
Mar	25496.1	19561.4	5412.3	14149.1	5934.7	-1029.4	1314.2	138.3	5236.7	274.8
Apr	23518.1	18330.0	4163.5	14166.4	5188.1	-1859.0	1291.8	124.9	5357.0	273.4
May	24615.1	18614.6	4593.3	14021.3	6000.5	-1120.2	1312.2	145.9	5368.7	293.9
Jun	25273.2	18719.5	3595.0	15124.5	6553.7	-690.9	1276.0	139.5	5505.9	323.2

\*) Starting from January 2003 onwards, a major reclassifications has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 6. 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				
<b>1997</b>	9286.6	5652.2	2196.5	720.9	1447.2	28.4	3455.7	10.6	3623.8	
<b>1998</b>	11250.9	6578.3	2792.0	768.8	1860.4	162.8	3786.3	134.1	4538.5	
<b>1999</b>	12665.8	8643.4	3902.7	969.2	2754.9	178.6	4740.7	26.2	3996.2	
<b>2000</b>	15661.0	10035.4	4039.0	1269.6	2669.5	100.0	5996.3	115.3	5510.4	
<b>2001</b>	16312.7	10802.1	4934.5	1609.9	3238.2	86.4	5867.6	5.2	5505.5	
<b>2002</b>	20252.8	13875.7	7143.4	1648.3	5322.8	172.3	6732.3	11.1	6366.0	
<b>2003*)</b>	20165.5	13846.0	6769.8	1802.3	4967.5	0.0	7076.1	0.0	6319.5	
<b>2004</b>										
Jan	20914.3	14794.9	7285.0	1786.2	5498.8	0.0	7509.9	0.9	6118.4	
Feb	20185.9	14642.6	7005.3	1811.5	5193.7	0.0	7637.3	0.9	5542.4	
Mar	20380.9	14482.2	6700.5	1865.3	4835.1	0.0	7781.7	0.9	5897.9	
Apr	21002.8	16459.5	8739.2	1830.4	6908.8	0.0	7720.3	1.8	4541.6	
May	21005.4	15306.1	7917.5	1901.3	6016.1	0.0	7388.6	1.8	5697.6	
Jun	20625.9	14832.3	7737.0	2015.2	5721.7	0.0	7095.3	1.8	5791.8	
Jul	19578.1	14305.4	6887.3	1898.3	4989.0	0.0	7418.0	0.9	5271.8	
Aug	20422.1	14383.9	6661.0	1877.1	4783.9	0.0	7722.9	1.8	6036.4	
Sep	20687.2	13476.6	6188.7	1877.2	4311.5	0.0	7287.9	1.8	7208.9	
Oct	21933.9	16009.5	7542.8	1930.0	5612.8	0.0	8466.6	1.8	5922.6	
Nov	23170.0	17658.3	9078.7	2000.3	7078.3	0.0	8579.6	1.8	5510.0	
Dec	23045.3	16599.5	8053.7	2070.7	5983.1	0.0	8545.7	1.8	6444.1	
<b>2005</b>										
Jan	22798.4	16514.8	7920.1	2019.5	5900.6	0.0	8594.7	1.8	6281.8	
Feb	24444.9	16274.2	7715.7	2171.3	5544.4	0.0	8558.5	1.8	8168.9	
Mar	25496.1	16359.4	8752.0	2177.5	6574.5	0.0	7607.4	1.8	9135.0	
Apr	23518.1	15177.6	7512.5	2074.2	5438.2	0.0	7665.1	0.9	8339.6	
May	24615.1	16848.1	8087.8	2099.9	5987.9	0.0	8760.3	0.9	7766.1	
Jun	25273.2	16415.5	8444.8	2303.4	6141.4	0.0	7970.7	-48.7	8906.4	

**TABLE 7. 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				
<b>1992</b>	2241.9	2027.2	21.7	2005.5	43.7	171.0	0.0	0.0
<b>1993</b>	3126.2	2944.7	59.3	2885.4	107.8	73.7	0.0	0.0
<b>1994</b>	3595.1	3533.2	24.6	3508.6	6.9	0.0	0.0	55.0
<b>1995</b>	4395.0	4337.2	27.6	4309.5	2.8	50.0	0.0	5.0
<b>1996</b>	5602.5	5284.8	25.1	5259.7	307.8	0.0	4.9	5.0
<b>1997</b>	6126.7	6064.6	25.5	6039.0	2.5	51.0	3.7	5.0
<b>1998</b>	9218.6	8022.4	26.9	7995.5	1193.0	0.0	3.1	0.0
<b>1999</b>	10030.6	8840.5	82.3	8758.2	1187.5	0.0	2.6	0.0
<b>2000</b>	11253.8	10357.6	87.8	10269.8	892.7	0.0	3.5	0.0
<b>2001</b>	11011.2	10716.1	1215.5	9500.6	293.2	0.0	1.9	0.0
<b>2002</b>	12321.9	11998.7	913.4	11085.3	194.3	127.0	1.9	0.0
<b>2003*)</b>	-----	-----	-----	-----	-----	-----	-----	-----
<b>2004</b>	12260.2	11899.0	987.3	10911.7	303.5	56.0	1.8	0.0
Jan	13549.0	12913.7	1703.1	11210.6	577.1	56.0	2.2	0.0
Feb	14390.3	12824.8	1701.3	11123.5	1507.5	56.0	2.0	0.0
Mar	13874.5	12767.4	1722.3	11045.1	1104.5	0.0	2.6	0.0
Apr	14517.6	13709.4	2901.3	10808.0	806.0	0.0	2.3	0.0
May	13974.4	13444.0	1466.0	11978.1	528.2	0.0	2.2	0.0
Jun	13486.2	13199.7	1822.4	11377.3	248.7	37.0	0.8	0.0
Jul	12584.2	12370.3	833.8	11536.5	176.1	37.0	0.8	0.0
Aug	12751.6	12571.9	810.0	11761.9	141.9	37.0	0.8	0.0
Sep	12747.7	12572.5	765.3	11807.3	137.4	37.0	0.8	0.0
Oct	13462.6	12879.0	1998.2	10880.8	545.8	37.0	0.8	0.0
Nov	13993.1	13060.4	2715.4	10345.0	894.9	37.0	0.7	0.0
Dec	13933.6	13000.5	2709.6	10290.9	895.4	37.0	0.7	0.0
<b>2005</b>								
Jan	14333.4	12859.7	2578.7	10281.0	1435.9	37.0	0.7	0.0
Feb	16410.6	15022.3	2615.1	12407.2	1350.7	37.0	0.7	0.0
Mar	15988.9	15026.7	2421.2	12605.5	924.6	37.0	0.7	0.0
Apr	16088.6	14660.2	1909.1	12751.1	1427.7	0.0	0.6	0.0
May	15432.6	14695.8	2086.4	12609.4	736.3	0.0	0.6	0.0
Jun	16640.2	15830.0	2069.7	13760.3	709.5	100.0	0.6	0.0

\*) Starting from January 2003 onwards, a major reclassifications has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 7. 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				
<b>1992</b>	2241.9	1256.5	345.0	0.0	0.0	0.0	20.2	0.0	0.0	965.2
<b>1993</b>	3126.3	1364.9	346.0	0.0	0.0	0.0	25.4	0.0	0.0	1736.0
<b>1994</b>	3595.1	1286.8	347.5	616.8	616.8	0.0	29.8	600.0	40.2	1021.5
<b>1995</b>	4395.0	2149.7	432.4	161.1	161.1	0.0	28.6	550.0	88.1	1417.6
<b>1996</b>	5602.6	2328.5	422.5	250.0	250.0	0.0	333.7	1000.0	78.9	1611.5
<b>1997</b>	6126.7	2545.5	720.9	250.0	250.0	0.0	27.9	681.1	48.1	2574.2
<b>1998</b>	9218.6	3954.1	768.8	250.0	250.0	0.0	1207.3	560.0	150.1	3097.2
<b>1999</b>	10030.6	4972.5	969.2	0.0	0.0	0.0	1233.5	486.5	172.5	3165.6
<b>2000</b>	11253.9	6021.6	1269.6	0.0	0.0	0.0	918.2	410.0	220.6	3683.5
<b>2001</b>	11011.2	6160.7	1609.9	0.0	0.0	0.0	337.9	410.0	161.0	3941.7
<b>2002</b>	12321.9	6982.1	1652.1	0.0	0.0	0.0	141.3	1100.0	277.8	3820.7
<b>2003*)</b>	12260.2	8281.0	1802.3	0.0	0.0	0.0	462.0	0.0	174.3	3342.9
<b>2004</b>										
Jan	13549.0	9116.9	1786.2	0.0	0.0	0.0	821.0	100.0	181.1	3330.0
Feb	14390.3	9431.1	1811.5	0.0	0.0	0.0	1440.6	100.0	177.4	3241.1
Mar	13874.5	9249.4	1865.3	0.0	0.0	0.0	1277.9	100.0	108.7	3138.5
Apr	14517.6	10277.6	1830.4	0.0	0.0	0.0	946.0	200.0	124.8	2969.3
May	13974.4	9659.1	1901.3	0.0	0.0	0.0	692.9	200.0	130.9	3291.4
Jun	13486.2	9370.3	2015.2	0.0	0.0	0.0	414.9	200.0	144.9	3356.1
Jul	12584.2	8554.3	1898.3	0.0	0.0	0.0	356.1	100.0	167.7	3406.3
Aug	12751.6	8642.4	1877.1	0.0	0.0	0.0	335.0	200.0	151.4	3422.8
Sep	12747.7	8665.3	1877.2	0.0	0.0	0.0	342.4	200.0	155.4	3384.6
Oct	13462.6	8948.9	1930.0	0.0	0.0	0.0	762.5	200.0	166.3	3384.8
Nov	13993.1	9161.9	2000.3	0.0	0.0	0.0	1086.7	200.0	202.8	3341.7
Dec	13933.6	9222.6	2070.7	0.0	0.0	0.0	1087.6	200.0	205.8	3217.6
<b>2005</b>										
Jan	14333.3	9152.9	2019.5	0.0	0.0	0.0	1617.7	200.0	239.5	3123.3
Feb	16410.6	9249.6	2171.3	0.0	0.0	0.0	1577.7	200.0	246.8	5136.6
Mar	15988.9	9043.0	2177.5	152.2	152.2	0.0	1078.3	200.0	265.5	5249.9
Apr	16088.6	8944.7	2074.2	0.0	0.0	0.0	1597.8	100.0	246.5	5199.6
May	15432.6	9144.0	2099.9	0.0	0.0	0.0	909.1	100.0	278.5	5001.2
Jun	16640.2	9340.1	2303.4	0.0	0.0	0.0	779.0	200.0	879.0	5442.2

TABLE 8. DEPOSIT MONEY BANKS - MONEY AND BANKING STATISTICS<sup>1)</sup>

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	Claims on NMFIs
			Total	Rupee	Others					
<b>1997</b>	6657.6	3008.3	1527.3	1231.3	295.9	200.6	449.1	223.8	1248.6	
<b>1998</b>	7905.5	2900.8	3068.0	2763.4	304.6	50.0	411.4	174.0	1298.3	
<b>1999</b>	9645.2	3674.9	4055.1	3224.6	830.6	50.0	372.1	140.2	1352.9	
<b>2000</b>	11518.7	4669.5	4716.1	3623.4	1092.7	50.0	332.6	126.7	1623.8	
<b>2001</b>	13112.9	4923.6	5080.6	3163.0	1917.6	370.0	315.2	117.4	2306.1	
<b>2002</b>	16155.2	6473.4	5305.0	3653.6	1651.4	973.8	252.0	117.8	3033.3	
<b>2003*)</b>	16964.0	6342.4	4903.9	2588.6	2315.3	321.9	1102.6	227.1	3709.9	356.2
<b>2004</b>										
Jan	17910.5	7224.3	4953.6	2477.5	2476.1	322.0	1112.3	175.0	3812.3	311.1
Feb	17453.4	6622.0	5022.5	2494.4	2528.1	323.0	1112.7	192.9	3868.6	311.6
Mar	17802.7	6564.0	5210.4	2499.4	2711.0	321.9	1171.0	121.8	4102.0	311.6
Apr	19058.3	8192.5	4780.5	2485.5	2295.0	320.0	1167.5	145.6	4139.3	312.8
May	18416.0	7692.4	4558.9	2518.6	2040.4	320.0	1165.2	152.0	4213.9	313.4
Jun	17698.1	7072.8	4318.8	2553.6	1765.2	320.0	1202.5	210.8	4258.9	314.3
Jul	17171.4	6664.1	4078.7	2483.1	1595.5	380.5	1186.5	174.7	4419.4	267.7
Aug	17532.2	6866.0	3801.5	2185.6	1615.9	661.8	1187.0	188.7	4559.0	268.2
Sep	16559.1	6225.6	3620.2	2138.9	1481.2	320.0	1201.6	174.4	4746.4	271.0
Oct	18515.5	6750.8	4283.5	2705.8	1577.7	921.1	1344.3	158.7	4787.9	269.3
Nov	20907.0	7796.7	5064.1	3406.2	1657.9	1436.3	1344.9	146.1	4849.2	269.8
Dec	19532.3	6608.1	4326.8	2737.0	1589.8	1943.8	1308.8	135.8	4962.7	246.3
<b>2005</b>										
Jan	19199.1	6049.8	4475.4	2967.3	1508.1	1936.7	1309.1	199.8	4981.5	246.8
Feb	19014.2	6084.4	4178.1	2719.8	1458.3	1939.0	1309.5	166.0	5089.9	247.3
Mar	19953.3	6351.8	4686.9	3143.3	1543.6	1951.1	1314.2	138.3	5236.0	274.8
Apr	18307.5	5654.6	3669.7	2254.4	1415.3	1936.7	1291.8	124.9	5356.4	273.4
May	19562.7	6584.8	3918.8	2506.9	1412.0	1939.0	1312.2	145.9	5368.1	293.9
Jun	18738.5	6655.5	2889.5	1525.3	1364.1	1949.5	1276.0	139.5	5505.3	323.2

1) Bank of Bhutan and Bhutan National Bank.

\*) Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 8. 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				
<b>1997</b>	6657.6	1447.2	3359.3	96.4	0.0	0.0	0.0	209.1	0.0	539.0	1006.6
<b>1998</b>	7905.5	1860.4	3598.4	187.9	0.0	0.0	0.0	322.2	0.0	568.4	1368.3
<b>1999</b>	9645.2	2754.9	4367.8	372.9	0.0	0.0	0.0	914.2	0.0	633.1	602.3
<b>2000</b>	11518.7	2669.5	5815.4	180.9	0.0	0.0	0.0	631.2	0.0	756.1	1465.7
<b>2001</b>	13112.9	3238.2	5628.3	239.3	973.4	973.4	0.0	1287.8	0.0	958.0	787.9
<b>2002</b>	16155.2	5322.8	6260.8	471.5	0.0	0.0	0.0	1415.4	0.0	1194.3	1490.4
<b>2003*)</b>	16964.0	4967.5	6029.8	1046.3	0.0	0.0	0.0	1950.9	0.0	1637.7	1331.7
<b>2004</b>											
Jan	17910.5	5498.8	6316.4	1193.5	0.0	0.0	0.0	1922.8	0.0	1654.2	1324.8
Feb	17453.4	5193.7	6482.7	1154.7	0.0	0.0	0.0	2087.7	0.0	1658.6	876.0
Mar	17802.7	4835.1	6517.7	1264.0	719.3	719.3	0.0	1630.6	0.0	1683.5	1152.5
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	739.0	739.0	0.0	1732.3	0.0	1708.3	831.6
Jun	17698.1	5721.7	6490.9	604.4	1061.6	1061.6	0.0	1760.4	0.0	1763.0	296.1
Jul	17171.4	4989.0	6840.4	577.7	1052.7	1052.7	0.0	1928.7	0.0	1741.2	41.8
Aug	17532.2	4783.9	7029.1	693.8	568.5	568.5	0.0	1950.3	0.0	1739.5	767.1
Sep	16559.1	4311.5	6720.1	567.7	0.0	0.0	0.0	1914.3	0.0	1779.0	1266.5
Oct	18515.5	5612.8	7958.7	507.9	0.0	0.0	0.0	1985.1	0.0	1783.8	667.1
Nov	20907.0	7078.3	8021.5	558.1	0.0	0.0	0.0	1951.8	0.0	1798.7	1498.6
Dec	19532.3	5983.1	7957.0	588.7	0.0	0.0	0.0	1829.5	0.0	1823.7	1350.4
<b>2005</b>											
Jan	19199.1	5900.6	8012.1	582.6	0.0	0.0	0.0	1630.5	0.0	1837.0	1236.2
Feb	19014.2	5544.4	8071.3	487.2	0.0	0.0	0.0	1967.2	0.0	1841.3	1102.8
Mar	19953.3	6574.5	7146.0	461.4	0.0	0.0	0.0	1939.2	0.0	1870.2	1962.1
Apr	18307.5	5438.2	7209.6	455.5	0.0	0.0	0.0	2197.9	0.0	1870.2	1136.1
May	19562.7	5987.9	8268.1	492.2	0.0	0.0	0.0	2150.2	0.0	1880.6	783.8
Jun	18738.5	6141.4	7485.5	485.2	0.0	0.0	0.0	1961.4	0.0	1942.2	722.7

(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). (\*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately and are not included in Other Liabilities anymore.

TABLE 9. BANK OF BHUTAN LIMITED-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	Claims on NMFIs
			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*)	11602.3	4900.7	3937.9	1978.8	1959.1	200.0	631.5	153.3	1530.9	248.0
2004										
Jan	12505.4	5783.1	4003.5	1873.0	2130.5	200.0	639.7	99.0	1573.1	207.0
Feb	11622.0	4841.9	4023.3	1902.1	2121.2	200.0	639.8	116.8	1593.2	207.0
Mar	11867.9	4719.3	4274.7	2004.3	2270.4	200.0	670.3	103.4	1690.1	210.1
Apr	13007.5	6378.1	3777.0	1956.0	1821.0	200.0	666.5	128.4	1650.6	207.0
May	12342.4	5699.7	3739.1	2027.5	1711.6	200.0	666.6	134.8	1695.2	207.0
Jun	11498.0	5070.5	3430.0	2001.4	1428.6	200.0	675.9	193.1	1718.6	210.0
Jul	11033.7	4665.2	3336.5	1995.0	1341.6	260.5	665.8	158.5	1777.4	169.8
Aug	10938.4	4385.3	3142.3	1781.6	1360.7	541.8	665.9	177.5	1855.7	169.8
Sep	10205.3	4127.6	2908.4	1699.7	1208.7	200.0	680.1	163.2	1953.9	172.0
Oct	11878.2	5070.5	3242.1	2119.4	1122.7	560.0	744.9	147.5	1943.4	169.8
Nov	14234.1	6130.5	4036.9	2826.1	1210.8	1074.5	745.1	138.5	1938.9	169.8
Dec	13013.2	5386.2	3552.9	2196.5	1356.4	1079.4	718.1	128.2	1996.0	152.5
2005										
Jan	12757.4	4893.4	3744.2	2503.9	1240.4	1074.5	718.1	192.2	1982.4	152.5
Feb	12439.8	4925.9	3408.7	2308.0	1100.7	1074.5	718.1	158.5	2001.7	152.5
Mar	13290.3	5376.6	3748.4	2640.1	1108.3	1084.3	722.4	130.7	2048.4	179.5
Apr	11561.7	4644.7	2732.2	1687.0	1045.2	1074.5	699.7	117.3	2115.8	177.5
May	12628.3	5389.3	2989.4	1991.8	997.6	1074.5	719.7	138.3	2119.7	197.5
Jun	11901.7	5562.7	2008.9	1087.3	921.6	1082.6	692.6	131.9	2189.8	233.1

\*) Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.



**TABLE 9. CONTINUED(\*)**  
**Bank of Bhutan Limited**

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				
<b>1992</b>	2238.9	495.9	691.1	55.0	357.2	357.2	0.0	200.3	0.0	533.9	-94.4
<b>1993</b>	2726.4	487.1	1054.9	65.2	567.8	567.8	0.0	311.3	0.0	329.6	-89.5
<b>1994</b>	2984.1	696.5	1266.8	84.2	0.0	0.0	0.0	139.5	0.0	323.6	473.4
<b>1995</b>	3921.7	889.9	1822.1	104.3	0.0	0.0	0.0	344.0	0.0	371.0	390.4
<b>1996</b>	4962.5	1651.6	1370.5	95.0	0.0	0.0	0.0	458.8	0.0	371.1	1015.5
<b>1997</b>	5743.1	1329.8	2787.1	96.4	0.0	0.0	0.0	183.6	0.0	399.3	946.8
<b>1998</b>	6613.3	1638.3	2842.8	183.2	0.0	0.0	0.0	257.3	0.0	410.7	1281.1
<b>1999</b>	6909.0	2151.4	2860.9	356.1	0.0	0.0	0.0	630.3	0.0	451.3	459.0
<b>2000</b>	7813.5	1998.1	3744.7	158.7	0.0	0.0	0.0	330.1	0.0	513.8	1068.0
<b>2001</b>	9137.7	2554.8	3407.8	209.3	973.4	973.4	0.0	731.6	0.0	654.7	606.2
<b>2002</b>	11300.5	4672.4	3203.2	441.9	0.0	0.0	0.0	775.5	0.0	865.8	1341.8
<b>2003*)</b>	11602.3	4093.8	3519.8	1002.1	0.0	0.0	0.0	924.9	0.0	937.7	1124.1
<b>2004</b>											
Jan	12505.4	4558.0	3425.1	1139.8	0.0	0.0	0.0	913.8	0.0	946.8	1521.9
Feb	11622.0	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	688.2	739.0	739.0	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	185.6
Jul	11033.7	4043.3	3262.9	524.3	1052.7	1052.7	0.0	1068.4	0.0	1016.3	65.9
Aug	10938.4	3813.9	3257.0	634.6	568.5	568.5	0.0	1029.5	0.0	1000.4	634.4
Sep	10205.3	3084.3	3235.5	514.6	0.0	0.0	0.0	967.3	0.0	1034.0	1369.5
Oct	11878.2	4633.6	4315.8	378.3	0.0	0.0	0.0	986.3	0.0	1031.6	532.7
Nov	14234.1	6078.2	4339.7	453.6	0.0	0.0	0.0	986.9	0.0	1037.2	1338.5
Dec	13013.2	4974.7	4226.1	507.6	0.0	0.0	0.0	988.7	0.0	1081.1	1234.9
<b>2005</b>											
Jan	12757.4	4905.1	4298.6	496.8	0.0	0.0	0.0	726.6	0.0	1088.1	1242.2
Feb	12439.8	4563.8	4275.9	392.4	0.0	0.0	0.0	1119.0	0.0	1082.8	1005.8
Mar	13290.3	5533.8	3316.9	346.7	0.0	0.0	0.0	1027.3	0.0	1110.1	1955.5
Apr	11561.7	4395.4	3468.0	340.0	0.0	0.0	0.0	1245.6	0.0	1108.0	1004.6
May	12628.3	4951.1	4410.0	368.3	0.0	0.0	0.0	1178.9	0.0	1112.5	607.5
Jun	11901.7	4925.7	4299.9	336.6	0.0	0.0	0.0	1111.2	0.0	1150.6	77.7

(\*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately and are not included in Other Liabilities anymore.

TABLE 10. BHUTAN NATIONAL BANK LIMITED- 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	Claims on NMFIs
			Total	Rupee	Others					
<b>1997</b>	914.5	104.8	135.7	77.6	58.1	0.0	0.0	10.4	663.6	
<b>1998</b>	1292.2	228.7	335.9	213.6	122.3	0.0	0.0	7.5	720.1	
<b>1999</b>	2736.3	256.8	1659.3	1299.6	359.7	0.0	0.0	5.0	815.2	
<b>2000</b>	3705.3	535.5	2221.0	1552.9	668.1	0.0	0.0	5.0	943.8	
<b>2001</b>	3975.2	581.1	2053.6	1088.3	965.3	120.0	0.0	7.4	1213.1	
<b>2002</b>	4854.7	1917.8	1115.2	651.0	464.3	120.0	0.0	7.6	1694.1	
<b>2003*)</b>	5361.7	1441.8	966.0	609.8	356.2	121.9	471.1	73.8	2179.0	108.2
<b>2004</b>										
Jan	5405.1	1441.1	950.1	604.5	345.6	122.0	472.6	76.1	2239.2	104.1
Feb	5831.4	1780.1	999.2	592.3	406.9	123.0	472.8	76.2	2275.4	104.6
Mar	5934.8	1844.8	935.6	495.1	440.5	121.9	500.7	18.4	2411.9	101.5
Apr	6050.8	1814.5	1003.5	529.5	474.0	120.0	501.1	17.2	2488.7	105.8
May	6073.6	1992.8	819.8	491.0	328.8	120.0	498.6	17.3	2518.7	106.4
Jun	6200.1	2002.3	888.8	552.2	336.6	120.0	526.6	17.7	2540.4	104.3
Jul	6137.7	1998.8	742.1	488.2	253.9	120.0	520.7	16.2	2642.0	97.9
Aug	6593.9	2480.7	659.2	404.0	255.2	120.0	521.1	11.2	2703.2	98.4
Sep	6353.9	2097.9	711.7	439.2	272.5	120.0	521.5	11.3	2792.5	99.0
Oct	6637.3	1680.3	1041.3	586.4	455.0	361.1	599.4	11.3	2844.4	99.5
Nov	6672.9	1666.2	1027.2	580.1	447.1	361.8	599.8	7.6	2910.3	100.1
Dec	6519.1	1221.9	773.9	540.4	233.4	864.4	590.7	7.6	2966.8	93.8
<b>2005</b>										
Jan	6441.7	1156.4	731.1	463.4	267.7	862.2	591.1	7.6	2999.1	94.3
Feb	6574.4	1158.4	769.4	411.8	357.6	864.5	591.4	7.6	3088.2	94.8
Mar	6663.0	975.3	938.5	503.2	435.3	866.9	591.8	7.6	3187.6	95.4
Apr	6745.9	1009.9	937.5	567.4	370.1	862.2	592.1	7.6	3240.6	95.9
May	6934.4	1195.5	929.5	515.1	414.4	864.6	592.5	7.6	3248.4	96.4
Jun	6836.8	1092.8	880.6	438.1	442.5	866.9	583.4	7.6	3315.5	90.1

\*) Note: Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 10. CONTINUED**  
**Bhutan National Bank Limited**

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				
<b>1997</b>	914.5	117.4	572.2	0.0	0.0	0.0	0.0	25.4	0.0	139.7	59.9
<b>1998</b>	1292.2	222.1	755.7	4.7	0.0	0.0	0.0	64.9	0.0	157.7	87.1
<b>1999</b>	2736.3	603.6	1506.9	16.7	0.0	0.0	0.0	283.9	0.0	181.8	143.4
<b>2000</b>	3705.3	671.3	2070.7	22.2	0.0	0.0	0.0	301.1	0.0	242.2	397.8
<b>2001</b>	3975.2	683.4	2220.6	30.0	0.0	0.0	0.0	556.2	0.0	303.3	181.7
<b>2002</b>	4854.7	650.4	3057.6	29.6	0.0	0.0	0.0	640.0	0.0	328.5	148.6
<b>2003</b>	5361.7	873.8	2510.0	44.3	0.0	0.0	0.0	1026.0	0.0	700.0	207.6
<b>2004</b>											
Jan	5405.1	940.9	2891.3	53.7	0.0	0.0	0.0	1009.0	0.0	707.3	-197.1
Feb	5831.4	926.0	3166.4	41.2	0.0	0.0	0.0	1044.5	0.0	714.0	-60.8
Mar	5934.8	910.1	3226.3	72.6	0.0	0.0	0.0	944.0	0.0	709.6	72.3
Apr	6050.8	958.9	3273.3	74.1	0.0	0.0	0.0	951.6	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
Jul	6137.7	945.8	3577.5	53.4	0.0	0.0	0.0	860.2	0.0	724.9	-24.1
Aug	6593.9	970.0	3772.1	59.2	0.0	0.0	0.0	920.8	0.0	739.1	132.7
Sep	6353.9	1227.2	3484.6	53.2	0.0	0.0	0.0	946.9	0.0	744.9	-103.0
Oct	6637.3	979.2	3642.9	129.6	0.0	0.0	0.0	998.8	0.0	752.3	134.4
Nov	6672.9	1000.1	3681.8	104.5	0.0	0.0	0.0	964.8	0.0	761.5	160.1
Dec	6519.1	1008.3	3730.9	81.1	0.0	0.0	0.0	840.7	0.0	742.6	115.5
<b>2005</b>											
Jan	6441.7	995.5	3713.5	85.8	0.0	0.0	0.0	903.9	0.0	748.9	-5.9
Feb	6574.4	980.6	3795.4	94.8	0.0	0.0	0.0	848.2	0.0	758.5	97.0
Mar	6663.0	1040.7	3829.1	114.7	0.0	0.0	0.0	911.9	0.0	760.1	6.5
Apr	6745.9	1042.8	3741.7	115.5	0.0	0.0	0.0	952.3	0.0	762.2	131.5
May	6934.4	1036.9	3858.1	123.9	0.0	0.0	0.0	971.3	0.0	768.0	176.2
Jun	6836.8	1215.9	3185.6	148.6	0.0	0.0	0.0	850.2	0.0	791.7	644.8

(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 11. ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED - FINANCIAL STATISTICS

Millions of Ngultrum

End of Period	Assets		Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on DMBs	Claims On NMFIS
	Total	Reserves	Total	Foreign Assets							
				Rupee	Others						
<b>1992</b>	675.3	0.6	0.0	0.0	0.0	20.1	498.6	115.5	0.0	40.5	
<b>1993</b>	791.3	18.2	0.0	0.0	0.0	21.7	614.5	94.6	0.0	42.3	
<b>1994</b>	868.1	9.6	0.4	0.0	0.4	22.4	667.1	150.3	18.3	0.0	
<b>1995</b>	1012.2	24.5	0.6	0.0	0.6	41.5	670.4	262.0	13.1	0.0	
<b>1996</b>	1169.3	61.7	1.4	0.0	1.4	41.5	728.4	321.8	14.3	0.0	
<b>1997</b>	1426.9	20.0	0.6	0.0	0.6	30.1	720.7	655.5	0.0	0.0	
<b>1998</b>	1701.0	167.9	2.1	0.0	2.1	14.9	680.6	835.5	0.0	0.0	
<b>1999</b>	2022.8	84.9	55.8	53.1	2.7	41.2	669.9	1171.0	0.0	0.0	
<b>2000</b>	956.9	45.5	52.1	51.0	1.1	17.3	842.1	0.0	0.0	0.0	
<b>2001</b>	1077.4	30.6	55.4	50.0	5.4	17.3	974.0	0.0	0.0	0.0	
<b>2002</b>	1259.1	44.2	8.7	2.7	6.0	18.2	1138.0	50.0	0.0	0.0	
<b>2003*)</b>	1468.7	131.7	4.9	0.1	4.8	0.0	0.0	25.2	1225.8	78.1	3.0
<b>2004</b>											
Jan	1401.4	79.4	5.9	0.1	5.8	0.0	0.0	24.2	1250.8	38.1	3.0
Feb	1415.2	84.3	5.9	0.1	5.8	0.0	0.0	24.3	1269.6	28.1	3.0
Mar	1391.7	45.8	4.1	0.1	4.0	0.0	0.0	23.3	1287.3	28.1	3.0
Apr	1410.7	63.5	3.1	0.1	3.0	0.0	0.0	23.4	1289.5	28.1	3.0
May	1431.6	73.5	4.1	0.1	4.0	0.4	0.0	23.5	1299.0	28.1	3.0
Jun	1459.2	103.4	3.7	0.1	3.6	0.0	0.0	23.6	1297.3	28.1	3.0
Jul	1427.3	74.6	3.6	0.1	3.5	0.0	0.0	22.6	1295.4	28.1	3.0
Aug	1438.2	41.1	42.2	40.1	2.1	0.0	0.0	84.2	1259.6	8.1	3.0
Sep	1447.2	47.9	2.6	0.1	2.5	0.0	0.0	22.8	1342.9	28.1	3.0
Oct	1452.8	29.9	2.6	0.1	2.5	0.0	0.0	7.8	1372.6	40.0	0.0
Nov	1481.0	38.7	16.4	0.1	16.3	0.0	0.0	7.9	1387.9	30.0	0.0
Dec	1428.4	47.6	3.6	0.1	3.5	0.0	0.0	20.8	1345.2	8.1	3.0
<b>2005</b>											
Jan	1442.2	42.1	3.4	0.1	3.3	0.0	0.0	19.6	1366.0	8.1	3.0
Feb	1441.2	15.2	3.7	0.1	3.6	0.0	0.0	19.7	1391.6	8.1	3.0
Mar	1483.5	42.8	3.8	0.1	3.7	0.0	0.0	19.7	1406.0	8.1	3.0
Apr	1515.2	39.8	5.5	0.1	5.5	0.0	0.0	19.6	1439.1	8.1	3.0
May	1525.3	19.6	7.2	0.1	7.1	0.0	0.0	19.7	1467.7	8.1	3.0
Jun	1565.3	41.6	6.8	0.1	6.7	0.0	0.0	18.7	1487.1	8.1	3.0

\*) Note: Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 11. CONTINUED**  
**Royal Insurance Corporation of Bhutan Limited**

Millions of Ngultrum

End of Period	Liabilities								
	Total	General Insu - rance Reserve Fund	Life Fund	GEPF Fund	Group Insur- ance Fund	Credit from DMBs	Credit from NBFIs	Capital Ac- counts	Other Items (Net)
<b>1992</b>	675.3	61.2	23.8	505.8	0.0	0.0		12.0	72.5
<b>1993</b>	792.0	73.6	70.0	589.0	0.0	0.0		12.0	47.4
<b>1994</b>	868.1	72.4	23.8	690.8	60.7	0.0		43.8	-23.4
<b>1995</b>	1012.2	41.6	0.0	765.1	71.0	0.0		45.1	89.3
<b>1996</b>	1169.3	43.6	0.0	886.8	80.7	0.0		63.0	95.2
<b>1997</b>	1426.9	12.3	33.5	1112.1	94.1	0.0		79.9	95.0
<b>1998</b>	1701.0	14.6	48.5	1363.5	106.4	0.0		82.6	85.3
<b>1999</b>	2022.8	21.9	34.4	1474.6	122.3	0.0		463.5	-94.0
<b>2000</b>	956.9	0.0	45.0	509.4	120.0	90.0		408.6	-216.1
<b>2001</b>	1077.4	0.0	44.1	360.2	153.3	595.0		156.8	-232.0
<b>2002</b>	1259.1	0.0	55.8	47.8	168.0	673.6		193.6	120.3
<b>2003*)</b>	1468.7	0.0	71.6	65.9	188.6	186.3	450.0	269.4	236.9
<b>2004</b>									
Jan	1401.4	0.0	77.2	69.8	190.0	149.0	400.0	255.8	259.6
Feb	1415.2	0.0	77.0	70.4	191.5	149.0	400.0	261.9	265.3
Mar	1391.7	0.0	77.4	70.4	192.9	149.0	400.0	262.3	239.7
Apr	1410.7	0.0	78.3	71.4	203.9	149.0	400.0	258.7	249.4
May	1431.6	0.0	77.0	68.8	203.5	149.0	400.0	266.8	266.4
Jun	1459.2	0.0	79.1	70.1	199.6	149.0	400.0	276.3	285.1
Jul	1427.3	0.0	82.8	69.6	201.6	111.8	400.0	294.9	266.7
Aug	1438.2	0.0	83.3	70.7	203.9	111.8	400.0	302.7	265.9
Sep	1447.2	0.0	82.8	70.9	205.7	111.8	400.0	298.6	277.5
Oct	1452.8	0.0	86.1	71.7	206.4	111.8	450.0	319.4	207.5
Nov	1481.0	0.0	87.3	73.4	207.2	111.8	400.0	331.5	269.9
Dec	1428.4	0.0	87.2	73.8	210.7	94.5	400.0	306.4	255.7
<b>2005</b>									
Jan	1442.2	0.0	92.3	78.1	210.2	94.5	400.0	319.8	247.3
Feb	1441.2	0.0	86.2	79.9	209.3	94.5	400.0	330.6	240.7
Mar	1483.5	0.0	99.2	82.2	213.4	119.5	400.0	321.2	248.1
Apr	1515.2	0.0	98.8	83.1	216.6	119.5	400.0	316.0	281.2
May	1525.3	0.0	100.6	84.1	220.3	139.5	400.0	329.9	250.9
Jun	1565.3	0.0	102.1	84.6	221.2	160.1	400.0	350.5	246.9

TABLE 12. BHUTAN DEVELOPMENT FINANCE CORPORATION LIMITED - 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	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*)	1,223.9	93.1	0.0	0.0	0.0	0.0	0.0	31.8	1,084.0	15.0	0.0
2004											
Jan	1,224.9	86.1	0.0	0.0	0.0	0.0	0.0	32.0	1,091.8	15.0	0.0
Feb	1,221.9	54.7	0.0	0.0	0.0	0.0	0.0	31.8	1,120.4	15.0	0.0
Mar	1,224.6	21.9	0.0	0.0	0.0	0.0	0.0	30.8	1,157.0	15.0	0.0
Apr	1,236.9	34.6	0.0	0.0	0.0	0.0	0.0	29.8	1,162.5	10.0	0.0
May	1,236.7	25.0	0.0	0.0	0.0	0.0	0.0	30.1	1,171.5	10.0	0.0
Jun	1,231.0	29.2	0.0	0.0	0.0	0.0	0.0	28.1	1,163.8	10.0	0.0
Jul	1,238.6	42.0	0.0	0.0	0.0	0.0	0.0	19.9	1,166.7	10.0	0.0
Aug	1,240.2	46.0	0.0	0.0	0.0	0.0	0.0	20.1	1,164.0	10.0	0.0
Sep	1,241.8	57.8	0.0	0.0	0.0	0.0	0.0	19.2	1,154.7	10.0	0.0
Oct	1,255.9	77.5	0.0	0.0	0.0	0.0	0.0	18.9	1,149.5	10.0	0.0
Nov	1,257.4	72.2	0.0	0.0	0.0	0.0	0.0	18.5	1,156.7	10.0	0.0
Dec	1,256.0	93.2	0.0	0.0	0.0	0.0	0.0	18.0	1,134.8	10.0	0.0
2005											
Jan	1,266.3	81.8	0.0	0.0	0.0	0.0	0.0	17.8	1,156.7	10.0	0.0
Feb	1,341.5	115.0	0.0	0.0	0.0	0.0	0.0	18.3	1,198.2	10.0	0.0
Mar	1,349.0	103.8	0.0	0.0	0.0	0.0	0.0	17.7	1,217.5	10.0	0.0
Apr	1,361.0	82.6	0.0	0.0	0.0	0.0	0.0	17.9	1,250.5	10.0	0.0
May	1,363.0	57.7	0.0	0.0	0.0	0.0	0.0	18.0	1,277.3	10.0	0.0
Jun	1,364.7	62.9	0.0	0.0	0.0	0.0	0.0	17.2	1,274.6	10.0	0.0

\*) Note: Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

**TABLE 12. CONTINUED**  
**Bhutan Development Finance Corporation Limited**

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*)	1,223.9	342.8	0.0	100.0	100.0	50.0	438.7	192.3
2004								
Jan	1,224.9	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	1,224.6	335.9	0.0	100.0	100.0	50.0	429.1	209.6
Apr	1,236.9	335.9	0.0	100.0	100.0	50.0	429.5	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
Jul	1,238.6	330.6	0.0	93.6	95.0	50.0	450.4	219.0
Aug	1,240.2	324.7	0.0	93.6	95.0	50.0	459.7	217.2
Sep	1,241.8	324.7	0.0	93.6	95.0	50.0	457.1	221.4
Oct	1,255.9	324.7	0.0	93.6	95.0	50.0	462.8	229.9
Nov	1,257.4	320.3	0.0	93.6	95.0	50.0	476.6	222.0
Dec	1,256.0	320.3	0.0	89.9	90.0	50.0	507.9	198.0
2005								
Jan	1,266.3	322.8	0.0	89.9	90.0	50.0	512.6	201.0
Feb	1,341.5	396.9	0.0	89.9	90.0	50.0	514.0	200.7
Mar	1,349.0	316.9	0.0	89.9	170.0	50.0	513.2	209.0
Apr	1,361.0	316.9	0.0	89.9	170.0	50.0	500.2	234.0
May	1,363.0	312.5	0.0	89.9	170.0	50.0	508.5	232.1
Jun	1,364.7	312.5	0.0	86.1	165.0	50.0	513.4	237.6

**TABLE 13. AUCTIONS/TAP SALES OF RMA BILLS(\*)**

Auction/T ap Sale No.	Auction/Tap Sale date	Maturity in Days	Bids, millions of Nu.		Discount Rate (%)
			Received	Accepted	
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
R 131	28-Jul-04	91	100.0	100.0	3.5
R 132	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
R137	26-Jan-05	91	100.0	100.0	3.5
R138	23-Feb-05	91	100.0	100.0	3.5
R141	25-May-05	91	100.0	100.0	3.5
R142	29-Jun-05	91	100.0	100.0	3.5
R145	28-Sep-05	91	100.0	100.0	3.5

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



**TABLE 14. FINANCIAL SECTOR INVESTMENT BY ECONOMIC ACTIVITY**

<i>Millions of Nu.</i>	<i>End of June</i>							
Economic Sector/Source	1998	1999	2000	2001	2002	2003	2004	2005
<b>Agriculture</b>	<b>157.6</b>	<b>182.5</b>	<b>168.3</b>	<b>201.9</b>	<b>229.6</b>	<b>247.3</b>	<b>222.4</b>	<b>229.6</b>
Bank of Bhutan Ltd.	4.6	3.7	3.1	3.2	6.2	6.3	4.3	1.16
Royal Insurance Corporation of Bhutan Ltd.	0.6	0.6	0.7	0.6	0.3	0.2	1.8	1.81
Bhutan Development Finance Corporation Ltd.	152.5	178.1	164.5	198.0	223.1	240.8	216.3	226.61
Bhutan National Bank Ltd.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.00
<b>Manufacturing</b>	<b>898.4</b>	<b>715.1</b>	<b>588.0</b>	<b>785.2</b>	<b>974.2</b>	<b>1,290.0</b>	<b>1,484.6</b>	<b>1,440.3</b>
Bank of Bhutan Ltd.	291.3	257.0	240.3	222.4	253.8	350.1	499.3	523.45
Royal Insurance Corporation of Bhutan Ltd.	237.6	182.1	111.3	202.7	256.9	280.5	238.6	108.63
Bhutan Development Finance Corporation Ltd.	141.4	100.8	71.2	138.3	180.7	210.5	203.8	226.07
Bhutan National Bank Ltd.	228.1	175.2	165.3	221.8	282.7	448.9	542.9	582.20
<b>Building &amp; Construction</b>	<b>610.1</b>	<b>565.1</b>	<b>620.3</b>	<b>718.8</b>	<b>1,113.4</b>	<b>1,641.3</b>	<b>2,175.7</b>	<b>3,126.1</b>
Bank of Bhutan Ltd.	86.5	91.5	99.1	142.0	233.2	341.5	447.5	632.9
Royal Insurance Corporation of Bhutan Ltd.	268.1	269.6	279.7	273.9	331.5	394.2	440.2	660.8
Bhutan Development Finance Corporation Ltd.	5.8	23.1	28.4	41.3	140.8	296.3	354.6	419.2
Bhutan National Bank Ltd.	249.7	180.9	213.1	261.6	408.0	609.3	933.4	1413.2
<b>Trade &amp; Commerce</b>	<b>370.6</b>	<b>467.6</b>	<b>427.0</b>	<b>512.3</b>	<b>719.3</b>	<b>960.0</b>	<b>1,395.3</b>	<b>1,466.3</b>
Bank of Bhutan Ltd.	223.9	234.5	259.1	249.9	296.9	338.0	478.9	567.0
Royal Insurance Corporation of Bhutan Ltd.	62.5	105.3	62.8	118.0	152.0	317.8	488.5	390.7
Bhutan Development Finance Corporation Ltd.	75.1	113.3	89.2	3.7	58.2	81.5	116.0	57.9
Bhutan National Bank Ltd.	9.1	14.6	15.9	140.7	212.3	222.6	311.9	450.7
<b>Transport</b>	<b>610.5</b>	<b>668.1</b>	<b>598.3</b>	<b>712.0</b>	<b>729.2</b>	<b>795.7</b>	<b>771.7</b>	<b>811.6</b>
Bank of Bhutan Ltd.	519.4	465.5	405.5	404.2	411.4	462.8	447.5	437.2
Royal Insurance Corporation of Bhutan Ltd.	51.3	69.4	68.1	160.9	151.2	120.2	68.2	87.0
Bhutan Development Finance Corporation Ltd.	0.0	46.0	36.9	24.0	12.5	11.2	12.0	26.9
Bhutan National Bank Ltd.	39.8	87.1	87.8	122.9	154.2	201.5	244.0	260.5
<b>Personal &amp; Other Loans*)</b>	<b>328.0</b>	<b>479.3</b>	<b>691.0</b>	<b>1,628.1</b>	<b>1,141.0</b>	<b>2,507.1</b>	<b>1,439.3</b>	<b>3,546.6</b>
Bank of Bhutan Ltd.	54.8	101.7	138.8	1,002.8	372.7	1,683.9	436.8	1,494.6
Royal Insurance Corporation of Bhutan Ltd.	70.0	52.1	154.1	124.1	156.1	46.0	44.1	218.6
Bhutan Development Finance Corporation Ltd.	47.6	23.6	26.5	181.3	202.8	250.3	266.0	333.3
Bhutan National Bank Ltd.	155.7	301.9	371.6	319.8	409.3	526.9	692.4	1,500.0
<b>Total</b>	<b>2,975.1</b>	<b>3,077.6</b>	<b>3,092.8</b>	<b>4,558.3</b>	<b>4,906.7</b>	<b>7,441.4</b>	<b>7,489.0</b>	<b>10,620.6</b>

\*) Includes Services and Tourism.

**TABLE 15. SUMMARY OF THE CONSUMER PRICE INDEX (\*)**

Third Quarter of 2003 = 100

Item	Weight in percent % <sup>1)</sup>	Period													
		2001		2002		2003			2004				2005		
		H1	H2	H1	H2	H1	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
		Index													
Food	31.7	96.2	98.0	98.4	99.9	99.8	100.0	101.4	101.9	101.1	102.9	104.2	108.0	107.4	
Non-food	68.3	92.1	94.4	95.5	97.0	97.4	100.0	102.3	104.7	104.7	105.3	106.9	110.0	110.1	
Total	100.0	94.5	96.5	97.0	98.7	98.8	100.0	102.0	103.8	103.6	104.6	106.0	109.4	109.2	
		Percentage change on the previous year													
Food	31.7	0.9	2.2	2.3	2.0	1.4	-	-	-	-	2.8	2.7	6.1	6.2	
Non-food	68.3	8.0	4.9	3.7	2.7	2.0	-	-	-	-	5.3	4.5	5.1	5.1	
Total	100.0	3.6	3.3	2.7	2.3	1.8	-	-	-	-	4.6	3.9	5.4	5.5	

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 16. THIMPHU FOOD PRICE INDEX<sup>(\*)</sup>**

Third Quarter of 2003 = 100

Item	Weight in % <sup>1)</sup>	Period													
		2002				2003				2004				2005	
		Q1	Q2	Q3	Q4	Q1	Q2 <sup>+) </sup>	Q3 <sup>+) </sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Index													
Cereals and its Products	24.9	100.6	99.0	101.2	99.8	99.5	100.0	100.0	102.2	102.9	101.8	107.8	107.6	108.9	109.0
Vegetables, Fruits, and Pulses	11.6	101.0	109.5	86.0	99.4	98.7	100.9	100.0	100.0	100.0	99.6	110.9	113.7	113.0	113.1
Edible Oil and Fats <sup>2)</sup>	11.4							100.0	99.3	99.3	100.0	93.9	100.8	101.7	102.4
Milk, Cheese, and Eggs <sup>2)</sup>	13.3							100.0	102.9	100.3	100.4	98.4	109.8	110.4	111.6
Meat and Fish <sup>2)</sup>	14.1							100.0	100.0	99.6	100.4	113.9	109.6	106.2	108.7
Non-Alcoholic Beverages <sup>2)</sup>	11.4							100.0	105.5	102.7	101.2	102.6	100.9	104.2	105.0
Other Food Items	13.3	105.5	107.6	107.4	99.6	100.1	100.0	100.0	102.7	103.7	103.3	110.0	101.9	115.9	115.9
Total Food	100.0	102.4	103.8	100.1	99.6	99.6	100.2	100.0	101.5	101.0	100.8	106.0	108.0	108.9	109.6
		Percentage change on the previous year													
Cereals and its Products	24.9	(0.4)	(2.6)	0.0	(1.3)	(1.1)	1.0	(1.1)	2.5	3.4	1.8	7.8	5.3	5.9	7.1
Vegetables, Fruits, and Pulses	11.6	(12.0)	(15.2)	(6.3)	4.1	(2.2)	(7.9)	16.3	0.6	1.3	(1.3)	10.9	13.7	13.0	13.5
Edible Oil and Fats <sup>2)</sup>	11.4											(6.1)	1.5	2.4	2.4
Milk, Cheese, and Eggs <sup>2)</sup>	13.3											(1.6)	6.7	10.0	11.2
Meat and Fish <sup>2)</sup>	14.1											13.9	9.6	6.7	8.3
Non-Alcoholic Beverages <sup>2)</sup>	11.4											2.6	(4.3)	1.4	3.8
Other Food Items	13.3	(2.6)	0.1	0.6	(6.8)	(5.1)	(7.1)	(6.9)	3.1	3.6	3.3	10.0	(0.8)	11.7	12.2
Total Food	100.0	(3.3)	(3.8)	(1.1)	(2.4)	(2.8)	(3.5)	(0.1)	1.8	1.5	0.6	6.0	6.5	7.8	8.8

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 17. INDIAN WHOLESALE PRICE INDEX OF ALL COMMODITIES**

1993-94 = 100

Period	Year											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Index											
January	100.0	116.2	122.0	128.3	134.8	140.9	145.9	158.6	161.0	167.8	178.7	188.6
February	100.0	116.9	122.2	128.8	134.2	141.4	146.4	158.6	160.8	169.4	179.8	188.8
March	100.0	116.9	122.2	128.8	134.4	141.7	149.5	159.1	161.9	171.6	179.8	189.4
April	107.5	119.3	123.7	130.9	136.9	142.4	151.7	159.9	162.3	173.1	180.9	191.6
May	108.3	120.2	124.5	130.8	138.2	142.8	151.8	160.3	162.8	173.4	182.1	192.1
June	110.0	120.7	125.1	131.4	139.8	143.3	152.7	160.8	164.7	173.5	185.2	193.9
July	111.1	121.8	127.0	131.6	140.9	143.7	153.1	161.2	165.6	173.4	186.6	
August	111.8	121.8	127.8	132.0	140.6	144.6	153.4	161.7	167.1	173.7	188.4	
September	111.9	121.9	128.1	132.9	140.8	145.3	154.7	161.7	167.4	175.6	189.4	
October	112.7	122.2	127.8	133.3	142.0	146.9	157.9	162.5	167.5	176.1	188.9	
November	113.2	122.5	128.0	133.1	142.6	147.0	158.2	162.3	167.8	176.9	190.2	
December	114.5	122.1	128.5	133.7	142.1	146.1	158.2	161.8	167.2	176.8	188.8	
	Percentage change on the previous year											
January	1.3	16.2	5.0	5.2	5.1	4.5	3.5	8.7	1.5	4.2	6.5	5.5
February	0.8	16.9	4.5	5.4	4.2	5.4	3.5	8.3	1.4	5.3	6.1	5.0
March	0.7	16.9	4.5	5.4	4.3	5.4	5.5	6.4	1.8	6.0	4.8	5.3
April	7.5	11.0	3.7	5.8	4.6	4.0	6.5	5.4	1.5	6.7	4.5	5.9
May	8.3	11.0	3.6	5.1	5.7	3.3	6.3	5.6	1.6	6.5	5.0	5.5
June	10.0	9.7	3.6	5.0	6.4	2.5	6.6	5.3	2.4	5.3	6.7	4.7
July	11.1	9.6	4.3	3.6	7.1	2.0	6.5	5.3	2.7	4.7	7.6	
August	11.8	8.9	4.9	3.3	6.5	2.8	6.1	5.4	3.3	3.9	8.5	
September	11.9	8.9	5.1	3.7	5.9	3.2	6.5	4.5	3.5	4.9	7.9	
October	12.7	8.4	4.6	4.3	6.5	3.5	7.5	2.9	3.1	5.1	7.3	
November	13.2	8.2	4.5	4.0	7.1	3.1	7.6	2.6	3.4	5.4	7.5	
December	14.5	6.6	5.2	4.0	6.3	2.8	8.3	2.3	3.3	5.7	6.8	

Source: Reserve Bank of India.

**TABLE 18. 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	2004/05 (p)
<b>A. Current Account</b>	<b>653.5</b>	<b>1487.6</b>	<b>384.2</b>	<b>-1891.6</b>	<b>-1224.6</b>	<b>-2327.4</b>	<b>-3211.9</b>	<b>-2518.0</b>	<b>-8364.3</b>
Exports, f.o.b.	3553.8	4274.2	4460.0	4987.9	4615.8	4994.8	5405.9	7157.5	8297.8
Imports, c.i.f.	-4697.2	-5226.1	-6913.7	-8075.2	-7875.0	-8990.2	-9086.9	-11123.5	-18313.4
Trade Balance	-1143.4	-951.9	-2453.7	-3087.3	-3259.1	-3995.5	-3681.0	-3966.0	-10015.6
Services	157.4	-334.0	-12.8	-498.3	-184.5	-218.0	-801.5	-365.4	-449.3
Credit	575.9	568.2	758.1	772.0	1444.3	1416.6	1194.0	1421.1	2070.7
Debit	-418.5	-902.3	-770.9	-1270.4	-1628.7	-1634.6	-1995.5	-1786.5	-2520.0
Income	-7.2	395.5	408.9	-170.1	118.1	-237.1	-544.8	-740.3	-740.7
Credit	193.2	526.0	511.1	605.7	803.8	523.1	561.4	436.3	537.2
Debit	-200.3	-130.5	-102.2	-775.8	-685.6	-760.2	-1106.3	-1176.6	-1277.9
Current Transfers	1646.7	2378.1	2441.8	1864.1	2100.8	2123.1	1815.4	2553.8	2841.3
Credit	2887.9	3913.9	5167.7	3842.8	4046.3	4422.4	4364.9	4865.6	6056.9
<i>Of Which Grants</i>	2662.5	3280.4	5146.2	3633.1	3711.5	4126.7	4059.6	4287.0	5474.7
Debit	-1241.2	-1535.8	-2725.9	-1978.7	-1945.4	-2299.3	-2549.5	-2311.8	-3215.6
<b>B. Capital and Financial Account</b>	<b>194.1</b>	<b>167.3</b>	<b>1151.7</b>	<b>4703.6</b>	<b>2969.7</b>	<b>4968.8</b>	<b>10464.5</b>	<b>8396.4</b>	<b>9576.9</b>
Capital Transfers <sup>1</sup>	-	-	-	2910.0	1541.1	2021.3	5819.0	4666.8	4161.6
Foreign Direct Investment	0.0	0.0	45.2	0.0	0.0	101.2	117.9	157.0	401.4
Portfolio Investment	0.0	0.0	0.0	0.0	-881.4	0.0	0.0	0.0	0.0
Foreign Aid (Loans net)	204.8	257.8	1404.6	1793.6	2310.0	2846.2	4527.5	4666.2	3467.7
Other Loans	-10.8	-90.6	-298.2	0.0	0.0	0.0	0.0	363.3	89.2
Other Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1456.9	1456.9
<b>C. Net Errors and Omissions</b>	<b>905.3</b>	<b>1546.8</b>	<b>1985.5</b>	<b>-1278.9</b>	<b>-1508.9</b>	<b>-1398.7</b>	<b>-4639.0</b>	<b>-5508.3</b>	<b>245.6</b>
<b>D. Overall Balance<sup>2</sup></b>	<b>1111.7</b>	<b>1766.5</b>	<b>1847.4</b>	<b>1533.1</b>	<b>236.2</b>	<b>1242.7</b>	<b>2613.6</b>	<b>370.1</b>	<b>1458.3</b>

1) Grants for the Tala project have been reclassified from current to capital transfers as per IMF standards. 2) Overall Balance is the Change in Reserves.

**TABLE 19. 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	2004/05 (p)
<b>A. Current Account</b>	<b>273.3</b>	<b>42.4</b>	<b>-921.4</b>	<b>-1403.7</b>	<b>-1118.3</b>	<b>-1527.1</b>	<b>-3679.3</b>	<b>-2620.8</b>	<b>-3149.5</b>
Exports, f.o.b.	3227.0	4041.9	4181.0	4711.2	4377.0	4700.5	5095.3	6768.8	7574.6
Imports, c.i.f.	-3068.2	-3684.7	-4919.3	-6065.7	-6231.3	-6988.8	-8206.6	-9789.5	-10120.9
Tala	0.0	-28.3	-1114.4	-1479.1	-1363.7	-568.1	-1786.6	-2073.4	-1653.4
Other	-3068.2	-3656.5	-3804.9	-4586.7	-4867.5	-6420.7	-6420.0	-7716.1	-8467.5
Trade Balance	158.8	357.2	-738.3	-1354.5	-1854.3	-2288.3	-3111.3	-3020.7	-2546.3
Services	114.5	-314.8	-183.1	-684.6	-332.8	-311.9	-430.9	-199.7	-884.9
Credit	236.1	218.8	251.3	170.0	625.4	669.9	596.5	770.2	867.7
Debit	-121.6	-533.7	-434.4	-854.6	-958.2	-981.8	-1027.4	-969.9	-1752.7
Income	-85.8	34.6	106.5	-532.4	-381.4	-490.4	-658.2	-806.4	-971.2
Credit	53.7	99.8	166.1	187.7	247.1	195.5	362.9	249.3	181.5
Debit	-139.5	-65.3	-59.6	-720.1	-628.5	-685.9	-1021.1	-1055.8	-1152.6
Current Transfers	727.0	1400.7	1567.5	1167.8	1450.3	1563.5	521.1	1406.0	1252.9
Credit	1378.0	2621.6	3893.0	2568.1	2653.5	2905.6	1459.9	2324.7	3084.8
<i>Of which Grants</i>	1378.0	2460.4	3812.1	2547.1	2551.7	2858.1	1442.8	2309.5	3069.7
<i>Of Which Budgetary Grants</i>	947.6	1045.1	1928.5	2188.0	2551.2	2531.0	886.6	2287.2	2628.0
Debit	-651.0	-1220.9	-2325.5	-1400.4	-1203.2	-1342.1	-938.8	-918.7	-1831.9
<b>B. Capital and Financial Account</b>	<b>58.0</b>	<b>-94.3</b>	<b>968.5</b>	<b>4482.5</b>	<b>3249.0</b>	<b>3884.5</b>	<b>8935.1</b>	<b>7925.4</b>	<b>6543.2</b>
Capital Transfers <sup>1</sup>	0.0	0.0	0.0	2910.0	1541.1	2021.3	5819.0	4666.8	4161.6
Foreign Aid (Loans net)	-13.9	-94.3	1218.5	1572.5	1707.9	1863.2	3116.0	3258.6	2381.5
Other Loans	71.8	0.0	-250.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>C. Net Errors and Omissions</b>	<b>476.9</b>	<b>611.0</b>	<b>977.5</b>	<b>-2491.4</b>	<b>-1685.3</b>	<b>-2245.5</b>	<b>-5589.5</b>	<b>-4271.9</b>	<b>-4178.3</b>
<b>D. Overall Balance</b>	<b>808.1</b>	<b>559.1</b>	<b>1024.5</b>	<b>587.3</b>	<b>445.4</b>	<b>112.0</b>	<b>-333.7</b>	<b>1032.7</b>	<b>-784.6</b>

1) Grants for the Tala project have been reclassified from current to capital transfers as per IMF standards.

**TABLE 20. 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	2004/05 (p)
<b>A. Current Account</b>	<b>-261.0</b>	<b>10.0</b>	<b>-368.4</b>	<b>-487.9</b>	<b>-106.4</b>	<b>-800.3</b>	<b>467.4</b>	<b>102.8</b>	<b>-5214.8</b>
Exports, f.o.b.	326.8	232.2	279.0	276.6	238.9	294.3	310.6	388.6	723.2
Imports, c.i.f.	-1629.0	-1541.4	-1994.4	-2009.5	-1643.7	-2001.4	-880.3	-1334.0	-8192.4
Trade Balance	-1302.3	-1309.1	-1715.4	-1732.8	-1404.8	-1707.1	-569.7	-945.4	-7469.3
Services	42.9	-19.2	170.4	186.3	148.4	93.9	-370.6	-165.7	435.6
Credit	339.8	349.4	506.8	602.0	818.9	746.7	597.6	650.9	1202.9
Debit	-296.9	-368.6	-336.5	-415.8	-670.5	-652.8	-968.1	-816.6	-767.3
Income	78.7	360.9	302.4	362.3	499.5	253.3	113.4	66.1	230.5
Credit	139.5	426.2	345.0	418.0	556.7	327.6	198.5	187.0	355.7
Debit	-60.8	-65.3	-42.6	-55.7	-57.2	-74.3	-85.2	-120.8	-125.2
Current Transfers	919.7	977.4	874.3	696.3	650.6	559.6	1294.3	1147.7	1588.4
Credit	1509.8	1292.3	1274.6	1274.6	1392.8	1516.8	2905.0	2540.9	2972.1
<i>Of Which Grants</i>	1284.5	820.0	1334.1	1086.0	1159.8	1268.6	2616.8	1977.5	2405.0
Debit	-590.2	-314.8	-400.4	-578.3	-742.2	-957.2	-1610.7	-1393.1	-1383.7
<b>B. Capital and Financial Account</b>	<b>136.1</b>	<b>261.6</b>	<b>183.3</b>	<b>221.1</b>	<b>-279.3</b>	<b>1084.2</b>	<b>1529.4</b>	<b>471.0</b>	<b>3033.8</b>
Foreign Direct Investment	0.0	0.0	45.2	0.0	0.0	101.2	117.9	157.0	401.5
Portfolio Investment	0.0	0.0	0.0	0.0	-881.4	0.0	0.0	0.0	0.0
Foreign Aid (Loans net)	218.7	352.1	186.2	221.1	602.1	983.0	1411.5	1407.6	1086.2
Other Loans	-82.6	-90.6	-48.2	0.0	0.0	0.0	0.0	363.3	89.2
Other Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1456.9	1456.9
<b>C. Net Errors and Omissions</b>	<b>428.4</b>	<b>935.8</b>	<b>1008.0</b>	<b>1212.6</b>	<b>176.4</b>	<b>846.8</b>	<b>950.5</b>	<b>-1236.4</b>	<b>4423.9</b>
<b>D. Overall Balance</b>	<b>303.6</b>	<b>1207.4</b>	<b>822.9</b>	<b>945.8</b>	<b>-209.2</b>	<b>1130.7</b>	<b>2947.3</b>	<b>-662.6</b>	<b>2242.9</b>

**TABLE 21. GROSS INTERNATIONAL RESERVES (\*)**

Item	Year									End of Period
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	
	<b>Millions of Indian Rupees</b>									
<b>1.Rupee reserves</b>	943.3	1500.9	2519.3	3106.6	3551.9	3663.9	3330.2	4362.8	3578.3	
Royal Monetary Authority of Bhutan	39.2	41.4	95.3	102.0	89.4	635.7	863.6	1822.4	2069.7	
Bank of Bhutan Ltd.	898.5	1387.5	1845.7	1813.0	2134.6	1964.7	1734.4	1988.3	1079.4	
Bhutan National Bank Ltd.	5.7	72.0	578.3	1191.5	1328.0	1063.6	732.1	552.1	429.1	
	<b>Millions of US Dollars</b>									
<b>2.Convertible currency reserves</b>	149.2	180.5	199.9	221.5	217.0	240.5	302.0	287.4	337.7	
Royal Monetary Authority of Bhutan	141.5	174.6	193.5	197.7	186.1	202.6	244.6	249.0	306.8	
Royal Government	-	-	-	-	-	-	-	-	-	
Bank of Bhutan Ltd.	6.8	3.9	3.5	11.3	16.2	18.4	39.6	31.3	21.0	
Bhutan National Bank Ltd.	0.8	2.0	2.9	12.6	14.7	19.5	17.7	7.0	9.9	
<b>3.Total reserves (1+2)</b>	175.5	216.0	258.3	291.1	292.6	315.3	373.3	383.3	419.8	
	<b>Months of Imports</b>									
<b>4.Total reserves</b>	16.1	21.0	19.3	19.3	21.0	20.6	23.0	18.8	12.0	
Rupee reserves	3.7	4.9	6.1	6.1	6.8	6.3	4.9	5.3	4.2	
Convertible currency reserves	39.3	59.4	51.9	59.1	74.5	70.6	192.3	117.6	21.6	

(\*) 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 22A. COMPOSITION OF TRADE WITH INDIA (IMPORTS)**

Millions of Ngultrum

Item	2001	2002	2003	2004	Share of Imports in 2004 in %
Animal Products	270.6	317.6	368.6	436.2	4.3
Cereals, Vegetables, Fruits, Nuts, Coffee, Tea & Spices	555.6	607.5	745.2	645.9	6.3
Vegetables Fats and Oil	201.0	220.9	174.5	165.3	1.6
Prepared foodstuffs	503.8	545.8	573.9	624.5	6.1
Mineral Products	1,512.7	1,434.7	1,860.5	2,121.0	20.8
Products of Chemical Industries	514.8	456.2	562.5	665.2	6.5
Plastics & Rubber Products	157.7	179.5	261.6	372.0	3.6
Raw Hides & Skins	5.2	5.4	4.0	7.6	0.1
Wood and Wood Products	148.5	96.5	100.5	123.6	1.2
Wood pulp Products	151.4	144.6	179.9	216.7	2.1
Textiles	168.7	180.9	152.2	175.9	1.7
Footwear, Headgear and Clothing Accessories	49.7	64.0	71.1	56.3	0.6
Stone, Plaster, Cement and Asbestos Products	145.4	133.5	155.5	183.3	1.8
Precious or Semi-precious Metal & Stone Products	0.1	0.4	0.4	18.1	0.2
Base Metals and Base Metal Products	969.2	928.3	1,441.8	1,965.4	19.3
Machinery and Mechanical Appliances	1,014.0	1,528.2	2,785.6	1,671.3	16.4
Transport Vehicles and Equipment	454.9	562.6	559.0	570.9	5.6
Optical, Photographic & Measuring Equipmen	87.9	95.7	201.0	69.3	0.7
Miscellaneous Manufactured Articles	77.5	78.4	61.9	105.4	1.0
Works of Art, Antiques & Special Transactions	0.1	0.5	0.4	0.1	0.0
<b>TOTAL</b>	<b>6,988.8</b>	<b>7,581.3</b>	<b>10,260.1</b>	<b>10,193.9</b>	<b>100.0</b>

Source: Department of Revenue &amp; Customs. Mineral imports are inclusive of electricity imports.

**TABLE 22B. COMPOSITION OF TRADE WITH INDIA (EXPORTS)**

Millions of Ngultrum

Item	2001	2002	2003	2004	Share of Exports in 2004 in %
Animal Products	0.0	0.4	0.0	0.1	0.0
Vegetables, Fruits, Nuts, Coffee, Tea & Spices	279.9	391.1	257.0	286.4	3.7
Vegetables Fats & Oil	0.0	0.0	0.0	0.0	0.0
Prepared Foodstuffs	218.5	208.5	391.3	407.8	5.3
Mineral Products	609.5	534.4	587.6	674.1	8.7
Electricity*	2,072.9	2,347.4	2,603.5	2,711.7	34.9
Plastic & Rubber Products	55.5	84.0	199.3	270.8	3.5
Raw Hides & Skins	2.5	4.0	4.2	2.5	0.0
Wood & Wood Products	241.4	176.5	214.7	280.0	3.6
Wood pulp Products	1.0	0.3	0.4	1.5	0.0
Textiles	1.0	13.2	112.8	536.4	6.9
Footwear, Headgear & Clothing Accessories	0.0	0.0	0.0	0.1	0.0
Stone, Plaster, Cement, & Asbestos Products	14.2	22.5	18.0	24.5	0.3
Base Metals & Base Metal Products	595.1	627.9	882.3	1,736.6	22.4
Machinery & Mechanical Appliances	0.1	39.2	4.4	73.0	0.9
Transport Vehicles & Equipment	0.4	3.2	0.2	15.4	0.2
Optical, Photographic & Measuring Equipment & Parts**		4.4	2.1	1.1	0.0
Miscellaneous Manufactured Articles	19.4	12.4	18.0	26.6	0.3
Products of Chemical Industries	589.0	667.6	630.0	712.5	9.2
Works of Art, Antiques, & Special Transactions	0.1	0.0	0.0	0.3	0.0
<b>TOTAL</b>	<b>4,700.5</b>	<b>5,137.0</b>	<b>5,925.9</b>	<b>7,761.6</b>	<b>100.0</b>

Source: Department of Revenue &amp; Customs.

\* Electricity exports for 2002 and 2003 are taken from Chukha and Kurichhu sales for that year.

\*\* This category was eliminated by DRC for 2000.

**TABLE 23A. COMPOSITION OF TRADE WITH COUNTRIES OTHER THAN INDIA (IMPORTS)**

Millions of Ngultrum

Item	2001	2002	2003	2004	Share of Imports in 2004 in %
Animal Products	7.0	8.5	8.0	0.6	0.0
Vegetables, Fruits, Nuts, Coffee, Cereals, Seeds	3.4	19.1	4.9	33.1	0.4
Vegetable Fats and Oil	10.3	19.5	50.7	147.6	1.7
Whiskies and Processed Food	77.1	60.4	32.4	154.5	1.8
Mineral Oil and Fuel	1.4	31.6	0.7	106.2	1.3
Products of Chemical Industries	19.1	26.3	26.0	55.3	0.7
Medicines and Pharmaceuticals	24.0	11.1	12.5	23.1	0.3
Photographic Film and Materials	2.1	2.4	0.1	12.5	0.1
Plastic and Rubber Products	131.9	105.4	100.2	234.8	2.8
Wood Products	21.7	10.9	2.2	8.8	0.1
Wood pulp Products	21.3	10.5	21.9	55.2	0.7
Textiles	60.2	81.1	99.2	521.7	6.2
Machinery, Mechanical Appliances, Base Metals and Electronic Items*	1539.3	1506.2	947.9	6960.6	82.4
Ceramic and Melamine Products	13.3	10.9	0.7	7.7	0.1
Trekking Equipment, Footwear, Carpets	13.0	12.7	9.2	48.4	0.6
Miscellaneous Manufactured Articles	30.8	36.1	17.0	75.4	0.9
Precious and Semi-precious Metals	1.1	0.0	2.8	0.1	0.0
Tobacco and Cigarettes	3.3	5.3	2.0	0.0	0.0
Personal Effects	21.1	15.6	0.0	0.1	0.0
<b>TOTAL</b>	<b>2001.4</b>	<b>1972.6</b>	<b>1338.4</b>	<b>8445.6</b>	<b>100.0</b>

\* Includes transport vehicles and planes and parts

**TABLE 23B. COMPOSITION OF TRADE WITH COUNTRIES OTHER THAN INDIA (EXPORT)**

Millions of Ngultrum

Item	2001	2002	2003	2004	Share of Exports in 2004 in %
Vegetables & Fruits	163.9	115.1	166.1	298.8	58.6
Processed Food	14.3	6.5	4.8	9.5	1.9
Mineral Products	92.0	139.3	81.5	142.3	27.9
Plastic Products	0.0	0.0	2.5	21.0	4.1
Photographic Film & Photographic Materials	0.0	0.0	0.0	0.0	0.0
Wood Products	1.1	7.1	1.8	3.6	0.7
Wood pulp Products	7.8	1.5	0.1	0.1	0.0
Textiles	5.0	10.9	0.2	1.1	0.2
Coins	0.0	0.0	0.0	0.0	0.0
Base Metals & Base Metal Products	0.0	2.6	0.1	12.1	2.4
Machinery	0.0	56.7	0.2	6.1	1.2
Philatelic Products	0.0	0.0	0.0	0.0	0.0
Handicrafts Products	2.3	0.4	0.1	0.4	0.1
Household items & Personal effects	7.8	2.4	6.8	14.6	2.9
<b>TOTAL</b>	<b>294.3</b>	<b>341.5</b>	<b>264.2</b>	<b>509.6</b>	<b>100.0</b>

Source: Department of Revenue &amp; Customs.

**TABLE 24. DIRECTION OF TRADE**

*Millions of Ngultrum*

Item	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Exports</b>										
India	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	7,761.6
Bangladesh	201.1	261.7	179.4	194.7	209.5	164.8	222.4	221.7	223.9	410.7
Others	70.0	65.1	52.9	85.3	67.3	74.1	71.9	119.8	40.3	98.9
<b>Total</b>	<b>3,350.1</b>	<b>3,553.8</b>	<b>4,274.2</b>	<b>4,455.6</b>	<b>4,988.0</b>	<b>4,615.8</b>	<b>4,994.7</b>	<b>5,478.6</b>	<b>6,190.1</b>	<b>8,271.1</b>
<b>Imports</b>										
India	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	10,193.9
Japan	412.0	602.1	841.6	410.2	260.4	305.2	622.2	322.5	200.2	598.2
Germany	70.8	67.1	45.4	72.0	0.0	28.3	66.0	97.8	69.6	4,248.4
United States	12.7	23.6	30.2	42.7	22.4	34.3	49.0	60.3	40.1	82.8
United Kingdom	57.5	40.6	19.5	33.2	31.3	205.4	163.4	282.3	22.5	148.7
Singapore	194.0	344.1	140.0	398.3	997.9	251.4	214.6	245.3	198.9	420.1
Thailand*						105.8	290.0	242.2	148.8	349.6
China*						71.8	15.8	74.1	29.1	205.3
Bangladesh*						49.3	64.7	72.8	49.1	186.4
Nepal*						24.7	15.0	21.4	20.0	51.1
Others	264.7	551.5	447.6	939.9	677.6	567.6	500.7	553.8	560.1	2,155.1
Of which, South Korea										501.8
Of which, Austria										411.9
Of which, Sweden										275.3
Of which, Norway										235.6
<b>Total</b>	<b>3,641.9</b>	<b>4,525.2</b>	<b>4,977.9</b>	<b>5,516.4</b>	<b>7,834.9</b>	<b>7,875.0</b>	<b>8,990.2</b>	<b>9,553.9</b>	<b>11,598.5</b>	<b>18,639.5</b>
<b>Share in percent</b>										
<b>Exports</b>										
India	91.9	90.8	94.6	93.7	94.5	94.8	94.1	93.8	95.7	93.8
Bangladesh	6.0	7.4	4.2	4.4	4.2	3.6	4.5	4.0	3.6	5.0
Others	2.1	1.8	1.2	1.9	1.3	1.6	1.4	2.2	0.7	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Imports</b>										
India	72.2	64.0	69.4	65.6	74.6	79.1	77.7	79.4	88.5	54.7
Japan	11.3	13.3	16.9	7.4	3.3	3.9	6.9	3.4	1.7	3.2
Germany	1.9	1.5	0.9	1.3	0.0	0.4	0.7	1.0	0.6	22.8
United States	0.3	0.5	0.6	0.8	0.3	0.4	0.5	0.6	0.3	0.4
United Kingdom	1.6	0.9	0.4	0.6	0.4	2.6	1.8	3.0	0.2	0.8
Singapore	5.3	7.6	2.8	7.2	12.7	3.2	2.4	2.6	1.7	2.3
Thailand*						1.3	3.2	2.5	1.3	1.9
China*						0.9	0.2	0.8	0.3	1.1
Bangladesh*						0.6	0.7	0.8	0.4	1.0
Nepal*						0.3	0.2	0.2	0.2	0.3
Others	7.3	12.2	9.0	17.0	8.6	7.2	5.6	5.8	4.8	11.6
Of which, South Korea										2.7
Of which, Austria										2.2
Of which, Sweden										1.5
Of which, Norway										1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

TABLE 25. CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (\*)

	Sector	Creditors	2001/2002		2002/2003		2003/2004		2004/2005		Total <sup>1</sup>	
			USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	<b>Concessional Loans</b>											
	<b>Agriculture</b>		<b>2.5</b>		<b>5.5</b>		<b>0.8</b>		<b>0.6</b>		<b>38.9</b>	
1	Small Farm Dev. Project	IFAD			0.0		0.0		0.0		4.2	
2	T/gang Mongar Dev. Project	IFAD			0.0		0.0		0.0		3.4	
3	Punakha Wangdi Valley Dev. Proj.	IFAD			0.0		0.0		0.0		2.6	
4	1st Eastern Zone Agricultural Proj.	IFAD			0.0		0.0		0.0		3.5	
5	2nd Eastern Zone Agricultural Proj.	IFAD	1.4		4.6		0.8		0.6		8.0	
6	Forestry I	World Bank			0.0		0.0		0.0		5.3	
7	Forestry II	World Bank			0.0		0.0		0.0		0.8	
8	Forestry III	World Bank	1.1		0.9		0.0		0.0		5.2	
9	Chirang Hill Irrigation Project	ADB			0.0		0.0		0.0		1.1	
10	Highland Lifestock Dev. Proj.	ADB			0.0		0.0		0.0		4.8	
	<b>Communications</b>		<b>3.7</b>		<b>5.7</b>		<b>7.4</b>		<b>10.6</b>		<b>42.6</b>	
11	Earth Satellite Station	Mitsui and Co. Ltd.			0.0		0.0		0.0		1.7	
12	Air Navigation Project (Paro)	EFIC (Australia)			0.0		0.0		0.0		0.8	
13	Rural Access Project	World Bank	1.0		1.8		1.8		2.7		8.2	
14	Urban Development Project	World Bank	0.8		1.5		3.5		2.5		8.9	
15	Road Works Mechanization Proj.	ADB			0.0		0.0		0.0		5.0	
16	East West Highway Maintenance	ADB			0.0		0.0		0.0		5.2	
17	Urban Infrastructures Improv. Proj.	ADB	1.3		0.7		0.8		1.1		4.8	
18	Road Improvement Project	ADB	0.6		1.7		1.3		4.3		8.1	
19	Rural Telecom Net. Expansion Proj.	Govt. of Denmark							0.0		0.0	
	<b>Education</b>		<b>2.9</b>		<b>2.3</b>		<b>4.3</b>		<b>4.4</b>		<b>37.6</b>	
20	Primary Education Project	World Bank			0.0		0.0		0.0		4.4	
21	Second Education Project	World Bank	2.7		1.5		2.2		0.8		11.9	
22	Technical and Voc. Edn. Train. Proj.	ADB			0.0		0.0		0.0		4.5	
23	Basic Skills Dev. Proj.	ADB	0.2		0.8		1.3		1.1		3.4	
24	Multi Project II	ADB			0.0		0.0		0.0		10.1	
25	Education Development Proj.	World Bank					0.8		2.6		3.4	
	<b>Health</b>				<b>5.3</b>		<b>0.0</b>		<b>0.0</b>		<b>10.1</b>	
26	Health Care Reform Program	ADB			5.3		0.0		0.0		10.1	
	<b>Financial Sector</b>		<b>0.7</b>		<b>3.5</b>		<b>0.0</b>		<b>0.0</b>		<b>22.8</b>	
27	Technical Assistance	World Bank			0.0		0.0		0.0		3.3	
28	Multi Project I	ADB			0.0		0.0		0.0		4.3	
29	Bhutan Dev. Finance Corporation	ADB			0.0		0.0		0.0		2.4	
30	Financial Sector Dev. Program	ADB			1.5		0.0		0.0		4.1	
31	Dev. Finance Loan Project	ADB	0.7		2.0		0.0		0.0		3.9	
32	Bhutan Dev. Finance Corporation	KFAED			0.0		0.0		0.0		4.7	

**TABLE 25. CONTINUED**

**CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (\*)**

	Sector	Creditors	2001/2002		2002/2003		2003/2004		2004/2005		Total <sup>1</sup>	
			USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	<b>Industry</b>				<b>0.0</b>		<b>0.0</b>		<b>0.0</b>		<b>31.0</b>	
33	Bhutan Calcium Carbide Ltd.	World Bank			0.0		0.0		0.0		7.2	
34	Industrial Estates Dev. Project	ADB			0.0		0.0		0.0		0.8	
35	Gedu Wood Mgf. Corporation	KFAED			0.0		0.0		0.0		5.9	
36	Tala Particle Board Factory Proj.	KFAED			0.0		0.0		0.0		10.4	
37	Bhutan Calcium Carbide Ltd.	KFAED			0.0		0.0		0.0		6.7	
38	Dungsam Cement Plant	Govt. of India			0.0						0.0	
	<b>Power</b>		<b>13.4</b>	<b>1950.8</b>	<b>10.1</b>	<b>3203.6</b>	<b>13.5</b>	<b>3346.2</b>	<b>10.9</b>	<b>2655.7</b>	<b>67.0</b>	<b>17511.4</b>
39	Rural Electrification Project	ADB			0.0		0.0		0.0		6.6	
40	Sustainable Rural Elect. Proj.	ADB	5.3		2.3		0.9		0.3		8.9	
41	Rural Electrification & Network Exp Proj.						0.0		3.0		3.0	
42	Basochhu Hydropower Project	Govt. of Austria	0.4		0.0		0.9		0.0		13.7	
43	Basochhu Hydro. Lower Stage	Govt. of Austria	7.7		7.9		11.7		7.6		34.8	
44	Chukha Hydropower Proj.	Govt. of India				0.0		0.0		0.0		983.6
45	Kurichhu Hydropower Proj.	Govt. of India		204.0		162.0		0.0		0.0		2240.0
46	Tala Hydroelectric Proj.	Govt. of India		1746.8		3041.6		3346.2		2655.7		14287.8
	<b>Other</b>								<b>0.5</b>		<b>0.5</b>	
47	Decentralized Rural Dev. Project	World Bank							0.5		0.5	
	<b>TOTAL (Concessional)</b>		<b>23.1</b>	<b>1950.8</b>	<b>32.6</b>	<b>3203.6</b>	<b>26.0</b>	<b>3346.2</b>	<b>27.0</b>	<b>2655.7</b>	<b>250.4</b>	<b>17511.4</b>
	<b>Commercial Loans</b>		<b>0.0</b>		<b>0.0</b>		<b>8.0</b>		<b>2.0</b>		<b>32.6</b>	
	<b>TOTAL (Concessional + Comm)</b>		<b>23.1</b>	<b>1950.8</b>	<b>32.6</b>	<b>3203.6</b>	<b>34.0</b>	<b>3346.2</b>	<b>29.0</b>	<b>2655.7</b>	<b>283.0</b>	<b>18379.9</b>

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

(1): Total Disbursements are cumulative from 1981/82 - 2004/05.

**TABLE 26. BHUTAN'S OUTSTANDING EXTERNAL DEBT - FISCAL YEAR POSITION**

Item	Rupee/Ngultrum Million				US \$ Million				End of Period
	2001/2002	2002/2003	2003/2004	2004/2005	2001/2002	2002/2003	2003/2004	2004/2005	
<b>1. Government Borrowing</b>									
<b>Concessional</b>	6264.1	8471.9	9445.7	10063.5	<b>129.9</b>	<b>176.8</b>	<b>208.0</b>	<b>225.6</b>	
a. World Bank	1599.9	2054.6	2384.7	2623.4	33.2	42.9	52.5	58.8	
b. IFAD	660.0	939.0	922.8	878.3	13.7	19.6	20.3	19.7	
c. ADB	2671.3	3630.7	3743.3	3918.0	55.4	75.8	82.4	87.8	
d. KFAED	246.6	174.6	95.2	66.7	5.1	3.6	2.1	1.5	
e. EFIC Australia	13.7	9.1	4.3	2.1	0.3	0.2	0.1	0.0	
f. Govt. of Austria	1072.6	1663.8	2295.4	2575.0	22.2	34.7	50.5	57.7	
<b>2. Commercial Borrowing</b>	<b>0.0</b>	<b>0.0</b>	<b>363.3</b>	<b>446.1</b>	<b>0.0</b>	<b>0.0</b>	<b>8.0</b>	<b>10.0</b>	
<b>3. Rupee Debt</b>	<b>7803.6</b>	<b>10963.7</b>	<b>14222.3</b>	<b>16603.8</b>	<b>161.9</b>	<b>228.7</b>	<b>313.2</b>	<b>372.2</b>	
a. Chukha Hydropower Project	525.3	437.8	350.2	262.7	10.9	9.1	7.7	5.9	
b. Kurichhu Hydropower Project	1994.0	2240.0	2240.0	2053.3	41.4	46.7	49.3	46.0	
c. Tala Hydroelectric Project	5284.3	8285.9	11632.1	14287.8	109.6	172.9	256.1	320.3	
<b>4. Gross Total</b>	<b>14067.7</b>	<b>19435.5</b>	<b>24031.3</b>	<b>27113.4</b>	<b>291.8</b>	<b>405.5</b>	<b>529.2</b>	<b>607.8</b>	
Convertible Currency Debt					129.9	176.8	216.0	235.6	
<b>As a % of Total Debt</b>					<b>44.5</b>	<b>43.6</b>	<b>40.8</b>	<b>38.8</b>	
Rupee Debt	7803.6	10963.7	14222.3	16603.8					
<b>As a % of Total Debt</b>	<b>55.5</b>	<b>56.4</b>	<b>59.2</b>	<b>61.2</b>					
<b>Exchange Rate</b>									
Ngultrum to 1 USD	48.2	47.9	45.4	44.6					

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 27. EXTERNAL DEBT OUTSTANDING BY INDIVIDUAL CREDITOR CATEGORIES**

Creditor Category	End of Period								
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	<i>(In Millions of USD and Rupees/Ngultrum)</i>								
<b>I. Convertible Currency Debt</b>	<b>84.0</b>	<b>90.4</b>	<b>98.7</b>	<b>98.7</b>	<b>106.9</b>	<b>129.9</b>	<b>176.8</b>	<b>216.0</b>	<b>235.6</b>
<b>I. Multilateral</b>	<b>80.6</b>	<b>85.0</b>	<b>88.3</b>	<b>88.3</b>	<b>94.4</b>	<b>107.7</b>	<b>142.0</b>	<b>157.5</b>	<b>167.9</b>
Asian Development Bank	36.3	40.4	43.2	43.2	47.4	55.4	75.8	82.4	87.8
EFIC (Australia)	0.8	0.7	0.5	0.5	0.4	0.3	0.2	0.1	0.0
IFAD	11.4	12.2	12.7	12.7	12.5	13.7	19.6	20.3	19.7
KFAED	10.9	9.6	7.9	7.9	6.5	5.1	3.6	2.1	1.5
World Bank (IDA)	21.3	22.1	24.0	24.0	27.6	33.2	42.9	52.5	58.8
<b>II. Bilateral</b>	<b>0.0</b>	<b>4.3</b>	<b>10.4</b>	<b>10.4</b>	<b>12.6</b>	<b>22.2</b>	<b>34.7</b>	<b>50.5</b>	<b>57.7</b>
Government of Austria	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5	57.7
<b>III. Commercial Debt</b>	<b>3.4</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>8.0</b>	<b>10.0</b>
<b>II. Rupee Debt</b>	<b>1,243.8</b>	<b>1,715.5</b>	<b>2,197.9</b>	<b>3,276.9</b>	<b>6,024.4</b>	<b>7,803.6</b>	<b>10,963.7</b>	<b>14,222.3</b>	<b>16,604.8</b>
Government of India	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3	16,603.8
State Bank of India	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	1.0
	<i>(In percent of Total Convertible Currency/ Rupee Outstanding Debt)</i>								
<b>Convertible Currency Creditors</b>									
ADB	43.2	44.7	43.8	43.8	44.3	42.6	42.9	38.2	37.3
EFIC	0.9	0.7	0.5	0.5	0.4	0.2	0.1	0.0	0.0
Government of Austria	0.0	4.7	10.5	10.5	11.8	17.1	19.6	23.4	24.5
IFAD	13.5	13.5	12.9	12.9	11.7	10.5	11.1	9.4	8.4
KFAED	13.0	10.7	8.0	8.0	6.1	3.9	2.1	1.0	0.6
World Bank	25.3	24.4	24.3	24.3	25.9	25.5	24.3	24.3	25.0
West LB Ltd.	4.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFC								3.7	4.2
<b>Rupee Creditors</b>									
Government of India	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State Bank of India	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

Source: Department of Aid and Debt Management.

**TABLE 28. DEBT SERVICING - YEAR-WISE EXPENDITURE ON EXTERNAL DEBT, CONVERTIBLE CURRENCY AND RUPEE (\*)**

In millions of USD and Rupees

Sector	2001/2002		2002/2003		2003/2004		2004/2005	
	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
<b>Concessional Loans</b>								
<b>Agriculture</b>	<b>0.24</b>		<b>0.28</b>		<b>0.55</b>		<b>0.34</b>	
	<b>0.43</b>		<b>0.58</b>		<b>0.72</b>		<b>0.76</b>	
1 Small Farm Dev. Project	0.03		0.04		0.04		0.04	
	0.12		0.13		0.14		0.13	
2 T/gang Mongar Dev. Project	0.03		0.03		0.03		0.03	
	0.08		0.09		0.09		0.09	
3 Punakha Wangdi Valley Dev. Proj.	0.02		0.02		0.25		0.02	
	0.06		0.07		0.07		0.07	
4 1st Eastern Zone Agricultural Proj.	0.04		0.04		0.04		0.04	
	0.00		0.10		0.10		0.10	
5 2nd Eastern Zone Agricultural Proj.	0.01		0.03		0.05		0.06	
	0.00		0.00		0.00		0.00	
6 Forestry I	0.04		0.04		0.04		0.04	
	0.05		0.06		0.06		0.17	
7 Forestry II	0.01		0.01		0.01		0.01	
	0.02		0.02		0.02		0.02	
8 Forestry III	0.02		0.03		0.04		0.04	
	0.00		0.00		0.11		0.11	
9 Chirang Hill Irrigation Project	0.01		0.01		0.01		0.02	
	0.02		0.02		0.02		0.02	
10 Highland Livestock Dev. Proj.	0.04		0.04		0.04		0.04	
	0.09		0.10		0.10		0.05	
<b>Communications</b>	<b>0.13</b>		<b>0.17</b>		<b>0.26</b>		<b>0.39</b>	
	<b>0.19</b>		<b>0.20</b>		<b>0.26</b>		<b>0.25</b>	
11 Earth Satellite Station	0.00		0.00		0.00		0.00	
	0.00		0.00		0.00		0.00	
12 Air Navigation Project (Paro)	0.00		0.00		0.00		0.00	
	0.09		0.09		0.09		0.05	
13 Rural Access Project	0.01		0.02		0.06		0.08	
	0.00		0.00		0.00		0.00	
14 Urban Development Project	0.01		0.02		0.05		0.08	
	0.00		0.00		0.00		0.00	
15 Road Works Mechanization Proj.	0.04		0.04		0.04		0.04	
	0.09		0.10		0.11		0.10	
16 East West Highway Maintenance	0.05		0.05		0.05		0.05	
	0.00		0.00		0.05		0.10	
17 Urban Infrastructures Improv. Proj.	0.01		0.02		0.03		0.04	
	0.00		0.00		0.00		0.00	
18 Road Improvement Project	0.00		0.01		0.03		0.05	
	0.00		0.00		0.00		0.00	
19 Rural Telecom Network Exp. Proj							0.04	
							0.00	
<b>Education</b>	<b>0.19</b>		<b>0.22</b>		<b>0.31</b>		<b>0.43</b>	
	<b>0.35</b>		<b>0.39</b>		<b>0.40</b>		<b>0.49</b>	
20 Primary Education Project	0.03		0.03		0.03		0.03	
	0.08		0.09		0.09		0.09	
21 Second Education Project	0.03		0.06		0.08		0.11	
	0.00		0.00		0.00		0.00	
22 Technical and Voc. Edn. Train. Proj.	0.04		0.04		0.04		0.04	
	0.08		0.09		0.10		0.09	
23 Basic Skills Dev. Proj.	0.00		0.00		0.02		0.03	
	0.00		0.00		0.00		0.00	
24 Multi Project II	0.09		0.09		0.08		0.08	
	0.19		0.21		0.22		0.31	
25 Education Development Project					0.06		0.14	
					0.00		0.00	
<b>Health</b>	<b>0.05</b>		<b>0.07</b>		<b>0.10</b>		<b>0.10</b>	
	<b>0.00</b>		<b>0.00</b>		<b>0.00</b>		<b>0.00</b>	
26 Health Care Reform Program	0.05		0.07		0.10		0.10	
	0.00		0.00		0.00		0.00	



**TABLE 28. CONTINUED**
**DEBT SERVICING - YEAR-WISE EXPENDITURE ON EXTERNAL DEBT, CONVERTIBLE CURRENCY AND RUPEE**

In millions of USD and Rupees

Sector	2001/2002		2002/2003		2003/2004		2004/2005	
	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal	Principal
<b>Financial Sector</b>	<b>0.21</b>		<b>0.21</b>		<b>0.23</b>		<b>0.21</b>	
	<b>0.58</b>		<b>0.60</b>		<b>0.72</b>		<b>0.82</b>	
27 Technical Assistance	0.03		0.02		0.03		0.02	
	0.03		0.04		0.04		0.14	
28 Multi Project I	0.03		0.04		0.03		0.03	
	0.09		0.10		0.21		0.21	
29 Bhutan Dev. Finance Corporation	0.02		0.02		0.02		0.02	
	0.04		0.05		0.05		0.05	
30 Financial Sector Dev. Program	0.02		0.02		0.04		0.04	
	0.00		0.00		0.00		0.00	
31 Dev. Finance Loan Project	0.02		0.03		0.04		0.04	
	0.00		0.00		0.00		0.00	
32 Bhutan Dev. Finance Corporation	0.09		0.08		0.07		0.05	
	0.41		0.42		0.42		0.43	
<b>Industry</b>	<b>0.39</b>		<b>0.10</b>		<b>0.08</b>		<b>0.07</b>	
	<b>1.16</b>		<b>1.18</b>		<b>0.85</b>		<b>0.30</b>	
33 Bhutan Calcium Carbide Ltd.	0.05		0.05		0.06		0.06	
	0.07		0.08		0.08		0.08	
34 Industrial Estates Dev. Project	0.01		0.01		0.01		0.01	
	0.01		0.02		0.02		0.02	
35 Gedu Wood Mgf. Corporation	0.00		0.00		0.00		0.00	
	0.00		0.00		0.00		0.00	
36 Tala Particle Board Factory Proj.	0.30		0.02		0.00		0.00	
	0.67		0.68		0.34		0.00	
37 Bhutan Calcium Carbide Ltd.	0.03		0.02		0.01		0.00	
	0.40		0.41		0.41		0.21	
<b>Power</b>	<b>0.11</b>	<b>29.60</b>	<b>0.52</b>	<b>25.16</b>	<b>0.90</b>	<b>20.78</b>	<b>0.86</b>	<b>218.10</b>
	<b>0.00</b>	<b>87.55</b>	<b>0.00</b>	<b>87.55</b>	<b>0.00</b>	<b>87.55</b>	<b>0.00</b>	<b>274.22</b>
38 Rural Electrification Project	0.07		0.06		0.07		0.07	
	0.00		0.00		0.00		0.00	
39 Sustainable Rural Elect. Proj.	0.01		0.06		0.09		0.09	
			0.00		0.00		0.00	
40 Rural Electrification & Network Exp Proj					0.00		0.00	
					0.00		0.00	
41 Basochhu Hydropower Project	0.03		0.40		0.75		0.70	
	0.00		0.00		0.00		0.00	
42 Chukha Hydropower Proj.		29.60		25.16		20.78		16.41
		87.55		87.55		87.55		87.55
43 Kurichhu Hydropower Proj.		0.00		0.00		0.00		201.69
		0.00		0.00		0.00		186.67
44 Tala Hydroelectric Proj.		0.00		0.00		0.00		0.00
		0.00		0.00		0.00		0.00
<b>Other</b>							<b>0.00</b>	
							<b>0.00</b>	
45 Decentralized Rural Dev. Project							0.00	
							0.00	
Total ( for Concessional Loans)	<b>1.32</b>	<b>29.60</b>	<b>1.58</b>	<b>25.16</b>	<b>2.43</b>	<b>20.78</b>	<b>2.39</b>	<b>218.10</b>
	<b>2.71</b>	<b>87.55</b>	<b>2.95</b>	<b>87.55</b>	<b>2.96</b>	<b>87.55</b>	<b>2.63</b>	<b>274.22</b>
<u>Commercial Loans</u>								
<b>Commercial Loans</b>	<b>0.00</b>		<b>0.00</b>		<b>0.16</b>		<b>0.25</b>	
	<b>0.00</b>		<b>0.00</b>		<b>0.00</b>		<b>0.00</b>	
<b>Total (Con. + Comm. Loans)</b>	<b>1.32</b>	<b>29.60</b>	<b>1.58</b>	<b>25.16</b>	<b>2.59</b>	<b>20.78</b>	<b>2.63</b>	<b>218.10</b>
	<b>2.71</b>	<b>87.55</b>	<b>2.95</b>	<b>87.55</b>	<b>2.96</b>	<b>87.55</b>	<b>2.63</b>	<b>274.22</b>
<b>GRAND TOTAL (I+P)</b>	<b>4.03</b>	<b>117.15</b>	<b>4.53</b>	<b>112.71</b>	<b>5.54</b>	<b>108.33</b>	<b>5.26</b>	<b>492.32</b>

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

**TABLE 29. BHUTAN'S DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY**

Creditor Category	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	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	1.22	1.26	0.90	0.95	0.94	0.95	1.30	1.18	1.68	1.65
	4.86	2.18	2.45	2.70	2.63	2.63	2.71	2.95	2.96	2.63
II. Bilateral	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.40	0.75	0.74
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Commercial Debt	0.55	0.38	0.21	0.04	0.00	0.00	0.00	0.00	0.16	0.25
	2.26	2.26	2.26	1.13	0.00	0.00	0.00	0.00	0.00	0.00
IV. Rupee Debt	4.98	3.85	1.69	1.34	0.88	0.73	0.61	0.52	0.46	4.89
	11.24	0.39	2.46	7.93	2.01	1.89	1.82	1.83	1.93	6.15
Total	6.75	5.49	2.80	2.34	1.82	1.68	1.94	2.10	3.05	7.52
	18.36	4.83	7.16	11.76	4.64	4.51	4.52	4.78	4.88	8.78
<b>Total Debt Service</b>	<b>25.11</b>	<b>10.32</b>	<b>9.96</b>	<b>14.09</b>	<b>6.46</b>	<b>6.19</b>	<b>6.46</b>	<b>6.88</b>	<b>7.93</b>	<b>16.30</b>
	<i>(Ratios)</i>									
Debt Service Ratio*	22.7	8.9	8.0	12.1	4.9	4.7	4.9	5.0	4.2	7.0
Debt Service/Current Receipts**	20.8	8.5	6.8	10.2	4.2	4.1	4.3	4.2	4.0	6.4
Interest Payments/Current Receipts	5.6	4.5	1.9	1.7	1.2	1.3	1.3	1.3	1.5	2.9
Debt Service/Gross Reserves	17.3	5.9	4.6	5.5	2.2	2.1	2.0	1.8	2.1	3.9

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 30. RUPEE DEBT INDICATORS**

Millions of Indian Rupees

Items	Period									
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
<b>Debt Outstanding</b>	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	16,603.8
Chukha Hydel Project	1,078.6	993.8	875.5	788.0	700.4	612.9	525.3	437.8	350.2	262.7
Dungsam Cement Project										
Amex Bank										
Citibank										
GOI Credit Line	178.2	250.0	250.0							
SBI Overdraft										
Tala Hydroelectric Project			240.0	877.7	1,470.5	3,537.6	5,284.3	8,285.9	11,632.1	14,287.8
Kurichhu Hydropower Project			350.0	532.2	1,106.0	1,874.0	1,994.0	2,240.0	2,240.0	2,053.3
<b>Debt Service Payments</b>	556.4	151.4	159.1	394.8	125.8	121.2	117.1	112.7	108.3	492.3
Principal	385.5	13.9	94.3	337.6	87.6	87.6	87.6	87.6	87.6	274.2
Interest	170.9	137.5	64.9	57.3	38.3	33.7	29.6	25.2	20.8	218.1
<b>Debt Service Ratio (%)</b>	17.2	4.4	3.7	8.9	2.6	2.4	2.2	2.0	1.4	5.8
Interest Payments/Export of Goods & Services	5.3	4.0	1.5	1.3	0.8	0.7	0.6	0.4	0.3	2.6
Principal Repayments/Exports of Goods & Services	11.9	0.4	2.2	7.6	1.8	1.8	1.6	1.5	1.2	3.2
<b>Debt Outstanding/GDP (%)</b>	13.7	11.7	13.5	15.1	19.3	30.9	34.9	43.9	51.3	53.3

Source: Department of Aid and Debt Management.

**TABLE 31. FOREIGN DEBT INDICATORS FOR CONVERTIBLE CURRENCY LOANS**

Millions of US Dollars

Items	Period									
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
<b>Debt Outstanding</b>	80.2	84.0	90.4	98.7	98.7	106.9	129.9	176.8	216.0	235.6
<b>Debt Service Payments</b>	8.9	6.1	5.8	4.8	3.6	3.6	4.0	4.5	5.5	5.3
Principal	7.1	4.4	4.7	3.8	2.6	2.6	2.7	2.9	3.0	2.6
Interest	1.8	1.6	1.1	1.0	0.9	1.0	1.3	1.6	2.6	2.6
<b>Debt Service Ratio (%)</b>	55.6	32.7	38.4	26.1	17.8	15.7	18.7	23.9	24.2	12.2
Interest Payments/Convertible Currency Exports of Goods and Services.	11.1	8.8	7.3	5.4	4.7	4.2	6.1	8.3	11.3	6.1
Principal Repayments/ Convertible Currency Exports of Goods and Services.	44.6	23.8	31.1	20.8	13.1	11.5	12.5	15.6	12.9	6.1
<b>Debt Outstanding/GDP (%)</b>	29.9	28.1	27.4	28.8	25.3	25.4	28.0	33.9	35.4	33.7

Source: Department of Aid and Debt Management.

**TABLE 32. SUMMARY OF BUDGETARY OPERATIONS\*/**

Millions of Ngultrum

Item	Period						
	1999/00	2000/01	2001/02	2002/03	2003/04(r)	2004/05 (r)	2005/06 (p)
Total Revenue	4,585.4	4,975.8	5,078.2	4,785.3	6,162.3	7,036.0	7,483.0
Tax	1,977.1	1,916.9	2,675.6	2,928.3	3,350.3	3,447.0	4,446.0
Non-tax	2,355.5	2,704.9	2,376.1	1,833.6	1,864.4	3,194.0	2,943.0
Others	252.8	354.0	26.5	23.4	947.6	395.0	94.0
Grants	3,274.1	3,711.0	3,748.5	2,269.1	4,456.2	5,033.0	5,478.0
From India	1,927.1	2,551.2	2,531.8	929.3	2,287.2	2,628.0	3,730.0
Others	1,347.1	1,159.8	1,216.7	1,339.7	2,169.0	2,405.0	1,748.0
Total Revenue and Grants	7,859.5	8,686.7	8,826.7	7,054.3	10,618.5	12,069.0	12,961.0
Expenditure (1)	8,624.1	11,177.6	10,052.1	9,945.3	12,479.6	15,601.0	14,701.0
Current	3,702.1	4,435.6	4,467.9	4,580.9	5,569.1	6,506.0	6,888.0
Capital (1)	4,921.9	6,742.0	5,584.2	5,364.4	6,910.5	9,095.0	7,813.0
Budget surplus or Deficit (-)	-764.5	-2,490.9	-1,225.4	-2,891.0	-1,861.1	-3,532.0	-1,740.0
Financing Transactions (2)	764.5	2,490.9	1,225.4	2,891.0	1,861.1	3,532.0	1,740.0
External borrowings (Net of Principal repayments)	606.6	1,056.7	1,396.7	1,537.3	1,125.8	1,244.0	833.0
Internal Resource gap (3)	158.0	1,434.2	-171.3	1,353.6	735.4	2,288.0	907.0
Internal borrowings (Net of principal repayments)	-	-	500.0	250.0	735.4	1,753.0	
Cash and bank balances (4)	158.0	1,434.2	-671.3	1,103.6			
Others	-	-	-			535.0	907.0

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 - of overdraft.

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

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									
<b>BCCL 1993</b>	2000	100.0	266	4,001	4,001	400.1	43.4	283.7	3,836.5	433.6	9.2	-	-	0.1
	2001	100.0	266	5,000	4,000	500.0	101.5	284.4	3,844.0	1,015.3	4.9	100.0	26.0	0.3
	2002	100.0	267	5,000	4,000	500.0	72.1	325.5	4,254.3	720.8	6.9	30.0	7.1	0.2
	2003	100.0	267	5,200	5,000	500.0	79.8	374.5	4,745.0	797.8	6.3	30.0	6.0	0.2
	2004	100.0	270	5000	5,000	500.0	64.9	398.6	4,986.4	649.2	7.7	40.0	8.0	0.1
<b>RICBL 1993</b>	2000	48.0	2543	4,702	2,350	196.8	21.9	69.6	2,449.0	455.2	9.0	15.0	6.1	0.2
	2001	48.0	2056	4,100	4,099	196.8	34.8	103.9	3,165.0	724.1	5.7	20.0	6.3	0.2
	2002	48.0	1871	4,205	4,100	201.8	41.7	145.6	4,033.5	868.5	4.8	-	-	0.2
	2003	96.0	1715	4,205	1,000	336.0	43.9	155.2	2,616.8	457.3	7.7	-	-	0.2
	2004	96.0	1670	3,650	3,000	336.0	73.3	210.5	3,192.2	763.8	4.6	20.0	5.7	0.2
<b>PCAL 1993</b>	2000	226.7	1,630	4,500	3,000	906.7	170.5	317.6	2,400.9	752.1	6.0	50.0	20.8	0.3
	2001	226.7	1,616	4,500	4,000	906.7	183.8	388.0	2,711.6	810.7	4.9	50.0	18.4	0.3
	2002	226.7	1,620	4,600	4,000	1,042.7	200.4	418.4	2,845.7	884.1	5.2	75.0	26.4	0.3
	2003	226.7	1,520	5,300	4,400	1,178.7	191.2	496.2	3,189.0	843.4	6.2	50.0	9.6	0.3
	2004	226.7	1,477	5,500	4,000	1,246.7	175.5	558.3	3,463.2	774.1	7.1	50.0	9.1	0.2
<b>BFAL 1995</b>	2000	150.0	42	135	135	202.5	0.7	293.8	295.8	0.4	306.8	-	-	-
	2001	150.0	37	140	140	210.0	46.8	110.4	173.6	31.2	4.8	10.0	5.8	0.8
	2002	150.0	37	140	140	210.0	90.7	195.0	230.0	60.0	2.3	-	-	0.3
	2003	150.0	40	140	140	210.0	90.7	239.1	259.4	60.5	2.3	35.0	13.5	0.2
	2004	150.0	50	510	510	765.0	91.2	276.8	284.6	60.8	8.4	15.0	2.9	0.2
<b>BBPL 1993</b>	2000	140.0	489	103	103	144.2	(9.4)	2.7	101.9	(6.7)	(15.4)	-	-	(0.1)
	2001	140.0	489	103	103	144.2	4.6	7.3	105.2	3.3	31.0	-	-	0.03
	2002	140.0	489	89	89	124.6	4.0	11.3	108.1	2.8	31.6	-	-	0.02
	2003	140.0	489	89	89	124.6	9.3	12.2	104.7	6.7	13.4	6.0	6.7	0.06
	2004	140.0	489	90	90	126.0	19.8	18.0	112.9	14.2	6.4	10.0	11.1	0.13
<b>BTCL 1994</b>	2000	20.9	89	1,050	1,050	22.0	4.9	16.9	1,806.1	233.0	4.6	-	-	0.1
	2001	20.9	89	1,050	1,050	22.0	2.8	15.5	1,740.4	132.5	7.9	-	-	0.1
	2002	20.9	83	2,000	1,500	31.4	4.7	18.6	1,886.1	224.0	6.7	20.0	1.1	0.1
	2003	20.9	83	1,500	1,000	20.9	4.5	18.6	1,889.8	216.9	4.6	-	-	0.1
	2004	20.9	161	1,701	1,000	35.6	10.5	29.9	2426.12	502.5	3.4	-	-	0.2
<b>BDL 1994</b>	2000	5.0	96	100	100	5.0	(0.2)	-	100.0	(4.4)	(22.8)	-	-	(0.0)
	2001	2.5	96	100	100	2.5	0.8	-	100.0	33.2	3.0	-	-	0.3
	2002	2.5	96	100	100	2.5	-	-	-	-	-	-	-	-
	2003	6.1	96	100	100	2.5	(1.1)	-	100.0	(17.2)	(5.8)	-	-	(0.2)
	2004	6.1	96	100	100	2.5	(0.9)	-	100.0	(14.4)	(7.0)	-	-	(0.1)
<b>DPCL 1995</b>	2000	6.2	80	100	100	3.8	(0.3)	-	100.0	(5.5)	(18.3)	-	-	0.1
	2001	6.2	80	100	100	4.3	(0.1)	-	100.0	(2.1)	(47.2)	-	-	(0.0)
	2002	6.2	80	100	100	6.2	-	-	-	-	-	-	-	-
	2003	6.2	79	100	100	6.2	(5.4)	-	100.0	(85.9)	(1.2)	-	-	(0.9)
	2004	6.2	71	100	120	7.5	(6.2)	-	100.0	(100.1)	(1.2)	-	-	(1.0)

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

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									
<b>DSML</b> <b>1995</b>	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	-	-	100.0	(37.4)	(2.7)	-	-	(0.4)
	2003	3.8	64	100	100	3.8	2.2	-	100.0	57.9	1.7	-	-	0.6
	2004	3.8	69	370	300	11.3	0.48	-	100.0	12.6	23.77	-	-	0.13
<b>BNB</b> <b>1996</b>	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
	2004	119.0	4656	750	650	773.6	81.9	570.5	579.4	68.8	9.5	50.0	7.7	0.1
<b>BPCL</b> <b>1997</b>	2000	24.9	78	100	100	24.9	8.1	8.8	135.4	32.6	0.6	35.0	20.5	0.4
	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	15.0	10.0	0.3
	2003	24.9	104	300	250	62.3	10.4	15.5	162.0	41.8	6.0	30.0	12.0	0.3
	2004	24.9	102	240	240	59.84	7.5	18.0	172.0	30.1	8.0	20.0	8.3	0.2
<b>STCB</b> <b>1997</b>	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	23.1	0.2
	2004	20.0	125	190	130	38.0	9.7	50.5	352.5	48.7	3.9	25.0	13.2	0.1
<b>DSCL</b> <b>1998</b>	2000	10.1	1201	100	100	10.1	17.4	25.2	265.8	171.8	0.6	50.0	13.7	0.5
	2001	30.4	1201	100	100	30.4	17.0	11.5	136.2	56.0	1.8	15.0	29.4	0.4
	2002	30.4	1200	100	100	30.4	21.5	32.7	207.6	70.6	1.4	-	-	0.3
	2003	30.4	1186	100	100	30.4	32.6	55.4	282.2	107.1	1.0	-	-	0.4
	2004	30.4	1264	400	350	106.4	33.78	68.81	326.34	111.1	3.15	-	-	0.34
<b>DPOP</b> <b>2001</b>	2001	10.0	203	100	100	10.0	-	-	100.0	-	-	-	-	-
	2002	10.0	203	100	100	10.0	-	-	100.0	-	-	-	-	-
	2003	20.0	203	100	100	10.0	(0.6)	-	100.0	(5.9)	(17.1)	-	-	(0.1)
	2004	20.0	203	100	100	10.0	0.1	-	100.0	1.3	78.9	-	-	0.0
<b>BBCL</b> <b>2002</b>	2003	115.0	4443	350	100	368.0	(17.4)	-	100.0	(15.1)	(21.2)	-	-	(0.2)
	2004	115.0	4407	310	245	281.8	(9.6)	-	100.0	(8.3)	(29.5)	-	-	(0.1)

**Total Market Capitalization : 4,300.1**

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 Minerals Export Company Ltd.; BNB-Bhutan National Bank; BPCL-Bhutan Polythene Company Ltd.; STCB-State Trading Corporation of Bhutan; DSCL-Druk Satair Corporation Ltd.; DPOP-Druk Plaster and Chemicals Ltd.; BBCL-Bhutan Beverages Company Ltd.

**TABLE 34. EXCHANGE RATE, NGULTRUM/US DOLLAR**

Period Average

Period	Year										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Jan	31.37	35.77	35.87	39.36	42.51	43.55	46.54	48.34	47.93	45.46	43.76
Feb	31.38	36.61	35.89	38.91	42.46	43.61	46.52	48.69	47.74	45.27	43.68
Mar	31.65	34.45	35.87	39.50	42.44	43.59	46.62	48.74	47.65	45.02	43.69
Apr	31.41	34.24	35.82	39.65	42.73	43.64	46.79	48.92	47.38	43.93	43.74
May	31.42	34.99	35.81	40.37	42.77	43.97	46.92	49.00	47.08	45.25	43.49
June	31.40	34.99	35.81	42.25	43.14	44.69	47.01	48.96	46.72	45.51	43.58
July	31.38	35.52	35.74	42.51	43.29	44.78	47.14	48.76	46.23	46.04	
Aug	31.59	35.69	35.93	42.76	43.46	45.69	47.13	48.59	45.93	46.34	
Sept	33.26	35.73	36.42	42.52	43.54	45.89	47.65	48.44	45.85	46.10	
Oct	34.56	35.64	36.23	42.35	43.45	46.35	48.02	48.37	45.39	45.78	
Nov	34.75	35.74	37.15	42.38	43.40	46.78	48.00	48.38	45.52	45.13	
Dec	34.95	35.84	39.22	42.55	43.49	46.75	47.92	48.14	45.59	43.98	
Calendar year average	32.43	35.43	36.31	41.26	43.06	44.94	47.19	48.61	46.58	45.32	
Fiscal year average (+)	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	31.41	34.29	35.77	38.39	42.59	43.64	46.39	48.21	47.93	45.41	44.61

Source : International Financial Statistics, IMF.



**TABLE 35. EXCHANGE RATE, JAPANESE YEN / US DOLLAR**

Period Average

Period	Year										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Jan	99.75	105.84	118.02	129.45	113.18	105.16	117.10	132.66	118.65	106.51	103.94
Feb	98.24	105.73	123.01	126.00	116.66	109.31	116.04	133.52	119.27	106.55	104.88
Mar	90.79	105.82	122.64	128.69	119.78	106.71	121.12	131.20	118.54	108.62	105.31
Apr	83.67	107.46	125.51	131.67	119.81	105.48	123.83	131.07	119.79	107.25	107.36
May	85.10	106.45	118.99	135.00	122.11	108.11	121.93	126.48	117.26	112.52	106.91
June	84.53	108.86	114.20	140.57	120.90	106.23	122.15	123.60	118.26	109.47	108.63
July	87.22	109.32	115.16	140.73	119.86	107.90	124.65	118.07	118.69	109.36	
Aug	94.55	107.75	117.90	144.65	113.40	108.07	121.61	119.01	118.83	110.36	
Sept	100.49	109.75	120.75	134.59	107.57	106.75	118.98	120.37	115.19	110.01	
Oct	100.65	112.36	121.06	121.30	105.97	108.36	121.28	123.86	109.58	108.92	
Nov	101.92	112.26	125.27	120.58	104.60	108.89	122.31	122.55	109.20	104.90	
Dec	101.81	113.76	129.38	117.62	102.68	112.21	127.36	122.27	107.94	103.84	
Calendar year average	94.06	108.78	120.99	130.90	113.88	107.77	121.53	125.39	115.93	108.19	
Fiscal year average (+)	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	94.65	102.23	115.63	126.74	124.33	107.92	114.53	126.23	119.83	110.86	107.04

Source : International Financial Statistics, IMF.

Additional Source: Bank of Japan Website.

**TABLE 36. EXCHANGE RATE, EURO/US DOLLAR**

Period Average

Period	Year						
	1999	2000	2001	2002	2003	2004	2005
January	0.8615	0.9867	1.0659	1.1324	0.9417	0.7929	0.7550
February	0.8924	1.0170	1.0851	1.1494	0.9283	0.7908	0.7685
March	0.9189	1.0370	1.0999	1.1419	0.9256	0.8156	0.7582
April	0.9343	1.0654	1.1214	1.1290	0.9220	0.8341	0.7730
May	0.9410	1.1040	1.1442	1.0906	0.8645	0.8336	0.7878
June	0.9636	1.0537	1.1722	1.0470	0.8575	0.8239	0.8220
July	0.9663	1.0644	1.1622	1.0080	0.8794	0.8154	
August	0.9432	1.1062	1.1108	1.0227	0.8980	0.8214	
September	0.9524	1.1469	1.0978	1.0196	0.8915	0.8185	
October	0.9340	1.1698	1.1041	1.0196	0.8553	0.8008	
November	0.9668	1.1678	1.1259	1.0082	0.8548	0.7699	
December	0.9891	1.1149	1.1207	0.9823	0.8138	0.7476	
Calendar year average	0.9386	1.0862	1.1175	1.0626	0.8860	0.8054	
Fiscal year average (+)		1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
		1.0013	1.1216	1.1176	0.9583	0.8403	0.7865

Source : IFS, IMF.

Additional Source: European Central Bank Website.

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## **IV. ANNEXURES**

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**THE ROYAL MONETARY AUTHORITY OF BHUTAN:  
Functions, Restructuring, and Important Projects**

**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, the creation of a credit information bureau, 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 July 1, 2004, in what was considered to be a very substantial move forward, the RMA was restructured. Of particular importance was the specialization into two broad departments, the Operations Department headed by Deputy Managing Director I, DMD I, and the Policy and Programs Department headed by Deputy Managing Director II. Such a move was necessary, in order to strengthen the organization structure of the RMA, thereby enhancing the capacity of the executive management team, consisting of the Managing Director, and DMD I and DMD II, 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.

All the functions are carried out under the general supervision of the Board of Directors by the RMA's executive management team with the close support of its divisions/units, which also have been restructured to some degree. The Management Secretariat (established in the beginning of 2005), Human Resource Development, and Internal Audit are directly under the MD, while DMD I is responsible for Banking, Hospitality and Protocol, Issue, and Personnel and Finance, and DMD II 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 RMA organization chart (on page 4), as of June 2005.

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

### a) Divisions Directly Under the MD

- \* The Management Secretariat Unit coordinates overall activities and provides logistical support for the executive management team, by, for example, making arrangements for the Board Meetings, compiling the board agenda, preparing folders for the Board Meetings, taking minutes during the Board Meetings, preparing the minutes, and circulating them.
- \* 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.

### **Important Projects**

The role and functions of the RMA have been evolving, from playing a very limited role in the beginning, when it was first set up, to more or less assuming the complete role of a central bank. In light of these developments, as well as the changes that have been taking place in central bank thinking and central bank experiences the world over, the RMA Act, the Financial Services Act, and Foreign Exchange Regulations are in the process of being up-dated. Further notable projects are as follows:

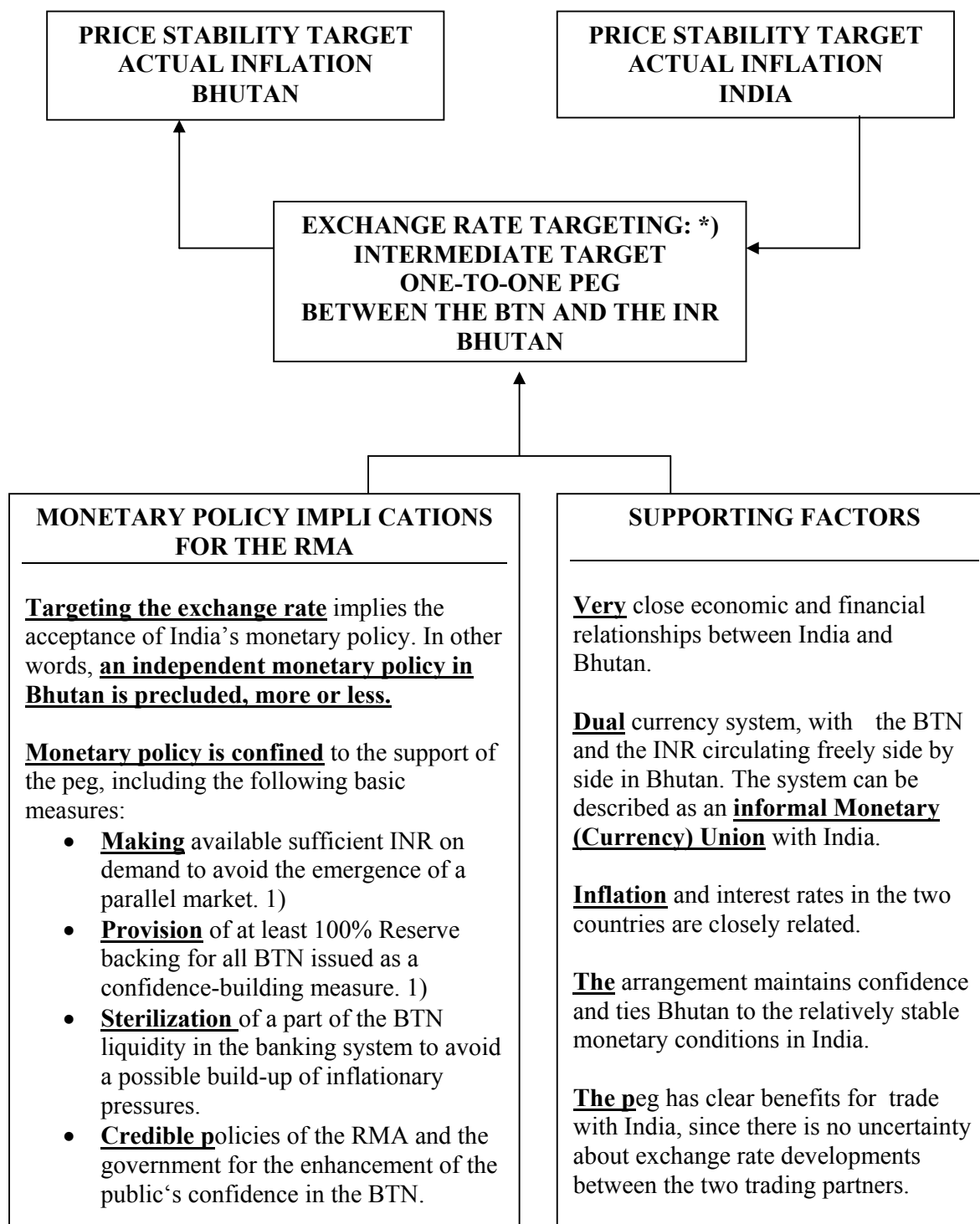
- a) Further development of the RMA's monetary policy framework and the strengthening of the monetary policy tools (at present basically applicable to the support of the one-to-one peg between the BTN and the INR).
- b) Further streamlining of the organisation structure and management procedures, e.g., creation of a Legal Division 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.
- c) 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 FISD 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 Audit Committee Charter, and an Internal Audit Manual. The Internal Audit Charter has already been approved by the Board, an Audit Committee Charter has been drafted, while an Internal Audit Manual is still under preparation. On the basis of the Audit Committee Charter, which follows "international best practices", an 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.



- d) Further improvement of the computer system: 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. The Nu. 9.7 million ICBS project is being executed on-site by Sunrise Technologies, Kolkata and their local counterpart Digital Shangri-La. The contract agreement was signed on February 16, 2005, and the project was launched on March 3, 2005. The project is currently running into its 9<sup>th</sup> month and is scheduled to be completed by March 2007. The software requirement specification (SRS) for six modules has already been completed, along with the design for the other four modules.
- e) 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, the RMA, in collaboration with the local commercial banks, is initiating to re-engineer the system for clearing and settling cheques in the country with the assistance from the Asian Development Bank. The new system will be a complete shift from a manual to an electronic system, known as cheque truncation system. This project also includes the establishment of five regional offices to cater for all bank branches in the country. The regional offices will be established in Thimphu, Phuentsholing, Mongar, Gelephu, and Samdrupjongkhar. Further, by having switched from TELEX to SWIFT in the beginning of 2005, the RMA has improved its payment system substantially.
- f) Further streamlining of 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 GDDS of the IMF, and press releases.
- g) Establishment of a Credit Information Bureau (CIB): 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). 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. An MOU has been signed by the five financial institutions on November 1, 2005, and the project is due to commence shortly.

- h) 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 new series of notes has been designed by G&D (banknote and security printing firm in Germany) and the printing work is being carried out by De La Rue Currency of UK. As per the agreed schedule, the RMA expects to receive the consignment of the new Ngultrum notes tentatively by 30 June, 2006.
  
- i) Enhancement of 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.

**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 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 was converted into a full-fledged commercial bank, called Bhutan National Bank 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 in accordance with the "spread system". The system allowed each institution to determine its own deposit and lending rates, while maintaining an overall interest spread of a maximum of six percentage points. In April 1999, to further encourage competition among FIs, the RMA removed the "spread",

liberalizing fully the interest rates on both deposits and advances, permitting more competition and interplay of the market forces.

- ❖ In line with the Government's program 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 Program, the Government Employees Provident Fund was transferred in 2000 from the Royal Insurance Corporation of Bhutan (now RICBL) to the newly created National Pension and Provident Fund.
- ❖ 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 78<sup>th</sup> session of the National Assembly in July 2000.
- ❖ In 2002, the RMA made arrangements with the Reserve Bank of India 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, 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.
- ❖ As part of the RMA's external communication policy, its website was made available in August, 2004.
- ❖ With effect of July 1, 2004, a new organization structure for the RMA became operational, being commensurate with the requirements of an effective central bank. 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*.

- ❖ For the purposes of streamlining reserve management, a Reserve Management Committee (RMC) was established in May 2005. Apart from the implementation of the investment guidelines approved by the Board and the MOC, the RMC is responsible for advising on the existing currency composition, the asset allocation, and returns on the portfolio by studying the evolving outlook on the international currency markets and the asset market trends.

## **AN OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL SECTOR: A SUMMARY OVERVIEW AND INDIVIDUAL INSTITUTIONS**

First, this report provides a brief presentation on the overall financial sector<sup>1</sup> performance for the FY ending June 2005. The information contained in this report is based on the off-site returns submitted to the Financial Institutions Supervision Division of the RMA by the FIs. Thereafter, detailed institution-wise developments that have taken place until 2005 are also featured, including information on the National Pension and Provident Fund, and Royal Securities Exchange of Bhutan.

As in the past, the financial sector played an important role in promoting the country's economic activities during the year, with a contribution to overall GDP of 5 percent during 2004. Total assets of the commercial banks accounted for 88 percent of the total balance sheets, thus leaving the two non-bank financial institutions (NBFIs) with a 12 percent market share. Further, in an effort to enhance/facilitate banking and credit services in the country, the FIs have introduced numerous facilities and schemes during the year.

### **Business Outlook**

The balance sheet size of the financial sector increased by 6.4 percent, to Nu.22.4 billion as of June 2005, mainly due to increases in the assets of the commercial banks (CBs). Total deposit liabilities of the FIs rose by 14.3 percent, to Nu.16.8 billion, while borrowings decreased by 46.2 percent, to Nu.1.2 billion, as of June 2005. Liquidation of the rupee borrowings of one of the commercial banks (amounting to Nu.1.1 billion availed in June 2004), to a large extent, caused the decrease in the borrowings of the FIs. The off-balance sheet exposure (OBS) of the financial sector rose by 10.5 percent, from Nu.1.3 billion in June 2004 to Nu.1.5 billion in June 2005. The commercial banks' OBS grew by 12.7 percent, while that of the NBFIs' declined by 6.9 percent.

### **Capital & Reserves**

The capital base of the FIs grew by 15.4 percent, with an increase in the capital base of the NBFIs by 19.8 percent and CBs by 13.6 percent during the review period. The ratio of capital fund to assets stood at 12.5 percent during the review period. The risk-weighted capital adequacy ratio (RWCAR) of the FIs improved from 20.8 percent to 21.6 percent. Further, the core capital ratio showed a marginal improvement, from 16.9 percent to 16.9 percent during the period.

### **Total Assets**

During the same period, total assets of the financial sector increased from Nu.21.1 billion to Nu.22.4 billion, reflecting a growth of 6.4 percent. The overall increase in total assets was mainly due to a significant increase in total loans and advances (net of provisions) by 43 percent. Assets of the commercial banks alone constitute 88 percent of the total assets of the financial sector. However, higher growth was observed in the

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<sup>1</sup> For BOBL, BNBL, BDFCL and RICBL

NBFIs asset size, which grew by 7.4 percent, as compared to the 6.2 percent growth of the commercial banks.

Of the total FIs assets, cash and bank balances represented 45 percent, followed by the total loan portfolio (net of provisions and interest-in-suspense, amounting to Nu.9.9 billion) at 44 percent, and the commercial banks' investments in securities (RGOB bonds, RMA bills, and others amounting to Nu.1.67 billion) which accounted for 7.5 percent.

### **Asset Quality (Credit Portfolio)**

The total non-performing loans of the FIs increased by around 5 percent, from Nu.1.2 billion in June 2004 to Nu.1.3 billion in June 2005. However, a significant increase in loans and advances, by over 40 percent, caused the NPL ratio to improve from 16.2 percent to 12 percent during the review period. The increase in the NPLs of the NBFIs was lower, at 3.7 percent, as compared to commercial banks, at 7 percent. Correspondingly, the net NPL<sup>2</sup> ratio improved from 9 to 5.6 percent. Net NPLs of the NBFIs have improved by 0.7 percent, while the commercial banks' net NPLs improved by 23.9 percent.

Further analysis of loan repayments reveals that 88 percent of the total loans outstanding are classified as performing loans and 12 percent as non-performing loans. The ratio of performing loans to total loans increased from 83.8 percent during 2003/04 to 88 percent during 2004/05, and that of the non-performing loans from 16.2 percent to 12 percent.

### **Deposit Liabilities**

Deposit liabilities of the FIs constitute 75 percent, or Nu.16.8 billion, of the total liabilities of Nu.22.4 billion. The deposit base of the financial sector increased by 14.3 percent, from Nu.14.7 billion as of June 2004 to Nu.16.8 billion as of June 2005. Time deposits increased significantly by 21.4 percent, while demand deposits increased by 6.9 percent. In terms of composition, time deposits constitute 54 percent and demand deposits, 46 percent, of the total deposit liabilities of the financial sector. In terms of customer holdings, corporate deposits<sup>3</sup> are the largest with 58 percent, followed by individual deposits<sup>4</sup> which come to about 42 percent of the total.

### **Profitability**

In line with the positive overall developments, the sector's profit before tax increased from Nu.0.24 billion in 2004 to Nu.0.27 billion in 2005. The increase in profit was brought about by an increase in the operating income of 23.7 percent, compounded by an increase in the interest income of 16.9 percent. Between June 2004 and June 2005, the net interest income of the financial sector increased by 43.9 percent to Nu.0.4 billion, while the other operating income of the financial sector increased from Nu.0.12 billion to Nu.0.15 billion. Commercial banks' profit before tax increased by

<sup>2</sup> Net NPL is exclusive of specific provisions and interest-in-suspense.

<sup>3</sup> Corporate deposits – refers to government, government corporations, joint corporations, private companies, NBFIs and CBs.

<sup>4</sup> Individual deposits – refers to individual customer deposits.



36.3 percent, mainly due to increased net interest income by 53.5 percent. On the other hand, an increase in the NBFIs' profit before tax by 62.5 percent was mainly due to the increase in the other operating income by 49 percent. Meanwhile, the operating expenses for the period under review also increased by 18.7 percent.

### **Bank of Bhutan Ltd. (BOBL)**

The Bank of Bhutan Limited, 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 SBI on October 7, 1971, providing the SBI's participation in the capital and management of the bank. Under this 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 signed on June 27, 1997, extending the collaboration period to December 31, 2001, after which, management of the bank was taken over by the Bhutanese. At present, the RGOB holds 80 percent of the bank's shares, while the remainder is held by the SBI.

In order to better serve the country's growing needs for banking services, BOBL 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. In 1989, in an attempt to improve its banking culture, the BOBL introduced customer education in rural areas on its services, deposit mobilization, and follow-up on loans. Thereafter, in 1986, the bank conducted door-to-door surveys in rural areas to introduce lending and deposit schemes to the rural community.

In line with the interest rate developments in the market, BOBL lowered its interest rates on major loan schemes with effect from July 1, 2005. During the year 2004, the banks' performance improved comparative to the previous year. The improvements were mainly on account of improved returns from domestic investment in Government securities, reduced interest expense on deposits, growth in returns from Rupee investments due to prudent management of the banks' fund and increased income from other miscellaneous business.

The BOBL has expanded its branches to all the 20 districts of Bhutan. Presently, it has 26 branches and 2 extension counters. The Bank recruited 33 clerical and 17 subordinate staff in 2004 increasing its employee count to 518 (119 officers, 243 clerks, and 156 support staff).

Future plans of the bank focuses on improving its banking services. To that extent, the bank proposes, first and foremost, to computerize all its branches in a phased manner. The bank also aims to create engineering and legal cells in its head office.

**Bhutan National Bank Ltd. (BNBL)**

In 1980, the Unit Trust of Bhutan (UTB) was established as a division of the RICBL, jointly owned by the Royal Government and the RICBL. 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 Government holds 13.6 percent of the BNBL's ordinary shares, while the public holds 38.6 percent, the Bhutan Trust Fund holds 9.95 percent, and the RICBL holds 2.1 percent. The NPPF is the single largest institutional shareholder of the bank with a 25.7 percent share holding. The BNBL's foreign investor, the ADB, owns 10.1 percent of the share capital.

On January 1, 2003, the BNBL's banking software was upgraded to flexi cube, which has provisions for all modern banking facilities, such as credit card facilities, internet banking, and ATM. With this upgrade, the BNBL was successful in providing ATM facilities in Thimphu and Phuentsholing. Further, on December 2004, the BNBL launched the Global Credit Cards and entered into an agreement with JCB card of Japan in 2004, which will enable the JCB cardholders (ASEAN tourists) to use the card for purchasing merchandise/services in Bhutan. Further, to expand its network, the bank opened branches in Paro and Mongar in the fourth quarter of 2004 and plans to convert its Gelephu extension office into a full-fledged branch in 2005.

Presently, the BNBL has a total staff strength of 231, which is an increase of 21 percent over the previous year.

**Bhutan Development Finance Corporation Ltd. (BDFCL)**

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

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

Industrial lending activities dominate the BDFCL's profitability, while agricultural lending, particularly, micro-financing, constitute its main responsibility. In October 1998, the BDFCL issued Nu.50 million worth of 10-year rural credit bonds for the purpose of providing micro-credit to rural borrowers. The principal goal was to assist small farmers to increase production and income, and ultimately improve their quality of living.

Recently, the BDFCL introduced a mobile banking facility at the grassroots level which is already operational in 120 geogs. Meanwhile, the corporation continues to emphasize the implementation of the Group Guarantee Lending and Saving Scheme (GGLS) program piloted in 2002, targeted at the poorest of the poor in the rural areas.

In line with the resolution of the 82<sup>nd</sup> National Assembly on the reduction of the interest rate on rural credit from 13 percent to 10 percent, the institution has reduced interest rates of its rural credit group loans from 13 to 10 percent with effect from August 1, 2004. In addition, marking the United Nations International Year of Micro Credit 2005, the BDFCL launched the Saving Scheme during the first quarter of 2005. Currently, the BDFCL has a total staff strength of 154.

#### **Royal Insurance Corporation of Bhutan Limited (RICBL)**

The RICBL commenced operations as the country's 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. 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. 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 GEPF, which was managed by the RICBL since 1976, was transferred to the NPPF from April 2000, when the company had to part with assets worth Nu.1.2 billion (accounting for over 80 percent of the RICBL's assets). However, the separation of the GEPF did not have adverse effects 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. After not declaring any dividend for the past two years, the corporation declared a dividend of 20 percent for the year 2004.

On December 17, 1997, the 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 25<sup>th</sup> coronation jubilee, the RICBL launched two new policies, namely, the "money-back policy" and the "double cover endowment plan". Apart from its existing loan schemes, the 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 allay the explosion of vehicle imports of the country. Under this scheme, the RICBL has financed the purchase of 698 vehicles, of which only 24 were imported from third countries, while all the others were from India.

The corporation has fully computerized its financial and operational system under the local area network system within its head office. Further, the client server-based information technology under the Oracle platform, referred to as the Integrated Insurance Management System (IIMS), has been installed for the general and life insurance system. The Research and Development Department has also started its project for the Investment Department under Integrated Credit and Investment Management System on the Oracle platform. The installation stage is expected to be completed in 2006.

Currently, the total staff strength of the RICBL stands at 167.

#### **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. In order to enhance social security, the Royal Government initiated 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). Thereafter, 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: the National Pension Plan (NPP)<sup>5</sup> and the Provident Fund Plan (PFP)

On July 3, 2000, the NPPF took over the GEPF and real estate operations from the RICBL, worth Nu.2 billion in the form of fixed deposits, cash, and real estate assets, thus making it the largest institutional investor in the country.

FY 2004/05 was a challenging and promising year for the NPPF. It has made all-round progress on the operations of the civil and the armed forces pension and provident fund plans. Members, and the total fund, have been growing since its inception and at the end of the 2005, the fund stood at Nu.4.3 billion with 35,597 active members. Despite the continued adverse investment climate, the NPPF declared a return of 6.5 percent p.a. to its members during 2004/05, compared to 5 percent during 2003/04. This was possible because of the fund's concerted efforts in making new investments and credit activities in the market. The following are some of the important activities carried out by the NPPF during the year:

- Renewal of the one year RGOB treasury bills for Nu.180 million on October 4, 2004.
- Investment of Nu.78.4 million in Druk Air bonds
- Investment of Nu.300 million with BNBL for 12 years at an interest rate of 6 percent per annum.
- Provision of term loan of Nu.230 million to BFAL at 10 percent interest per annum.
- Provision of short-term loan of Nu.138.6 million to the RGOB at 3.75 percent, renewable every three months.
- Provision of a revolving credit of Nu.80 million for a five-year term at 6.25 percent to the BDFCL.

Further, the NPPF made remarkable progress by introducing the housing (July 1, 2003) and education (March 1, 2004) loan schemes for the benefit of its members. As on June 30, 2005, the NPPF had sanctioned member-housing loans of Nu.377.17 million to 258 clients, compared to Nu 252 million in 2003/04, and education loans of Nu.264.62 million to 3,444 clients, as compared to Nu.70 million in 2003/04.

The computerization of the member financing scheme system was completed in March 2005 and is successfully running online. In a move to improve efficient services to its members, the armed forces system development has been started and is expected to be completed by the end of 2006.

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<sup>5</sup> 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).

**The Royal Securities Exchange of Bhutan Ltd. (RSEBL)**

The RSEBL 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 FIs whose subsidiary units, the 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 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. It is anticipated that this problem will be solved after the rules and regulations of the depository drafted by the ADB and International Securities Consultancy (ISC) come into force (only after the enactment of the Financial Services Act of Bhutan). The turnover of the securities at the end of December 2004 at the depository was Nu.2,306.8 million, as compared to Nu.2,137.7 million in the previous year. It held about 58.4 percent of the total outstanding shares in its custody during the year.

The Exchange began with four listed companies and a total market capitalization of Nu.393 million, and, since then, it has increased dramatically to fifteen listed companies with a total market capitalization of Nu.4,319.9 million. It is expected to grow further when the FDI hotels and resorts start floating their shares to the public and when the Government disinvests its holdings of the Government-owned companies. Presently, the total number of shareholders stands at 15,110.

The procedures to regulate the dematerialization of physical share certificates have been strengthened with the initial implementation with the RICBL and the Druk Satair Corporation Ltd. There are plans to implement this with the rest of the listed companies as well.

## INTEREST RATES

The geographic location of Bhutan and India, as well as the fact that India has been Bhutan's key development partner has resulted in close economic and financial ties between the two countries. As a result, India is also Bhutan's principal trading partner with free trade established between the two countries. Further, the ngultrum has been pegged at par to the Indian rupee since it was issued in 1974. Given these close links, developments in interest rates and inflation in Bhutan are naturally influenced by developments in India. Thus, interest rates in Bhutan cannot deviate too much from the rates in India, as also, large interest rates differentials could, possibly, lead to capital outflows. In line with the interest rate developments 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.

Until 1997, the interest rates on both deposits and advances were administered by the RMA, providing little flexibility to the financial institutions to set their own deposit and lending rates based on their cost of funds, risk of default, operating expenses, and yield on assets. Therefore, in order to promote long-term growth in the financial sector, the RMA began to liberalize the interest rates. The process began in October 1997, whereby financial institutions were allowed to determine their own deposit and lending rates in accordance with the "spread system". The system allowed each institution to determine its own deposit and lending rates, while maintaining an overall interest spread of a maximum of six percentage points'. In April 1999, to further encourage competition among the financial institutions, the RMA removed the "spread", liberalizing fully the interest rates on both deposits and advances, permitting more competition and interplay of market forces. Despite these policy signals, financial institutions took time to move away from the original rates due to various factors such as, inadequate competition among the financial institutions, lower demand for loans, and partly, due to similar interest rate structures prevailing in India.

The banks did eventually start revising rates, with the BOBL taking the first initiative, lowering its interest rates on selected loan schemes in July 1, 2000. The effect of liberalization, reflected in the gradual change in interest rates undertaken by the financial institutions, is provided in the *adjacent table*.

Between June 2004 and June 2005, there was a decline in the deposit rates of both savings and fixed deposits. The average rates on savings deposits of the commercial banks fell from 4.8 percent to 4.5 percent. The interest rates paid by commercial banks on deposits of 3 months to less than one year declined from 5 percent to 4.5 percent, while rates on deposits with a maturity longer than three years remained

Deposit Rates in Percent (end of June)				
	2002	2003	2004	2005
<b>BNB</b>				
<b>Savings</b>	6.0	5.0	5.0	4.5
<b>Fixed Deposits</b>				
3 months- 1 Year	7.0	6.0	5.5	4.5
1-2 Years	9.0	7.0	6.0	6.0
2-3 Years	9.0	7.0	6.5	6.5
More than 3 Years	10.0	8.0	7.0	7.0
<b>BOB</b>				
<b>Savings</b>	5.0	5.0	4.5	4.5
<b>Fixed Deposits</b>				
3 months- 1 Year	7.0	5.5	4.5	4.5
1-2 Years	9.0	7.5	6.0	6.0
2-3 Years	9.0	7.5	6.0	6.5
More than 3Years	10.0	8.5	7.0	7.0

unchanged at 7 percent in the same period. There was a reduction in lending rates as well, where average rates for loans to general trade declined from 15 percent to 14.4 percent, for service industries - from 12.5 percent to 11.5 percent, for transport - from 14.5 percent to 13.5 percent, and for equity finance - from 12 percent to 11.5 percent. Lending rates on other types of loans remained relatively unchanged.

The reduction in interest rates in recent years has led to a growth in lending, particularly in the housing and construction sectors. During the year 2005, the housing and the manufacturing sectors accounted for more than 43 percent of the total credit extended by the financial sector. Interest rate liberalization has succeeded in introducing more competition among the financial institutions. The lower rates should improve the financial institutions' recovery ratio, while reducing the clients' debt servicing burden at the same time.

**Table I. Current Selected Interest Rates in Bhutan** Percent per Annum

<b>Deposit Rates</b>	<b>BOB</b>	<b>BNB</b>
Savings Deposits	4.5	4.5
Term Deposits (General)		
3 months to less than 1 year	4.5	4.5
1 year to less than 2 years	6.0	6.0
2 years to less than 3 years	6.5	6.5
More than 3 years	7.0	7.0
Corporate Deposits		
46 days to less than 3 months	3.0	3.3
<b>Lending Rates</b>	<b>BOB</b>	<b>BNB</b>
Loans by purpose:		
General Trade	13.75	15.0
Export Finance	13.0-14.0	-
Manufacturing Industry		
Term Loans	12.0	12.0
Working Capital	13.0	13.0
Service Industries	10.0-13.0	12.0
Transport (heavy)	13.0-14.0	13.0
Transport (light-commercial)	14.0	16.0
Transport (light-non commercial)	14.0	12.0
Agriculture & Livestock	13.0	-
Housing	10.0-13.0	10.0-13.0
Equity Finance	13.0	-
Personal Loan	15.0	15.0
Small Loan to Government Employee	12.0	16.0

N.B: The above interest rate data of BNB is as of 2004 end. BOB s data is as of July, 2005

In India, bank deposit and lending rates remained more or less stable. The public sector banks realigned their rates for deposits of one year and above from a range of 4.75-7.00 per cent in March 2005 to 5.25-6.50 per cent by June 2005, while the private sector banks realigned theirs from 5.25-7.00 in March 2005 range to 5.00-7.25 by June 2005 for similar instruments.



**Table II. Indian Deposit and Lending Interest Rates**

Item	March '04	December '04	Percent per annum	
			March '05	June '05
<b><u>I. Domestic Deposit Rates</u></b>				
<b>Public Sector Banks</b>				
Up to 1 year	3.75-5.25	3.50-5.00	2.75-6.00	2.75-6.00
1-3 years	5.00-5.75	4.75-5.50	4.75-6.50	5.25-6.00
Over 3 years	5.25-6.00	5.00-5.75	5.25-7.00	5.50-6.50
<b>Private Sector Banks</b>				
Up to 1 year	5.00-6.50	3.00-6.00	3.00-6.25	3.00-6.50
1-3 years	5.00-6.50	5.00-6.75	5.25-7.25	5.00-7.00
Over 3 years	5.25-7.00	5.25-6.50	5.25-7.00	5.75-7.25
<b>Foreign banks</b>				
Up to 1 year	2.75-7.75	3.00-5.75	3.00-6.25	3.00-5.50
1-3 years	3.25-8.00	3.50-7.00	3.50-6.50	3.50-6.50
Over 3 years	3.50-7.00	4.00-7.00	3.50-7.00	3.25-8.00
<b><u>II. Benchmark Prime Lending Rates</u></b>				
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	10.25-11.25
Private Sector Banks	10.50-13.00	10.50-13.50	11.00-13.50	11.00-13.50
Foreign Banks	11.00-14.85	10.00-15.00	10.00-14.50	10.00-14.50
Source: RBI Annual Report 2004-2005.				

TABLE III. STRUCTURE OF FINANCIAL INSTITUTIONS' DEPOSIT AND LENDING RATES: 1997-2005

(Percent per annum)

<b>Deposit rates</b>										
Types of deposit	1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Savings</b>	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	4.5	
<b>Fixed deposits</b>										
<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	4.5	
<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	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	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	7.0	
<b>Lending Rates of Financial Institutions</b>										
Loan by Purpose	1997	1998	1999	2000	2001	2002	2003	2004	2005	Repayment Period (yrs.)
<b>1. General Trade</b>	16.0	16.0	16.0	16.0	15.5-16.0	15.0-15.5	15.0-16.0	15.0	13.75-15.0	<b>3</b>
<b>2. Export Finance (Convertible Currency Areas)</b>										
<i>a) 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	13.0	<b>1</b>
<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	14.0	<b>1</b>
<b>3. Manufacturing Industry</b>										
<i>Term loan</i>	13.0	13.0	13.0	13.0	13.0	12.0	12.0	12.0	12.0	<b>10</b>
<i>Working capital</i>	14.0	14.0	14.0	14.0	13.5	13.0-13.5	13.0	13.0	13.0	<b>1</b>
<b>4. Service Industries</b>										
<i>a) Term loan</i>	13.0	13.0	13.0	13.0	13.0	13.0	12.0	12.0	10.0	<b>10</b>
<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	13.0	<b>1</b>
<b>5. Transport</b>										
<i>a) Truck &amp; 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	13.0	<b>5</b>
<i>ii) Working capital</i>	16.0	16.0	16.0	16.0	15.5	15.5	15.0	16.0	14.0	<b>1</b>
<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	14.0-16.0	<b>5</b>
<i>c) Non commercial light vehicles</i>								12.0-16.0	12.0-13.0	<b>5</b>
<b>6. Agriculture &amp; Livestock</b>	13.0	13.0	13.0	13.0	13.0	13.0	13.0-15.0	13.0-15.0	13.0-15.0	<b>10</b>
<b>7. Housing</b>	14.0	14.0	14.0	14.0	14.0	13.0	13.0	10-13	10.0-13.0	<b>20</b>
<b>8. Equity Finance</b>	14.0	14.0	14.0	14.0	13.0	13-14	12.0	12.0	10.0-13.0	<b>5</b>
<b>9. Personal Loan</b>	16.0	16.0	16.0	16.0	15-16	15-16	15-16	15-16	15.0	<b>5</b>
<b>10. Vehicle Loan to Government Employees</b>	13.0	13.0	13.0	13.0	12.0-13.0	12.0-13.0	12.0	12.0	12.0	<b>6</b>

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.

## 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 almost 3 decades, tourist arrivals have risen from 287 in 1979 to 9249 in 2004. 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. Tourism receipts to the Government consist of royalties and taxes collected from tour operators. As at the end of the FY 2004/05, Government receipts from tourism accounted for 4 percent of total national revenue, up from its contribution of 3 percent of to revenue in 2003/04 (DRC). It is projected as second only to hydropower in the 9FYP.

Analysis of Daily Fee Breakdown (USD)	
<b>HIGH SEASON</b>	
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
<b>LOW SEASON</b>	
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 7 tour agencies accounted for 49.3 percent of all tourists who visited Bhutan. As of the end of 2004 there were a total of 104 registered tour operators down from 131 as of 2003.

Meanwhile in 1996, there were a total of 32 hotels, lodges, and guesthouses to accommodate visiting travellers. By 2005, those figures have now grown to 87 approved establishments, with a total of 1,459 rooms in major towns across the country, and employing roughly 3,000 persons.

Selected Tourism Indicators 1999-2004					
Item	2000	2001	2002	2003	2004
Tourist Arrivals	7559	6393	5599	6261	9249
Of which: Cultural	6633	5925	5242	5823	8742
Trekking	926	468	357	438	507
% Change in arrivals	5.6	-15.4	-12.4	11.8	47.7
Gross Receipts <sup>1</sup>	10.5	9.2	8.0	8.3	12.5
% Change in receipts	18.0	-12.4	-13.2	4.3	50.2
Government Revenue	4.1	3.3	2.8	2.9	4.4
% Change in Govt. Revenue	17.1	-19.5	-15.2	4.4	50.6

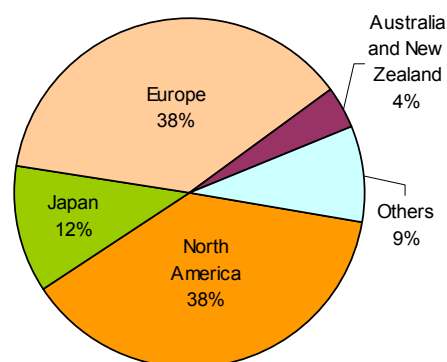
Source: Department of Tourism. -1) Millions of USD.

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 69 percent of all visitors to Bhutan in 2004. The Japanese came in third with a share of 12 percent in the same period.

#### Fiscal Year 2004/05

Tourism performance during fiscal year 2004/05 continued to display strong signs of improvements following the past years' recessionary global trends and political instability in the region. This was reflected in the substantial increase in tourist numbers by 67.7 percent (to 11,526) from arrivals of 6,872 in 2003/04, as well as a growth in foreign exchange earnings by 67.2 percent (to USD 15.3 million), compared to 8.5 percent growth in the previous year.

Source of Tourist Arrivals for 2004



Supporting tourism development, the DACL also took significant steps during the year 2004/05 with the arrival of two new Airbus 319 aircrafts for the fleet (October and December 2004). There are now further plans to extend Druk Air's current flight

routes in the near future with additional destinations such as Dubai, Singapore and Hong Kong.

### Tourist Arrivals and Convertible Currency Revenue<sup>1</sup>

Period	2003				2004				2005			
	Absolute		% Change		Absolute		% Change		Absolute		% Change	
	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.	No.	Rev.
Jan	192	0.2	249.1	227.3	89	0.1	-53.6	-60.3	334	0.2	275.3	227.5
Feb	98	0.1	-63.6	-62.5	358	0.4	265.3	286.0	631	0.6	76.3	66.2
Mar	654	0.8	-24.1	-29.5	831	1.1	27.1	35.8	2166	2.9	160.6	170.7
Apr	1215	1.8	77.9	53.5	1304	2.0	7.3	12.2	1474	2.2	13.0	14.2
May	397	0.5	34.1	36.8	448	0.6	12.8	8.0	700	0.9	56.3	52.8
June	176	0.2	122.8	88.9	313	0.3	77.8	93.5	315	0.4	0.6	14.1
July	112	0.1	-1.8	-29.8	276	0.3	146.4	175.5				
Aug	198	0.2	-7.0	-5.6	476	0.4	140.4	121.2				
Sept	612	0.9	-19.5	-25.3	1248	1.9	103.9	108.9				
Oct	1456	2.2	-1.2	-7.5	2263	3.6	55.4	63.1				
Nov	862	1.1	34.1	28.4	1198	1.5	39.0	30.4				
Dec	289	0.3	91.4	107.5	445	0.5	54.0	75.4				
Total	6261	8.3	11.8	4.3	9249	12.5	47.7	50.2	5620	7.2		

1) USD million.

In February 2003, Bhutan made the decision to join the World Tourism Organization and was formally accepted as a member at the organization'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 the development of the tourism sector. One of these projects, Aman-Bhutan, is a joint venture between the 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 in five continents with just over 400 rooms.

In Bhutan, the BRCL will be establishing small luxury resorts in Paro, Thimphu, Punakha, Gangtey Gumpa, 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 Gumpa, Trongsa and Bumthang was due to be completed by September 2003.

As at the end of the fiscal year 2004/05, updates confirm considerable progress on the resorts: Paro site: 100 percent completed; the AmanKora was inaugurated end of June 2004. Thimphu site: 85 percent completed (scheduled for December 2005), Punakha site: 95 percent completed (July-end 2005), Bumthang site: 60 percent completed (scheduled for August 2006), and Gangtey Gumpa site: 90 percent completed (September-end 2005). The targeted completion of the Trongsa site is planned for completion end of March 2007. 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.

Soon after the establishment of the BRCL, 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 commenced operations in November 2004, while constructions on the second and third phase in Ha and Punakha 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 for 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 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 1999-2004							
Country of Origin	1999	2000	2001	2002	2003	2004	Change over 2003 (%)
USA	2122	2754	2149	1913	1806	3243	79.6
Japan	1102	875	1038	892	952	1087	14.2
Germany	574	662	414	346	496	671	35.3
United Kingdom	646	595	681	519	605	954	57.7
France	236	399	287	192	288	434	50.7
Netherlands	362	359	180	197	179	163	-8.9
Canada	149	194	197	166	121	257	112.4
Australia	131	179	138	214	165	315	90.9
Taiwan	179	175	44	40	90	46	-48.9
Italy	276	156	192	177	331	462	39.6
Spain	118	141	73	68	77	198	157.1
Switzerland	296	137	170	164	177	173	-2.3
Austria	197	131	128	92	152	223	46.7
Belgium	107	95	76	22	104	124	19.2
Thailand	71	92	36	46	66	30	-54.5
Israel	80	68	78	5	47	37	-21.3
Finland	5	60	17	14	14	11	-21.4
Nepal	23	50	14	16	13	15	15.4
Sweden	37	48	28	41	48	61	27.1
Mexico	49	37	7	38	72	34	-52.8
Turkey	49	34	30	61	9	55	511.1
Singapore	26	31	15	8	20	16	-20.0
New Zealand	22	31	25	32	37	50	35.1
Others	301	256	376	336	392	590	50.5
<b>TOTAL ARRIVALS</b>	<b>7158</b>	<b>7559</b>	<b>6393</b>	<b>5599</b>	<b>6261</b>	<b>9249</b>	<b>47.7</b>
Trekking	830	926	468	357	438	507	15.8
Cultural	6328	6633	5925	5242	5823	8742	50.1

Source of Total Arrivals (%)						
Sector	1999	2000	2001	2002	2003	2004
North America <sup>1</sup>	31.7	39.0	36.7	37.1	30.8	37.8
Japan	15.4	11.6	16.2	15.9	15.2	11.8
Europe	39.9	36.8	35.1	32.7	39.5	37.6
Australia and New Zealand	2.1	2.8	2.5	4.4	3.2	3.9
Others	10.9	9.8	9.4	9.8	11.3	8.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1)USA and Canada.

Source: Department of Tourism, Ministry of Trade and Industry, Royal Government of Bhutan.

## **THE POWER SECTOR IN BHUTAN\***

### Background

Bhutan's hydropower potential is estimated at 30,000 megawatts (MW). Out of this, a little over 450 MW, or about 1.5 percent of the potential, have 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).

Bhutan's power sector currently consists of three major hydropower corporations: the 336 MW Chukha Hydropower Corporation Limited, the 40 MW Kurichhu Hydropower Corporation Limited, and the 64 MW Basochu Hydropower Corporation Limited. Hydropower plants at Chukha and Kurichhu were both constructed with financial assistance from the Government of India. Apart from meeting the domestic requirements, CHPCL and KHPCL both export hydropower to India. The BHPCL was constructed with financial assistance from the Government of Austria, and generates hydropower to meet a part of the country's domestic needs.

The Bhutan Power Corporation (BPC), a government-owned corporation, is mandated with the provision of the domestic supply of electricity. Currently, the BPC buys power from the three hydropower corporations, at Nu.0.3 per unit from the CHPCL and KHPCL, and at Nu.0.5 per unit from the BHPCL (till June 2005).

The 1,020 MW Tala project, which was embarked upon following the successful implementation of the Chukha hydropower project, is expected to be completed by June 2006.

In the meantime, three MOUs were signed between the RGOB and the GOI for the preparation of detailed project reports (DPR) on the 870 MW Punatsangchu, the 992 MW Punatshangchu (Stage II), and the 670 MW Mangdechu hydroelectric projects, all to be funded as project-tied assistance.

The DPRs will be conducted by Indian government agencies. The Water and Power Consultancy Service (India) Ltd. (WAPCOS) has started work on the DPR of the 870 MW Punatsangchu project, and the report is scheduled to be prepared before January 2006. The DPRs for the other two projects are expected to take about two years.

The power sector continues to be Bhutan's largest source of revenue, with an estimated contribution of 32 percent of gross national revenue in fiscal year 2004/05. As usual, CHPCL alone accounted for over 98 percent of the revenue from the power sector, with the remainder being the contribution of the BHPCL.

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\* 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.



### Milestones in the Power Sector

- **March 23, 1974:** The Government of India and the Royal Government of Bhutan signed the agreement for the construction of Bhutan's first major hydropower project at Chukha.
- **October 21, 1988:** The 336 MW Chukha hydropower project, completed at a cost of Nu.2,460 million, was inaugurated by His Excellency R. Venkataraman, the then President of India, in the presence of His Majesty, King Jigme Singye Wangchuck.
- **February 18, 1994:** The contract for the 60 MW Kurichhu project was signed between the GOI and the RGOB. Construction commenced on September 27, 1995.
- **April 14, 1995:** The financing agreement for the 64 MW Basochu project was signed between the RGOB and the Government of Austria. Construction on Phase I started in November 1997.
- **March 5, 1996:** The contract for the 1,020 MW Tala project was signed between the GOI and the RGOB. Works on the project began in October 1997.
- **June 2, 1999:** Mr. Ganardhana Puranik Narayana Rao, Chief Engineer and Managing Director of the CHPCL upon its establishment in 1991, received the Druk Thuksey Medal. Mr. Rao was also the recipient of 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. Mr Rao passed away on July 24, 2002.
- **October 2001:** The upper stage of the Basochu Project (24 MW), constructed 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, was commissioned.
- 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.
- **June 10, 2003:** The Kurichhu project was formally inaugurated. Kurichhu provides power to the eastern transmission grid network, which provides power to eight dzongkhags in eastern and central Bhutan.

- **September 15, 2003:** The RGOB and the GOI signed a memorandum of understanding (MOU) for the preparation of a detailed project report on the 870 MW 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.
- **September 8, 2004:** The lower stage Basochu project (40 MW) started commercial operations.
- **January 25, 2005:** The MOU for the preparation of detailed project reports for the 992 MW Punatshangchu (Stage II) and the 670 MW Mangdechu hydroelectric projects was signed between the RGOB and the GOI by the foreign ministers of the two governments, Lyonpo Khandu Wangchuk and Mr. PM Sayeed, in the presence of His Majesty the King and the Prime Minister of India, Mr. APJ Abdul Kalam.
- **March 26, 2005:** The Basochu lower stage hydropower project was inaugurated by the then Prime Minister Lyonpo Yeshey Zimba and the Austrian foreign minister, Dr. Ursulla Plassnik.

#### 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 GOI with 60 percent grant and 40 percent loan, and completed at a cost of Nu.2,460 million.

Bhutan began exporting hydropower to India with the commissioning of the first unit of the Chukha hydropower project on September 7, 1986. The tariff for the export of power from Chukha to India was revised in December 2004, from Nu.1.5 per unit to Nu.2 per unit, effective from January 1, 2005.

Export earnings of Chukha amounted to Nu.2,280.9 million during fiscal year 2004/05, while contributing 31.7 percent to the net national revenue for that year. Export earnings fell by 1.1 percent over the previous year, despite the effect of the tariff increase in the second half of the review year, mostly because of a fall in production by 13 percent.

### THE KURICHHU HYDROPOWER PROJECT (60 MW)

The Kurichhu project was constructed with the financial assistance of the GOI in the form of 60 percent grant and 40 percent loan, at a final cost of Nu.5,600 million. 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 supplies power to the eastern transmission grid network, which provides power to eight dzongkhags in eastern and central Bhutan. The network was built with a Nu.1,837.2 million grant from the GOI.

Kurichhu also exports power to India, at a tariff rate of Nu.1.75 per unit. During fiscal year 2004/05, the Kurichhu hydropower corporation earned 97 percent of its revenue (Nu.493.4 million) from exports to India, with the remaining 3 percent (Nu.16.4 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 10<sup>th</sup> 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 shutdown was estimated to have resulted in a loss of Nu.52 million in revenue.

- ❖ A 32-kV sub-station at Kanglung was commissioned in January 2005 to distribute Kurichhu power in the far eastern regions.

### THE BASOCHU HYDROPOWER PROJECT (64 MW)

The financing agreement for the Basochu project was signed between the RGOB and Government of Austria on April 14, 1995. This project is by far the single-largest Austria-Bhutan undertaking and the largest bilateral development cooperation undertaken with the government of Austria.

The two phases of the Basochu project have a total installed capacity of 64 MW. Basochu power is supplied through 220 kV and 66 kV transmission lines to the Semtokha central switchyard in Thimphu. Although, at present, the power is confined to the western grid only, work is underway to take the power to the southern dzongkhags of Dagana, Tsirang, and Sarpang by the BPC. The ultimate aim is to link the western grid to the eastern grid in Gelephu, forming an integrated national power transmission grid.

The Basochu project generated 229.9 million units of hydropower in 2004/05, earning Nu.218 million.

- ❖ The Basochu plant, both upper and lower stages, were shut down on April 12, 2005 because of a fire nearby, causing an estimated loss of about Nu.0.4 million in revenue.

#### Phase I: Upper Stage Basochu Project (24 MW)

Construction on Phase I started in November 1997 and was completed in August 2001. 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 was sold to the BPC for domestic consumption at Nu.0.5 per unit (till June 2005), and surplus power sold to the CHPCL at Nu.1.5 per unit.

#### 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. The Basochu lower stage hydropower project was inaugurated by the Lyonpo Yeshey Zimba and the Austrian foreign minister, Dr. Ursulla Plassnik on March 26, 2005. 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, an additional 20 percent flow (i.e., 8 MW) is tapped from the nearby Rurichhu.

Implemented as a turnkey project, the lower stage cost Nu.1,422 million (2001/02 pricing), of which 90 percent is a loan from the Austrian government.

### THE TALA HYDROELECTRIC PROJECT (1,020 MW)

The Tala project 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 sanctioned estimated cost is expected at Nu.41,240 million, and the expected date of completion is June 30, 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.

Calendar of Events: FY 2004/05

- ❖ November 2004 – Excavation of the 23 kilometer long headrace tunnel between Kalikhola and Mirchingchu, the 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.
  
- ❖ January 26, 2005 – Coinciding with the Republic Day of India, the project commemorated the completion of the first 4.4 kilometer stretch of the headrace tunnel 31 months ahead of time.

**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	April 14, 1995	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	November 6, 1997	March 20, 2002
Expected date of completion	June 30, 2006	First Phase (3 units of 45 MW): September 2001. Second Phase (1 unit 15 MW): May 2002	October 31, 2001	March 2005
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 Grant (GoA) 90.70% Soft Loan (GoA) 2.79 % Interest 6.5 % RGOB
Initial Budget outlay and estimated cost	Rs./Nu.14,080.00 million at 1993 price levels	Rs./Nu. 2,560 million	Euro 25.44 million	Nu.1,421.8 million
Envisaged escalated cost	Rs./Nu.35,800 million (sanctioned estd. cost 2002) Rs./Nu.41,240 million (revised sanctioned estimated cost 2005)	Rs./Nu. 5,600 million (as revised in June 2002) - GOI. Additional RGOB contribution of Rs./Nu. 40 million	Euro 30.23 million Nu. 192.84 million (RGOB) (Total - Nu.1,440 million)	Euro 31.95 million Nu.33.97 million (RGOB) (Total - Nu.1,843.3 million)
Grant amount disbursed till date	Rs./Nu.23,252.691 million	Rs./Nu. 3,360 million	Euro 13.08 million (Nu. 540 million)	Euro 0.9 million (Nu.47.53 million)
Loan amount disbursed till date	Rs./Nu.15,501.795 million	Rs./Nu. 2,240 million	Euro 17.15 million (Nu.708 million)	Euro 31.05 million (Nu.1,638.27 million)
Total funds utilised till date	Rs./Nu.36,303.739 million	Rs./Nu. 5,600 million - GOI Rs./Nu. 34 million - RGOB Total - Rs./Nu. 5,634 million	Euro 30.23 million Nu. 192.84 million (RGOB) (Total - Nu.1,440 million)	Euro 31.95 million Nu.33.97 million (RGOB) (Total - Nu.1,843.3 million)

\*Position as of November 2005

\*\* Basochu Lowerstage formally taken over by the Upperstage from July 1, 2005. ATS is converted to Euro.

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

## BHUTAN'S EXTERNAL DEBT<sup>1</sup>: A STATUS REPORT

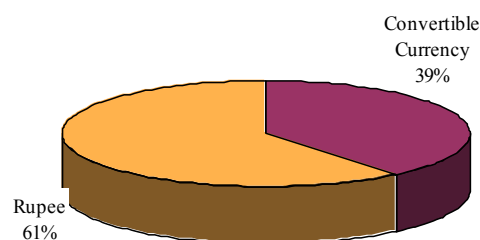
### 1. EXTERNAL DEBT STOCK

#### Total External Debt<sup>2</sup>

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 607.8 million at the end of June 2005. Of the total, 38.8 percent of outstanding debt were convertible currency loans and the remaining 61.2 percent, Rupee loans. Since the amortization of the commercial loan for the purchase of the Druk Air plane in 1998/99, Bhutan has only had concessional debt outstanding to its multilateral and bilateral donors until 2002/03. However, since Bhutan's membership to the IFC in December 2003, the IFC granted a loan of USD 10 million towards developing the tourism sector, thus diversifying and increasing the size of Bhutan's external commercial debt portfolio.

The present stock of external debt consists of convertible currency debt of USD 235.6 million and Rupee debt of Rs.16.6 billion. The increase in total debt stock can be attributed to disbursements made towards current loan portfolios, as well as the release of USD 2 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 2003/04 grew slightly from USD 26 million at the end of 2003/04, to USD 27 million, Rupee debt disbursements to the power sector fell considerably, by 20.6 percent as of 2004/05, indicative of the winding down of the construction of major power projects, including Tala.

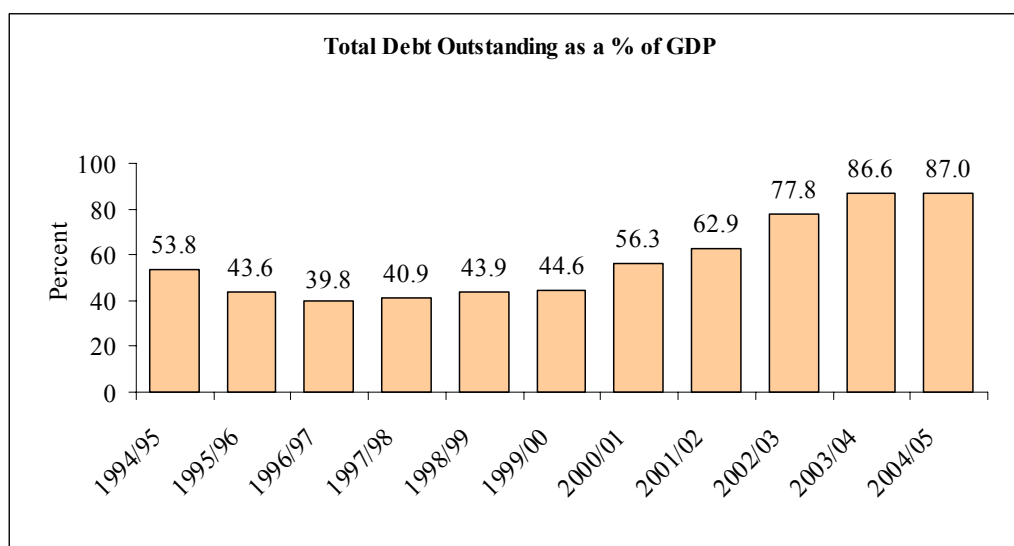
**Composition of External Debt  
(End June 2005)**



<sup>1</sup> 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. The RMA also collects data on private external debt from the borrowers.

<sup>2</sup>The **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 consists 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.

Notably, of the sectors that received inflows, the power sector continued to receive the largest share of disbursements for the year, amounting to USD 10.9 million (USD 7.6 million from the Austrian Government for the Basochu project), and Rs.2.7 billion in the Rupee account to the Tala hydroelectric project from the 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 6.4 percent of current receipts<sup>3</sup> in 2004/05, up from 4 percent at the end of 2003/04. This growing pressure on resources has been brought on by growing debt levels and the onset of debt servicing of non-concessional debt. Similarly, the debt service ratio (as a percentage of the export of goods and services) has increased to 7 percent in 2004/05. 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 it has been making a gradual climb to reach its highest in 2004/05 at 87 percent.

<sup>3</sup> Current receipts include receipts from the export of goods and services, income and current transfers, excluding official transfers (grants) and receipts of INGOs, previously termed as private transfers.



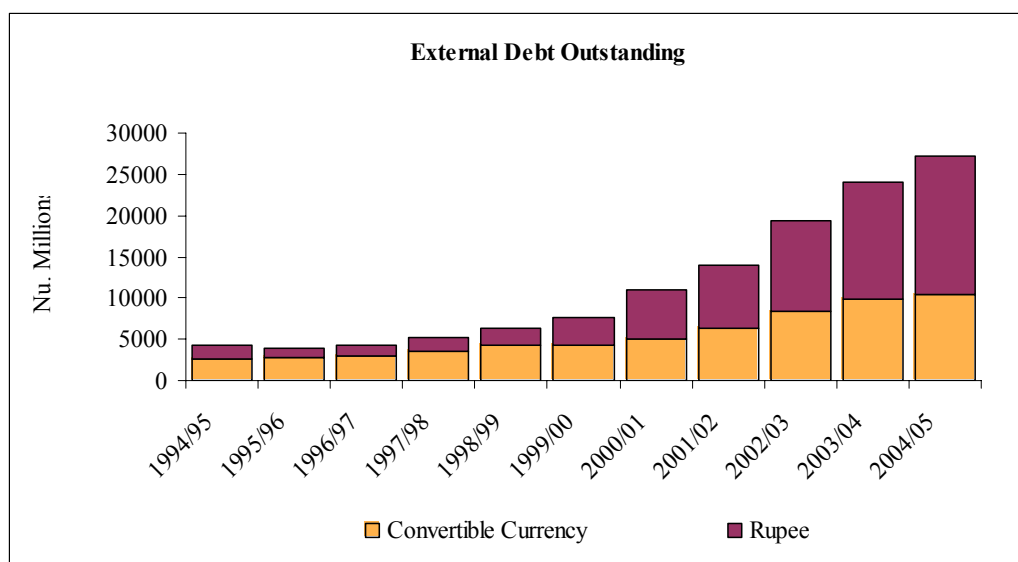
## Bhutan - Key External Debt Indicators

(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	53.8	59.4	40.6	14.2
1995-96	20.8	5.6	96.7	43.6	68.6	31.4	22.7
1996-97	8.5	4.5	97.9	39.8	70.7	29.3	8.9
1997-98	6.8	1.9	92.7	40.9	66.9	33.1	8.0
1998-99	10.2	1.7	108.4	43.9	65.7	34.3	12.1
1999-00	4.2	1.2	112.4	44.6	56.8	43.2	4.9
2000-01	4.1	1.3	157.4	56.3	45.2	54.8	4.7
2001-02	4.3	1.3	192.1	62.9	44.5	55.5	4.9
2002-03	4.2	1.3	250.2	77.8	43.6	56.4	5.0
2003-04	4.0	1.5	263.7	86.6	40.8	59.2	4.2
2004-05 (p)	6.4	2.9	237.1	87.0	38.8	61.2	7.0

Notes:

1. Figures for debt service and interest payments are calculated on cash payment basis.
2. Current receipts exclude official transfers (grants) and receipts of INGOs, previously termed as 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

End of Period

Item	Rupee/Ngultrum Million				US \$ Million			
	2001/2002	2002/2003	2003/2004	2004/2005	2001/2002	2002/2003	2003/2004	2004/2005
<b>1. Government Borrowing</b>								
<b>Concessional</b>	6264.1	8471.9	9445.7	10063.5	<b>129.9</b>	<b>176.8</b>	<b>208.0</b>	<b>225.6</b>
a. World Bank	1599.9	2054.6	2384.7	2623.4	33.2	42.9	52.5	58.8
b. IFAD	660.0	939.0	922.8	878.3	13.7	19.6	20.3	19.7
c. ADB	2671.3	3630.7	3743.3	3918.0	55.4	75.8	82.4	87.8
d. KFAED	246.6	174.6	95.2	66.7	5.1	3.6	2.1	1.5
e. EFIC Australia	13.7	9.1	4.3	2.1	0.3	0.2	0.1	0.0
f. Govt. of Austria	1072.6	1663.8	2295.4	2575.0	22.2	34.7	50.5	57.7
<b>2. Commercial Borrowing</b>	<b>0.0</b>	<b>0.0</b>	<b>363.3</b>	<b>446.1</b>	<b>0.0</b>	<b>0.0</b>	<b>8.0</b>	<b>10.0</b>
<b>3. Rupee Debt</b>	<b>7803.6</b>	<b>10963.7</b>	<b>14222.3</b>	<b>16603.8</b>	<b>161.9</b>	<b>228.7</b>	<b>313.2</b>	<b>372.2</b>
a. Chukha Hydropower Project	525.3	437.8	350.2	262.7	10.9	9.1	7.7	5.9
b. Kurichhu Hydropower Project	1994.0	2240.0	2240.0	2053.3	41.4	46.7	49.3	46.0
c. Tala Hydroelectric Project	5284.3	8285.9	11632.1	14287.8	109.6	172.9	256.1	320.3
<b>4. Gross Total</b>	<b>14067.7</b>	<b>19435.5</b>	<b>24031.3</b>	<b>27113.4</b>	<b>291.8</b>	<b>405.5</b>	<b>529.2</b>	<b>607.8</b>
Convertible Currency Debt					129.9	176.8	216.0	235.6
<b>As a % of Total Debt</b>					<b>44.5</b>	<b>43.6</b>	<b>40.8</b>	<b>38.8</b>
Rupee Debt	7803.6	10963.7	14222.3	16603.8				
<b>As a % of Total Debt</b>	<b>55.5</b>	<b>56.4</b>	<b>59.2</b>	<b>61.2</b>				
<b>Exchange Rate</b>								
Ngultrum to 1 USD	48.2	47.9	45.4	44.6				

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

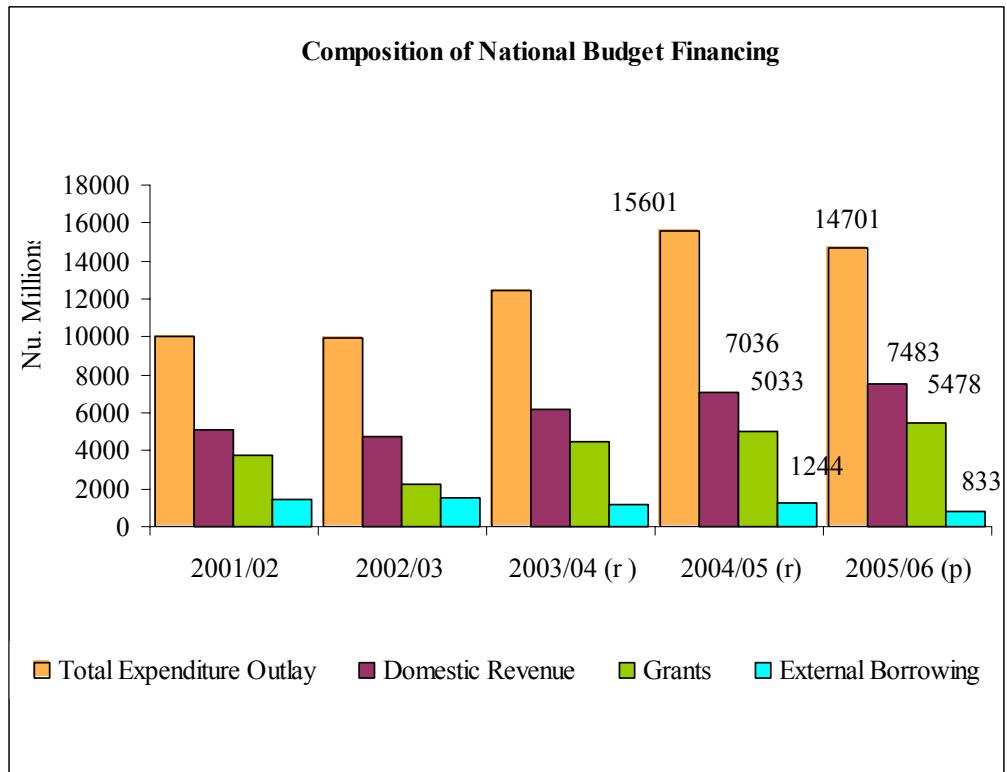
The Royal Government, till date, has followed a cautious fiscal approach to development, relying heavily on external assistance in the form of concessional loans and grants to finance development-related activities. In the 2004/05 revised budget, total outlay was marked at Nu.15.6 billion. Of this, current expenditure accounted for 41.7 percent, while capital expenditure filled the residual 59.3 percent of Nu.9.1 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 58.8 percent of capital expenditure. With a budget deficit of Nu.3.5 billion, the Royal Government once again resorted to external borrowing at concessional rates from international aid agencies to meet 35.2 percent of the deficit (Nu.1.2 billion), and used Nu.2.3 billion to close the internal resource gap.

During the presentation of the national budget at the 83<sup>rd</sup> session of the National Assembly, the budget outlay for the financial year 2005/06 has been estimated at Nu.14.7 billion, which is a 5.8 percent decrease over the previous year's outlay. Total resources were approximated at Nu.13 billion, of which domestic revenue will only meet 50.9 percent of total expenditure and grant aid will supplement it by meeting another 37.3 percent. Of the resulting deficit of Nu.1.7 billion, 47.9 percent are expected to be covered through external project-tied loans, leaving Nu.907 million to be financed through domestic borrowing. Debt service payments during 2005/06 are estimated at Nu.941 million, or 6.2 percent of total expenditure, and higher than that of the previous period. In 2004/05, total debt service payments amounted to Nu.716.1 million (Nu.324.7 million in interest payments and Nu.391.5 million for principal repayment), excluding payments on commercial loans.

**Sector Allocation: 2004-2005 Budget (estimates)**

Sector	2005/2006 (p)	
	Millions of Nu.	Percent of Total
Health and Education	4,524.0	29.9
Agriculture	2,052.0	13.6
Housing and Public Amenities	904.0	6.0
Communications and Transport	787.0	5.2
Roads	1,354.0	9.0
Energy (excluding mega projects)	782.0	5.2
Mining & Manufacturing Industries	233.0	1.5
General Public Services	3,010.0	19.9
Cultural Services	477.0	3.2
Net Lending	49.0	0.3
National Debt Service	941.0	6.2
<b>TOTAL</b>	<b>15,113.0</b>	<b>100.0</b>

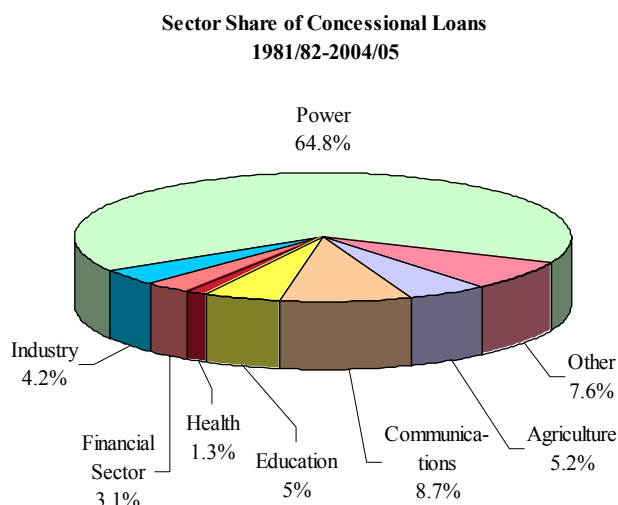
All this clearly indicates an increase in Bhutan's external debt. However, given the fact that the magnitude of external assistance granted to Bhutan has largely come in the form of grants (gifts in cash and kind) that entail no repayment, and bilateral and multilateral concessional loans (which have 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

Bhutan's first concessional loan can be traced to 1981/82 with the first SDR loan disbursement from IFAD for the development of the Small Farms Project. Debt service payments are still being made on this loan. Since then, USD 745.6 million in convertible currency and Rupee loans (commercial loans of USD 32.6 million) have been disbursed to Bhutan by various foreign governments, international multilateral, bilateral, and private financing agencies. Of the total loans disbursed to individual sectors, 64.8 percent have been mobilized for the power sector, with the communications sector following in second at 8.7 percent, and agriculture, third, with 5.2 percent.



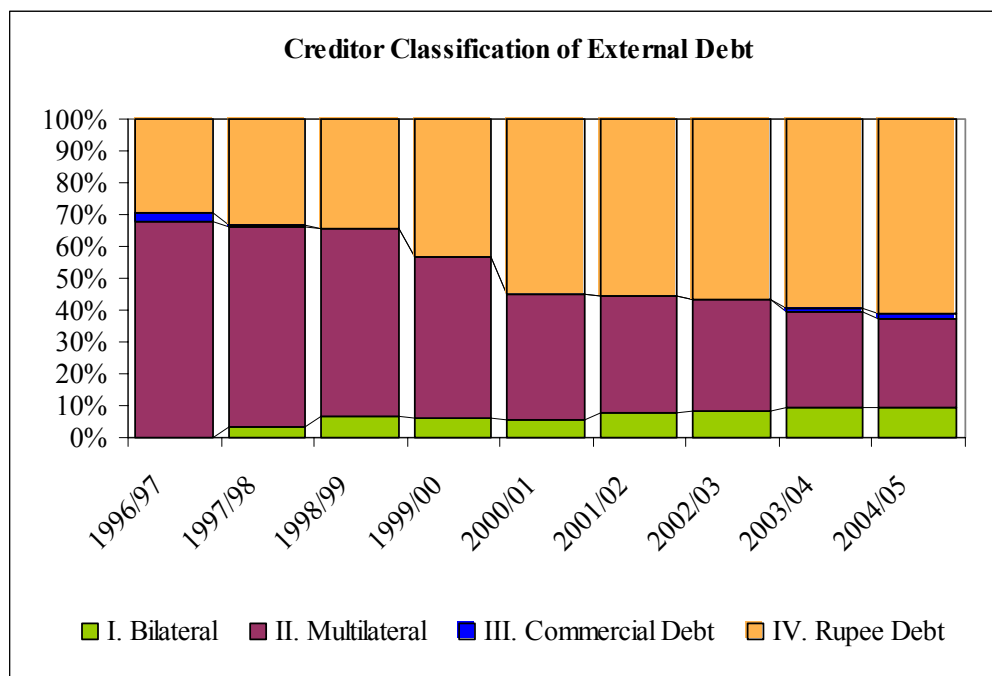
For FY 2004/05, the power sector was the highest recipient of loan funds, accounting for USD 10.9 million and Rs.2.7 billion. It was followed by the communications sector with disbursements of USD 10.6 million, the education sector with USD 4.4 million, and USD 2 million towards the private sector.

#### 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 2005, the total multilateral debt (ADB, EFIC, IFAD, KFAED, IDA) stood at USD 167.9 million and accounted for 27.6 percent of total external debt. Its share has been gradually declining since 1997/98, with the bilateral loan for the 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 14.2 and 16.8 percent, respectively, for the fiscal year 2004/05. Developments on the debt front also registered the inflow of USD 2 million from the IFC towards the tourism sector; commercial debt has remained nil since the amortization of the Druk Air loan in 1998/99.

The GOI is Bhutan's largest creditor with 61.2 percent of total debt outstanding. However, in terms of convertible currency debt, the ADB is the largest creditor with

37.3 percent of total convertible currency debt outstanding, followed by the World Bank at 25 percent, and the Government of Austria standing in third at 24.5 percent.



Bhutan joined the ADB as a member in 1982. For the past 23 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.

According to the new five-year Country Strategy and Program (CSP, 2005-2010), for Bhutan, the ADB aims to promote poverty reduction through economic diversification. The lending program, amounting to about USD 96 million, over the first three years of the CSP, will support projects addressing policy, reform, capacity building, and institutional strengthening in four core sectors: transport, power, urban development, and financial and private sector development. This is targeted at broadening the economic base and will address constraints to private sector development, including the need to improve transport networks, increase access to electrification and social services, develop more competitive financial markets, create a better environment for small and medium enterprises, and promote tourism.

The ADB has proposed 5 loans for 2006-2008, towards urban municipal development, financial sector, small and medium enterprise/micro credit, and rural electrification and renewable energy. This will be complemented by technical assistance grants totaling USD 4 million, focusing on institutional strengthening and project preparation.

No new loans were awarded in 2004. However, during the year, the ADB granted five TA grants totaling USD 1.7 million for projects including, preparatory assistance for a loan on urban infrastructure development, advisory assistance on SME development, a project to strengthen the national statistical system, the payment and settlement system, and the managerial capacity of the Department of Aid and Debt Management.

**Breakdown of Cumulative ADB Lending to Bhutan as at the end of 2004**

Sector	Loans Awarded	(USD million)	
		Loan Amount	% Share
Energy	3	26.9	24.2
Transport	3	19.3	17.4
Multisector	3	18.1	16.3
Education	2	14.1	12.7
Health	1	10	9.0
Finance	2	8	7.2
Agriculture	2	7.8	7.0
Industry and Trade	2	3.7	3.3
Water	1	3.3	3.0
<b>TOTAL</b>	<b>19</b>	<b>111.2</b>	<b>100.0</b>

Source: ADB Annual Report 2004.

Since lending began to Bhutan in 1983, the ADB has approved 19 loans totaling USD 111.2 million, and 90 technical assistance grants amounting to USD 33.7 million.

### 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 (61.3 percent of total external debt at the end of 2004/2005). The share of SDR-denominated debt has declined over the years from 53.2 at the end of 1998/99 to 27.4 percent end-June 2005, whereas Euro and US Dollar denominated debt have recently been on the rise with inflows of loans for the Austrian funded Basochu power project and the IFC commercial loan.

**Currency Composition of External Debt**

Currency	(In percentage of Total External Debt)					
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
SDR	46.0	37.0	35.1	34.1	29.3	27.4
US Dollar	0.3	0.2	0.1	0.0	1.5	1.7
Indian Rupees	43.2	54.8	55.5	56.4	59.2	61.2
Euro*	6.0	5.3	7.6	8.6	9.6	9.5
Kuwait Dinar	4.5	2.7	1.8	0.9	0.4	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*: Includes loans denominated in Euro-area currencies before the European monetary union



## Creditors Ranked by Cumulative Disbursement : 1981/82-2004/05

*(In millions of USD)*

Agency	Sector								Total
	Agriculture	Communications	Education	Health	Financial Sector	Industry	Power	Other	
Government of India*							416.4	13.4	<b>429.8</b>
Asian Development Bank	5.9	23.1	18.0	10.1	14.7	0.8	18.5		<b>91.0</b>
World Bank	11.3	17.1	19.6		3.3	7.2		0.5	<b>58.9</b>
KFAED					4.7	23.0			<b>27.7</b>
Government of Austria							48.5		<b>48.5</b>
IFAD	21.7								<b>21.7</b>
Mitsui & Co. (Japan)		1.7							<b>1.7</b>
EFIC Australia		0.8							<b>0.8</b>
West LB Ltd.		22.6							<b>22.6</b>
IFC								10.0	<b>10.0</b>
Others								32.8	<b>32.8</b>
<b>Total</b>	<b>38.9</b>	<b>65.2</b>	<b>37.6</b>	<b>10.1</b>	<b>22.8</b>	<b>31.0</b>	<b>483.4</b>	<b>56.7</b>	<b>745.6</b>

\* 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 USD</i>								
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
I. Bilateral	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5	57.7
II. Multilateral	80.6	85.0	88.3	88.3	94.4	107.7	142.0	157.5	167.9
III. Commercial Debt	3.4	1.1	0.0	0.0	0.0	0.0	0.0	8.0	10.0
IV. Rupee Debt	34.8	44.7	51.6	75.1	129.9	161.9	228.7	313.2	372.2
Total External Debt	118.7	135.1	150.3	173.8	236.8	291.8	405.5	529.2	607.8
	<i>Percentage Share of Total External Debt</i>								
I. Bilateral	0.0	3.2	6.9	6.0	5.3	7.6	8.6	9.6	9.5
II. Multilateral	67.9	62.9	58.8	50.8	39.8	36.9	35.0	29.8	27.6
III. Commercial Debt	2.9	0.8	0.0	0.0	0.0	0.0	0.0	1.5	1.6
IV. Rupee Debt	29.3	33.1	34.3	43.2	54.8	55.5	56.4	59.2	61.2

## EXTERNAL DEBT OUTSTANDING BY INDIVIDUAL CREDITOR CATEGORIES

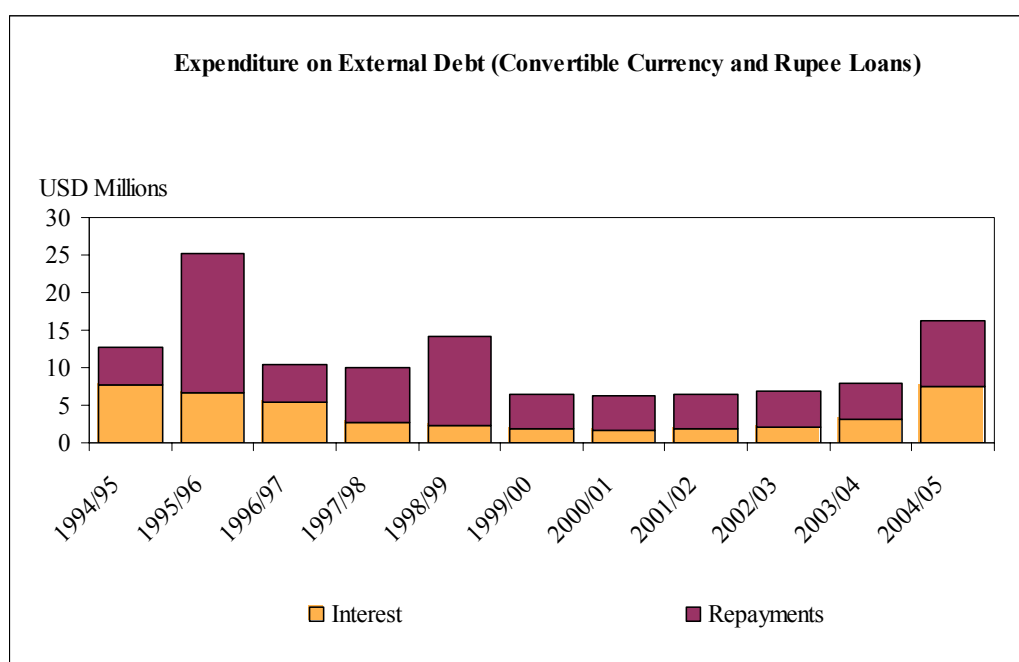
Creditor Category	End of Period								
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	<i>(In Millions of USD and Rupees/Ngultrum)</i>								
<b>I. Convertible Currency Debt</b>	<b>84.0</b>	<b>90.4</b>	<b>98.7</b>	<b>98.7</b>	<b>106.9</b>	<b>129.9</b>	<b>176.8</b>	<b>216.0</b>	<b>235.6</b>
<b>I. Multilateral</b>	<b>80.6</b>	<b>85.0</b>	<b>88.3</b>	<b>88.3</b>	<b>94.4</b>	<b>107.7</b>	<b>142.0</b>	<b>157.5</b>	<b>167.9</b>
Asian Development Bank	36.3	40.4	43.2	43.2	47.4	55.4	75.8	82.4	87.8
EFIC (Australia)	0.8	0.7	0.5	0.5	0.4	0.3	0.2	0.1	0.0
IFAD	11.4	12.2	12.7	12.7	12.5	13.7	19.6	20.3	19.7
KFAED	10.9	9.6	7.9	7.9	6.5	5.1	3.6	2.1	1.5
World Bank (IDA)	21.3	22.1	24.0	24.0	27.6	33.2	42.9	52.5	58.8
<b>II. Bilateral</b>	<b>0.0</b>	<b>4.3</b>	<b>10.4</b>	<b>10.4</b>	<b>12.6</b>	<b>22.2</b>	<b>34.7</b>	<b>50.5</b>	<b>57.7</b>
Government of Austria	0.0	4.3	10.4	10.4	12.6	22.2	34.7	50.5	57.7
<b>III. Commercial Debt</b>	<b>3.4</b>	<b>1.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>8.0</b>	<b>10.0</b>
<b>II. Rupee Debt</b>	<b>1,243.8</b>	<b>1,715.5</b>	<b>2,197.9</b>	<b>3,276.9</b>	<b>6,024.4</b>	<b>7,803.6</b>	<b>10,963.7</b>	<b>14,222.3</b>	<b>16,604.8</b>
Government of India	1,243.8	1,715.5	2,197.9	3,276.9	6,024.4	7,803.6	10,963.7	14,222.3	16,603.8
State Bank of India	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	1.0
	<i>(In percent of Total Convertible Currency/ Rupee Outstanding Debt)</i>								
<b>Convertible Currency Creditors</b>									
ADB	43.2	44.7	43.8	43.8	44.3	42.6	42.9	38.2	37.3
EFIC	0.9	0.7	0.5	0.5	0.4	0.2	0.1	0.0	0.0
Government of Austria	0.0	4.7	10.5	10.5	11.8	17.1	19.6	23.4	24.5
IFAD	13.5	13.5	12.9	12.9	11.7	10.5	11.1	9.4	8.4
KFAED	13.0	10.7	8.0	8.0	6.1	3.9	2.1	1.0	0.6
World Bank	25.3	24.4	24.3	24.3	25.9	25.5	24.3	24.3	25.0
West LB Ltd.	4.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFC								3.7	4.2
<b>Rupee Creditors</b>									
Government of India	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State Bank of India	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

Source: Department of Aid and Debt Management.

## 4. DEBT SERVICE<sup>4</sup>

### 4.1. Actual Debt Service Payments (Historical)

Debt service payments peaked in 1995/96 at USD 25.1 million. Since then, debt service has declined to USD 6.2 million in 2000/01, before increasing to USD 7.9 million in 2003/04. During 2004/05, debt service payments increased to USD 16.3 million, a 105.6 percent rise over the previous period. The graph below provides a year-wise breakdown of debt service payments since 1994/95 for interest and principal repayments.



The debt service ratio (as a percent of total exports of goods and services) has fluctuated from a low 5.3 percent in 1990/91 to 22.7 percent in 1995/96, and 7 percent in 2004/05, a deterioration over the last year's ratio of 4.2 percent. Similarly, debt service payments as a ratio of current receipts is another measure of debt service capacity. From 5.3 percent in 1990/91, and 4 percent in 2003/04, at the end of June 2005, this ratio stood at 6.4 percent. This worsening in the indicator of Bhutan's ability to service its debt obligations has been on account of the continuous growth in overall debt levels, and mostly due to the onset of debt service on large power projects and non-concessional debt (*see key external debt indicators in Section 1*). Similarly, the interest payments to current receipts ratio and debt service to gross international reserves have also exhibited a slight deterioration in recent years, increasing to 2.9 and 3.9 percent, respectively, at the end of the period under review.

<sup>4</sup> 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 26.2 percent for the year ending 2004/05. Collectively, multilateral and bilateral debt payments accounted for 30.8 percent of the total debt service in 2004/05. Rupee debt payments constituted the majority 67.7 percent of total debt service, with commercial debt service as the remaining 1.5 percent of total debt service.

## BHUTAN'S DEBT SERVICE PAYMENTS BY CREDITOR CATEGORY

Creditor Category	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	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	1.22	1.26	0.90	0.95	0.94	0.95	1.30	1.18	1.68	1.65
	4.86	2.18	2.45	2.70	2.63	2.63	2.71	2.95	2.96	2.63
II. Bilateral	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.40	0.75	0.74
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Commercial Debt	0.55	0.38	0.21	0.04	0.00	0.00	0.00	0.00	0.16	0.25
	2.26	2.26	2.26	1.13	0.00	0.00	0.00	0.00	0.00	0.00
IV. Rupee Debt	4.98	3.85	1.69	1.34	0.88	0.73	0.61	0.52	0.46	4.89
	11.24	0.39	2.46	7.93	2.01	1.89	1.82	1.83	1.93	6.15
Total	6.75	5.49	2.80	2.34	1.82	1.68	1.94	2.10	3.05	7.52
	18.36	4.83	7.16	11.76	4.64	4.51	4.52	4.78	4.88	8.78
<b>Total Debt Service</b>	<b>25.11</b>	<b>10.32</b>	<b>9.96</b>	<b>14.09</b>	<b>6.46</b>	<b>6.19</b>	<b>6.46</b>	<b>6.88</b>	<b>7.93</b>	<b>16.30</b>
<i>(Ratios)</i>										
Debt Service Ratio*	22.7	8.9	8.0	12.1	4.9	4.7	4.9	5.0	4.2	7.0
Debt Service/Current Receipts**	20.8	8.5	6.8	10.2	4.2	4.1	4.3	4.2	4.0	6.1
Interest Payments/Current Receipts	5.6	4.5	1.9	1.7	1.2	1.3	1.3	1.3	1.5	2.8
Debt Service/Gross Reserves	17.3	5.9	4.6	5.5	2.2	2.1	2.0	1.8	2.1	3.9

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.

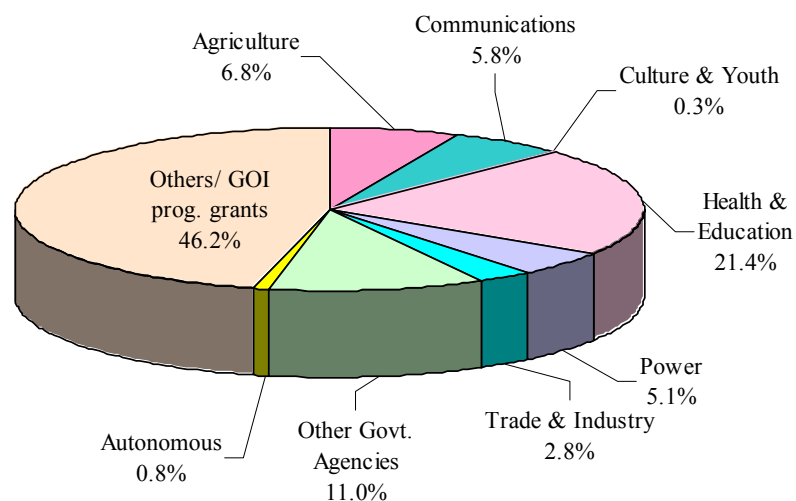
Inconsistencies may occur due to rounding.

## 5. GRANT ASSISTANCE

Grant aid is anticipated to support 37.3 percent of budget expenditure in 2005/06 (provisional). In the last fiscal year, grant aid supplemented domestic income to meet 58.8 percent of capital expenditure. Therefore, grants constitute an essential portion of total revenue for the government. Bhutan has received over Nu.38 billion in program and project-related grant aid since 1990/91. The GOI has been Bhutan's largest grant donor followed by DANIDA, the Nederland Government, JICA and the EEC.

Of the total grants of Nu.3.8 billion received in 2004/05, 62.5 percent were contributed by the Government of India (up from 51.3 percent in 2003/04), followed by DANIDA with Nu.432.1 million (11.4 percent), Nu.253.9 million from the Government of Netherlands (6.7 percent), and Nu.56.6 million from the Government of Austria (1.5 percent of total grants). On the whole, there has been an average increase in grants by 12.8 percent over the past 10 years, with a 27.3 percent reduction recorded during 2001/02. As with the fall in grant levels in the previous fiscal year by 0.6 percent, during 2004/05, grant inflows decreased by 15 percent on account of a reduction of grants across most donors.

**Sector Share of Grants: 2004/05**



Of all the individual sectors (excluding program grants from India), the health and education sectors have been the maximum recipient of grant aid since 1990/91, with a share of 15.2 percent, or Nu.5.8 billion. Next are the agriculture, power, and communications sectors with shares of 14.1, 10.9, and 10.4 percents, respectively. The general pattern of grant aid has not shifted over the years, though in recent years, there has been a considerable 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 2004/05, the health and education sectors received the highest grant receipts amounting to Nu.808.8 million (an increase by 73.9 percent over the previous year), followed by agriculture (Nu.255.9 million), communications, including information and communications, and works and human settlements (Nu.218.9 million), and Nu.191.4 million for the power sector. While grant levels for the health, education, agriculture, and trade and industry sectors grew, grant levels for all other sectors experienced a drop compared to the previous year. In the previous FY, 2003/04, the agriculture sector received the largest aid of Nu.780.9 million, followed by health and education (Nu.465.2 million), and power (Nu.421.8 million).



## ANNEX VII

## Individual Grant Donors: 1995/1996 - 2004/2005

In Millions of Ngultrum

Agency	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Govt. of India	1168.9	947.6	1045.1	1928.5	2187.9	2551.2	945.3	2631.8	2287.2	2365.5
DANIDA	155.3	218.2	135.6	385.2	318.7	394.8	534.8	525.8	579.2	432.1
JICA	0.0	475.0	0.0	0.0	7.1	0.0	4.2	0.0	50.0	22.5
Govt. of Netherlands	253.6	84.0	66.8	88.8	74.4	147.6	274.5	201.0	321.6	253.9
UNDP	21.9	44.5	100.3	122.1	140.8	51.4	132.7	85.6	53.1	36.1
Govt. of Austria	1.9	22.0	85.3	170.7	143.0	174.2	44.2	68.7	32.7	56.6
HELVETAS	106.0	18.1	15.0	147.2	75.8	94.3	0.0	0.0	0.0	16.9
Swiss Dev. Cooperation	29.9	62.2	49.5	200.6	106.2	66.8	62.6	103.5	122.5	46.9
EEC	107.8	33.5	57.1	35.1	29.9	18.0	112.5	130.8	203.0	54.3
UNCDF	43.9	118.2	88.4	37.4	10.6	27.2	26.9	26.6	25.1	0.0
Others	464.9	208.7	173.1	146.9	179.7	185.4	559.3	707.9	781.8	502.3
<b>Total</b>	<b>2354.0</b>	<b>2232.1</b>	<b>1816.3</b>	<b>3262.6</b>	<b>3274.1</b>	<b>3711.0</b>	<b>2696.9</b>	<b>4481.7</b>	<b>4456.2</b>	<b>3787.0</b>
Percentage Change on the Previous Year										
<b>Total</b>	<b>34.9</b>	<b>-5.2</b>	<b>-18.6</b>	<b>79.6</b>	<b>0.4</b>	<b>13.3</b>	<b>-27.3</b>	<b>66.2</b>	<b>-0.6</b>	<b>-15.0</b>

## ANNEX VII

## Sector-Wise Classification of Grant Assistance: 1990/1991 - 2004/2005

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	
2004/2005	255.9	218.9	10.5	808.8	191.4	104.7	417.5	28.9	1750.0	3786.7	
<b>Total</b>	<b>5369.8</b>	<b>3960.1</b>	<b>726.8</b>	<b>5789.1</b>	<b>4153.9</b>	<b>333.5</b>	<b>6513.6</b>	<b>318.7</b>	<b>10875.0</b>	<b>38041.5</b>	
<i>Percentage Share of Total Grant Aid</i>											
Sector Total	<b>14.1</b>	10.4	1.9	<b>15.2</b>	<b>10.9</b>	0.9	17.1	0.8	28.6	100.0	

## HOUSING CREDIT (SUMMARY)

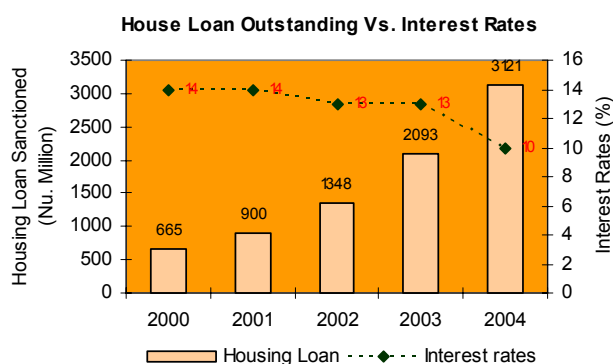
Rapid development in the Bhutanese economy has brought about dramatic changes in the socio-economic and demographic profiles of the people, creating increasing demands for varieties of accommodation. Consequently, Bhutan witnessed a robust growth in housing credit over the last five years. Recently, however, the high growth in housing credit has raised concerns among market analysts, as well as the financial institutions, as to the sustainability of the housing sector.

With an underdeveloped private sector and ample liquidity in the 1990s, coupled with limited investment avenues, the financial institutions in the country were inclined to expand credit in the housing sector. Credit to the housing sector was the best alternative, with more than adequate collateral and the improving non-performing loan (NPL) ratios. Accordingly, there was significant increase in credit to the housing sector during the recent years.

### Sectoral Credit Distribution (1992-2004)

From 2001 onwards, the largest share of total credit extended by the financial institutions went to the housing sector, reaching around 30 percent by 2004. The transport sector and the manufacturing and industries sector dominated the market until 2001. By 2004, the share of credit to the transport sector fell to around 8 percent. The change in the above trend can be attributed largely to the lowering of interest rates on housing loans by all the financial institutions (except Bhutan Development Finance Corporation Limited) in the country from 13 percent to 10 percent in 2004.

Sectoral Loan as a percent of Total Loan									
Sectors	1992	1994	1996	1998	2000	2001	2002	2003	2004
Manuf/industries	19.1	29.9	36.2	30.2	17.4	17.2	16.5	17.8	21.6
Trade/commerce	13.8	13.8	11.0	12.5	5.0	10.4	9.4	11.4	5.7
Housing sector	20.0	20.7	19.5	20.5	20.1	20.9	22.5	29.4	29.9
Services/tourism	-	-	-	-	3.9	12.4	19.0	12.1	16.7
Agriculture	3.6	0.4	4.0	5.3	5.4	4.4	3.6	3.2	2.1
Transport	31.7	25.0	20.4	20.5	20.4	16.3	12.4	11.7	8.2



### Non-performing Loans (2000-2004)

Over the last five years, the NPL ratio in the housing sector has decreased steadily from 13.1 percent in 2000 to 7.5 percent in 2004. This ratio is relatively low because the housing loans are highly collateralized. Improved loan appraisal system and

NPL as a percent of total sectoral loans					
Major Sectors	2000	2001	2002	2003	2004
Manuf/industries	9.6	8.4	9.0	15.1	9.3
Trade/commerce	16.4	19.0	11.2	18.3	8.4
Housing sector	13.1	9.8	7.7	10.5	7.5
Services/tourism	21.0	5.7	5.2	7.4	4.6
Agriculture	31.2	41.4	42.9	39.3	39.4
Transport(combined)	5.5	8.2	11.3	10.4	11.5

supervision mechanism of the financial institutions are also responsible for the better NPL status. However, it is too early to judge its performance based on the NPL status because most of the housing loans are relatively new.

### Residential and Commercial Housing Loans

Financial institutions prefer lending for commercial housing because of the lower NPLs and the higher value of the commercially located mortgaged property. The higher values placed by the financial institutions on property in commercial areas have created a concentration of loans in commercially viable regions of the country. Loans for commercial housing increased significantly from Nu.29 million in 2000 to Nu.644 million in 2004.

Residential housing loans extended by the financial institutions increased from Nu.31 million in 2000 to Nu.526 million in 2004<sup>1</sup>. Out of this, commercial banks' advances to residential housing increased from Nu.42 million in 2000 to Nu.261 million in 2004.

### Banks vs. Non-Bank Financial Institutions (NBFIs)

The percentage share of commercial banks' housing loans outstanding has grown from 53 percent in 2000 to 56 percent in 2004. Despite the emergence of National Pension Provident Fund Bureau (NPPF) in the year 2003<sup>2</sup>, the NBFIs' housing loans as a percent of total housing loan dropped slightly from 47 percent to 44 percent during the same period. The banks have a greater advantage over NBFIs (except NPPF) in lending, because they have access to a steady inflow of funds from deposits and other sources at lower costs.

### Distribution of Housing Loans

The bulk of the financial institutions' funds were lent out for construction purposes. Of the new loans during the year 2004, 87 percent were for new construction, while the remaining 9 and 4 percents were for renovation and home purchase, respectively.

<sup>1</sup> Includes NPPF housing loans. NPPF provides housing loans only for residential purposes. Residential housing loans of the two NBFIs (without NPPF) in 2004 is only Nu. 376 million. Most of these residential loans are also given in urban areas.

<sup>2</sup> NPPF is also included as an NBFI. NPPF started lending for housing in the year 2003.

Renovation loans account for only 9 percent of the total housing loans, partly because the interest rates are higher at 13 percent compared to 10 percent for new construction.

Data indicates that housing credit is concentrated mainly in the western and southern regions of the country. These two regions accounted for 91 percent of the total credit extended in 2004 to this sector. The distribution of housing loans by average loan size between the years 2000 to 2004 reveals that small and medium sized housing loans<sup>3</sup> are on the decline. The larger loans grew by around 27 percent over the same period, indicating an increase in the average loan size.

% of Total Housing Loan					
Loan Slab (Nu. in Millions)	2000	2001	2002	2003	2004
Less than Nu.0.5	10.47	7.79	3.85	3.91	2.46
Nu. 0.5-Nu. 1.5	38.86	25.05	31.40	24.71	19.72
Nu 1.5 and Above	50.66	67.16	64.74	71.38	77.83

The distribution of housing loans by occupation reflects an urban orientation, as most of the urban population consists of businessmen and civil servants. Of the 568 new borrowers in 2004, 40 percent were businessmen, followed by civil servants (36 percent), while the remaining borrowers were of other occupational backgrounds<sup>4</sup>. The distribution of housing loans by gender shows the changing ownership rights from male to female in the Bhutanese society. The number of female account holders in the total housing loans sanctioned increased from 35 percent in 2000 to 44 percent in 2004.

### Cost of Construction

Along with the rise in the overall housing loan portfolio, the cost of major construction materials have also witnessed unprecedented growth during the same period. The Bhutan Standard Rates (BSR) indicates that the weighted average of construction costs in Thimphu and Phuentsholing has grown by more than 45 percent during 2001-2004. The costs in other areas are likely to be higher in view of the transport costs and logistical difficulties. The increase in the construction costs can be attributed to several factors, such as preference for concrete houses with reinforced cement concrete (RCC) frames (with huge increases in prices of stone aggregates, boulders, and sand) over traditional houses, increasing transportation costs, and increasing steel prices.

### Housing Sector Sustainability

There is a fear that the housing market is heating up and too many houses are being built to the point of houses remaining vacant. In order to find out whether the cause for concern is serious, an attempt was made to carry out a small general study. While bearing in mind the lack of data and the limited scope of the study, a conclusion has been drawn from the study that there is an oversupply of houses catering to the upper income group and expatriates, while there are substantial shortages of housing for the lower income group. It also appears that the growth in credit to this sector has more to do with the increase in construction costs than with the actual increases in the number of houses

<sup>3</sup> Loans that are less than Nu 0.5 million are classified as small loans, loans ranging from Nu.0.5 million to Nu. 1.5 million as medium loans, and loans above Nu.1.5 million as larger loans.

<sup>4</sup> Other occupation refers mainly to people from the armed forces, monk bodies, NGOs, housewives and students.

being built. The Thimphu Municipal Corporation issued 92 housing construction permits in 2004, only 14 more than in 1999 (78 permits). This shows that the increase in housing loans is, to a large degree, mainly caused by the increase in the cost of construction.

A mismatch in the supply and demand of houses is apparent with an excess supply of expensive houses, while there is still a huge shortage of affordable houses for the low-income group. Therefore, there is a need to assess the actual demand for and supply of affordable housing in the market to avoid a severe setback in the performance of the sector.

**Major Highlights on Housing Loan***(Nu. In million)*

	Year	Total Outstanding Loan (TOL)	Total Housing Outstanding Loan (THOL)	New Residential Loan	New Commercial Loan	THOL/TOL (%)	NPL to THOL (%)*
<b>BANKS</b>							
<b>BNBL</b>							
	2000	826.01	227.49	0.97	7.89	27.54	11.85
	2001	1208.34	324.57	36.09	32.27	26.86	8.24
	2002	1688.41	504.52	209.70	100.43	29.88	7.20
	2003	2402.61	734.80	172.37	105.92	30.58	10.30
	2004	3870.39	1193.25	227.13	281.83	30.83	7.10
<b>BOB</b>							
	2000	1126.84	125.55	n/a	n/a	11.14	8.36
	2001	1468.54	184.33	6.28	64.34	12.55	4.17
	2002	2310.27	286.70	4.42	130.81	12.41	2.68
	2003	2084.52	350.24	11.55	134.55	16.80	3.55
	2004	3308.31	542.46	33.89	207.52	16.40	2.39
<b>NON-BANK FINANCIAL INSTITUTIONS</b>							
<b>RICBL</b>							
	2000	815.39	279.23	30.06	19.51	0.00	16.70
	2001	947.07	322.92	56.01	16.93	34.10	15.09
	2002	1112.60	360.94	63.46	59.31	32.44	12.39
	2003	1211.64	456.96	95.24	81.90	37.71	10.87
	2004	1327.74	553.50	89.40	109.67	41.69	7.64
<b>BDFCL</b>							
21.31	2000	500.12	32.65	0.00	1.80	0.00	9.31
19.91	2001	642.54	68.06	1.30	2.98	10.59	6.69
66.21	2002	886.68	196.16	28.19	6.90	22.12	7.65
99.60	2003	1114.06	315.87	57.16	17.69	28.35	18.33
154.77	2004	1151.09	332.57	25.55	45.10	28.89	17.02
<b>NPPF</b>							
	2003	305.00	235.00	234.20	0.00	77.05	n/a
	2004	787.18	498.50	149.80	0.00	63.33	n/a

\* / ratio of total amount of non-performing loan in housing to total housing outstanding loan.

Housing loan sanctioned implies new loans plus overdraft, taken during the end of the period.

NPL excludes overdrafts

Housing outstanding loans also excludes overdraft and working capital i.e. Net

NPPF total outstanding loan comprise only educational and housing loan

## MACROECONOMIC PROJECTIONS

This note provides a preliminary macroeconomic projection for Bhutan up to 2008. The Tala hydroelectric project (Tala) comes on stream in the second half of 2006. However, the impact of Tala on reserves is not as significant as one might have expected. As per the Department of Energy's projection, Tala-related imports are expected to continue even after the commissioning of Tala. With the inflow of revenues from Tala, the Government will be taking on additional development activities, which would increase other imports. Further, it is assumed that the repayment of interest and principal on the Tala loan will start in the year of commissioning.

In order to assess the impact of Tala on the future GDP growth, we have taken the approach normally used for monetary targeting. It is assumed that there is a relationship between the money supply and nominal GDP. Accordingly, the projection of overall real GDP is based on the projected monetary, inflationary, and external conditions. We have assumed that the components of M2 will grow at past six years' geometric average, except for the year Tala comes on stream.

### **Initial Conditions**

*Growth performance* - The economy has grown at an average rate of about 8 percent per annum in the last three years. The annual performance being 7.1 in 2002, 6.8 in 2003, and 8.7 percent in 2004, while in 2005, the real GDP is projected to grow by 8.8 percent. As in the past, beside the traditional sectors of agriculture, animal husbandry, and forestry, the construction sector, and hydropower have been the main contributors to the economic performance of the country.

*Money Supply* - Monetary expansion averaged around 15 percent during the past four years, largely due to the accumulation of foreign assets (spill-over from public finance) and also due to the growth in credit to private sector, which averaged over 28 percent in the last three years. As of June 2005, broad money supply (M2) grew by around 11 percent. The Inflation Rate in Bhutan, as measured by the year-to-year change of the Consumer Price Index, for the third quarter of 2005 was 5.5 percent.

*External Sector* - Over the recent years, despite persistent deficits in the trade, services, and income accounts, large inflows in the capital account by way of transfers, namely grants to the Tala project, and other concessional loans, have countered the current account deficits to result in positive overall balances. Correspondingly, gross international reserves grew by 9.5 percent to USD 419 million in 2004/05. However, since the growth in imports was much higher relative to the growth in reserves, the reserve cover of merchandise imports fell from 18.8 months to 12 months as of 2004/05. Even excluding the import of the two aircraft, reserves can finance only 15 months of merchandise imports as of 2004/05, reflecting increased imports in general. More importantly, the inclusion of service imports further lowers the reserve cover of imports: reserves can finance 10.5 months of imports (merchandise + service) as of 2004/05.

### **Balance of Payments Projections**

- Tala is assumed to come on stream in the second half of 2006. Assuming it will earn Nu. 1.75 per unit, Tala exports are estimated to earn Nu. 3708 million in 2006 and Nu. 7417 million each in 2007 and 2008. Other exports to India are projected to grow by 11 percent and exports to countries other than India are projected to grow by about 7 percent during 2006-2008.
- Other imports are estimated to increase in 2006 and more so in 2007 due to increased government spending after the Tala inflow starts. In addition, imports related to Tala are expected to continue even after commissioning, but will decline gradually over the years as per the Department of Energy's projections.
- The repayment of principal and interest on the Tala loan is assumed to commence in 2006, the year of commissioning.
- As per DADM's projection, disbursements related to Tala are expected to continue even after the commissioning, with an estimated figure of Rs.129 million in 2006.
- With the above assumptions of continued imports for Tala even after the completion of the project and an increase in other imports, the net effect on reserves is assumed to be moderate. Moreover, although rupee reserves are projected to grow at a rate higher than the average in 2006 and 2007, it constitutes only around 20 percent of the total reserves. Assuming the convertible currency reserves to grow at past five years average of around 13 percent and the Indian rupee reserves growth to improve as a result of inflow from Tala, the overall reserves are expected to grow at 13 percent in 2006. In the following year, 2007, the reserves are projected to grow by 14 percent (considering full years' impact of Tala) and by 12 percent in 2008.

### **Monetary Projections**

- In line with the BOP projections, net foreign assets are assumed to grow by 13 percent in 2006, 14 percent in 2007, and 12 percent in 2008.
- Based on the developments in the NFA, broad money is projected to grow by 16 percent in 2006, 13 percent in 2007, and then slow to 10 percent in 2008.
- Domestic credit will continue to grow at a high rate of around 23 percent.
- As in the past, monetary developments are assumed to have a limited impact on prices, as inflation in Bhutan is influenced more by price developments in India. Hence, we have taken the average of inflation projected by the International Monetary Fund, i.e., 6 percent over the projected period.



**Real Sector Projections**

- The commissioning of Tala will be the main thrust behind economic growth during the projected period.
- Accordingly, the nominal GDP is projected to grow at 16 percent in 2006, slowing marginally to 13 percent in 2007 and then to 10 percent in 2008. Even though 2007 will be the year that will include a full year of Tala's contribution, the nominal GDP growth will be lower at 13 percent than in the previous year due to the benchmark effect.
- Commensurate with the monetary growth and the inflation rate, the real GDP is estimated to grow by 10 percent in 2006 as a result of the commissioning of Tala, by 7 percent in 2007, and eventually slowing to 4 percent in 2008.

## IMF EXECUTIVE BOARD CONCLUDES 2005 ARTICLE IV CONSULTATION WITH BHUTAN

*Public Information Notices (PINs)* form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of [Article IV](#) consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

On July 11, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Bhutan.<sup>1</sup>

### Background

Macroeconomic outcomes remained favorable in 2002/03-03/04. The economy continued to expand at a brisk pace. Real GDP growth averaged 7¼ percent, fueled by public investment in infrastructure, private investment in housing, and continued work on the Tala hydropower project. Other sectors, including agriculture, manufacturing, and financial services also performed strongly. In particular, tourism appears to have revived following a protracted downturn after September 11, 2001 and the SARS epidemic in 2003. Inflation remained in low single digits.

External grants disbursements shaped fiscal outcomes. In 2002/03, grants (and revenue) were lower-than-targeted. Although capital expenditures were scaled back in response to this shortfall, domestic financing approached 5 percent of GDP. Based on this experience, in 2003/04, implementation of capital projects was slowed down during the earlier part of the year. In the event, grants from India resumed during the latter part of the year. This combination of slow project implementation and higher-than-budgeted grants shifted the overall budget balance into a surplus. As a result, the budget reduced its borrowings from domestic sources by 5 percent of GDP. However, in a departure from past practice, the current account registered a small deficit.

The 2004/05 budget envisaged a domestically financed deficit of 4 percent of GDP which is expected to be exceeded by a significant margin.<sup>2</sup> The overall deficit was targeted at 6¾ percent of GDP. However, spending during the year is now projected to be much larger than targeted as a result of the civil service salary increase effective January 2005—the first since 1999 and estimated to cost the budget more than 1½ percent of GDP on an annual basis; and the purchase of aircraft and higher subsidies for Druk Air. On the revenue front, some shortfalls are expected. The revision of the tariff rate for Chukha hydropower project's exports, effective January 1, 2005, will only have a minimal impact on revenues in 2004/05. With these factors, the overall and

domestically financed deficits for 2004/05 are projected at 15 percent and 11½ percent of GDP, respectively.

Debt service obligations remained manageable even as the public debt-to-GDP ratio rose. From 40 percent of GDP in mid-2000, public debt rose to around 90 percent of GDP in mid-2004. The bulk of the increase (30 percentage points of GDP) was rupee borrowings from India for the Tala hydropower project. At the same time, domestic financing of budget deficits and other factors also contributed to the rise in the debt-to-GDP ratio. In particular, the purchase of aircraft for Druk Air contributed to higher domestic debt. The NPV of external debt in mid-2004 is estimated at 65 percent of GDP, of which rupee debt was about 45 percent of GDP. Meanwhile, external debt service ratios remained low (4-8 percent of exports/revenue).

The balance of payments and monetary aggregates fluctuated with external aid. In 2003/04, exports picked up strongly led by nonelectricity exports to India; imports also grew strongly, mostly reflecting equipment needs for the Tala hydropower project. On the service account, tourism receipts rose, especially in 2003/04. While the current account registered a deficit, substantial capital transfers for Tala and loan disbursements led to an overall balance of payments surplus and helped raise gross reserves. The bulk of this increase came in 2002/03 as prepayment for Druk Air aircraft limited reserve accumulation in 2003/04. As a result, the reserve cover fell from about 23 months of imports at end-2002/03 to around 19 months at end-2003/04. As regards monetary aggregates, the favorable balance of payments position led to rapid reserve and broad money growth in 2002/03; the growth of monetary aggregates slowed down in 2003/04. The higher deficit levels in 2004/05 are expected to accelerate growth in monetary aggregates, reduce excess liquidity in the financial system and limit reserve accumulation.

Rapid private sector credit growth led to a decline in reported NPLs but increased financial institutions' balance sheet risks. Private sector credit growth averaged over 35 percent during 2002/03 and 2003/04. Low interest rates abroad and policy changes—stricter limits on banks' Indian rupee holdings, reduction in reserve requirements and lower remuneration on reserves—contributed to this credit expansion. The bulk of the lending was for construction and real estate which had longer maturities. The resulting shift in sectoral concentration in the asset portfolios increased the maturity mismatch, with an accompanying rise in liquidity and interest rate risks.

The government took steps to enhance Bhutan's international integration and structural reforms proceeded. Bhutan joined the IFC in December 2003, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMST-EC) in February 2004 and held the first WTO working party meeting in November 2004. In the financial sector, the central bank act, the financial services act, and foreign exchange regulations are being upgraded, with technical assistance from donors and the Fund.

Growth is projected to pick up when Tala comes on stream and medium-term macroeconomic prospects remain favorable. A spike in the growth rate to

around 19 percent when Tala comes on stream in 2006/07 would push the annual average growth rate to 8-9 percent in the period 2005/06-2009/10. Inflation should remain in the single digits, broadly in line with price developments in India. The overall balance of payments is projected to remain in surplus, and international reserves are expected to remain around 15-16 months of imports.

Going forward, the authorities are mindful of the risks. First, with a rapidly growing labor force and limited public sector absorption capacity, policy measures are contemplated to generate private sector employment. Second, the Royal Government of Bhutan intends to monitor public debt and debt service obligations carefully and to mobilize external aid for fiscal sustainability. Finally, the Royal Monetary Authority (RMA) and financial institutions see the need for strengthened supervision and reforms to manage balance sheet risks.

### **Executive Board Assessment**

They commended Bhutan's prudent macroeconomic policies which, along with political stability, have contributed to robust economic growth and an appreciable improvement in social indicators towards meeting its Millennium Development Goals. In this regard, Directors also commended the authorities for their holistic approach to economic development.

Directors considered Bhutan's medium-term growth prospects to be favorable in light of its policy record and further potential for growth in hydropower and related sectors, as well as the strong support of development partners. The main challenge will be to spur private sector development and economic diversification in order to generate jobs for a growing number of school leavers and further reduce poverty. This will also involve continuing to balance greater economic activity with the protection of Bhutan's unique culture and fragile environment as envisaged in *Bhutan 2020: A Vision for Peace, Prosperity, and Happiness*.

Directors agreed that the authorities should accord a high priority to creating an enabling environment for private sector activity and growth in the nonpower sectors. Actions to be taken in this regard would include streamlining the regulatory regime and liberalizing the trade and foreign direct investment regimes, while continuing investments in infrastructure to help lower nonlabor costs. To increase labor productivity, Directors also saw scope for better aligning Bhutan's education system to market needs. In this context, they cautioned that establishing the minimum wage at a high level could result in higher unemployment, especially among the young labor force participants. Directors welcomed Bhutan's efforts towards regional and global integration, including WTO accession.

Directors underscored the importance of ensuring fiscal sustainability by limiting the rise of domestic debt and mobilizing external aid at concessional terms. To limit domestically financed deficits, they encouraged the authorities to improve expenditure planning in the context of a medium-term expenditure framework. In addition, strengthened coordination with donors should help ensure that external aid is mobilized on a timely basis. Directors

also encouraged efforts to raise domestic revenues by broadening the tax base and improving tax administration. Rationalization of the sales tax and import duty regimes would be among the measures to be considered in this regard.

Directors supported continuation of the exchange rate peg to the Indian rupee given the benefits of the existing arrangement, namely, to help anchor inflation expectations and facilitate trade with India. Greater private sector efficiency would have to absorb any potential appreciation of the real exchange rate after the Tala hydropower project comes on stream. In addition, some fiscal tightening would moderate a rise in the prices of nontradables and limit potential adverse effects on competitiveness. Directors advised the Royal Monetary Authority (RMA) to remain watchful that excess liquidity does not fuel excessive credit growth, especially to the construction sector, which could create a problem of nonperforming loans.

Directors commended the authorities for the measures being taken to strengthen the financial system, particularly the upgrades to legislation and steps to improve supervision. They underscored the need to build capacity to monitor and manage balance sheet risks on the part of the RMA and commercial banks.

Directors considered that Bhutan's strong external position provides scope for further liberalization of the exchange system. They urged the authorities to eliminate restrictions maintained under Article XIV as soon as Bhutan's balance of payments position permits, and to accept the obligations of Article VIII as soon as possible. In light of the authorities' concerns about a potential, unsustainable drain on hard currency reserves, Directors suggested a gradual approach to eliminating these restrictions, including by developing a foreign exchange market and market-based instruments to manage hard currency flows. They supported the provision of Fund technical assistance in this area.

Directors welcomed the authorities' efforts to strengthen Bhutan's data over the past few years, including the increased periodicity of price statistics and upgrades to national accounts data. Nonetheless, considerable work remains to be done to upgrade statistical systems, particularly in the fiscal and external sectors.

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

<sup>2</sup> The fiscal ratios are Fund staff estimates and projections.

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

( Amount in Nu.)

<b>ASSETS</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>Foreign Financial Assets</b>		
Cash	113,044,690.87	123,583,558.02
Balances with Banks	331,301,574.71	2,290,274,360.54
Time Deposits	10,238,644,252.03	8,801,021,057.27
Portfolio Assets	2,347,560,722.07	1,858,950,000.00
Balances with the IMF	436,764,003.02	82,068,343.53
Interest Accrued	17,654,454.32	21,691,897.56
<b>Total Foreign Financial Assets</b>	<b>13,484,969,697.03</b>	<b>13,177,589,216.92</b>
Non Monetary gold and silver	40,424,422.30	43,759,729.59
<b>Total Foreign Assets</b>	<b>13,525,394,119.33</b>	<b>13,221,348,946.51</b>
<b>Local Currency Financial Assets</b>		
Cash	366,378.00	125,249.00
Balances with Banks	67,498,283.20	22,426,769.35
Advances to Government	100,000,000.00	37,000,000.00
Due from Financial Institutions	-	-
Investment Securities	-	-
Other Financial Assets	596,318.94	813,901.46
Interest Accrued	1,900.70	-
<b>Total Local Currency Financial Assets</b>	<b>168,462,880.84</b>	<b>60,365,919.81</b>
<b>Total Financial Assets</b>	<b>13,693,857,000.17</b>	<b>13,281,714,866.32</b>
<b>Local Currency Non Financial Assets</b>		
Fixed Assets	81,654,749.17	84,736,213.29
Inventories	22,177,821.76	23,980,018.52
Other Assets	39,398,381.06	10,167,387.39
<b>Total Local Currency Assets</b>	<b>143,230,951.99</b>	<b>118,883,619.20</b>
<b>TOTAL ASSETS</b>	<b>13,837,087,952.16</b>	<b>13,400,598,485.52</b>

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

( Amount in Nu.)

<b>LIABILITES AND CAPITAL</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>Foreign Financial Liabilities</b>		
Due to the IMF	350,409,275.24	1,034,933.82
Due to Government	136,923,310.03	123,195,865.31
Deposits by Financial Instituitons	20,469,727.17	24,680,511.47
<b>Total Foreign Financial Liabilities</b>	<b>507,802,312.44</b>	<b>148,911,310.60</b>
<b>Local Currency Financial Liabilities</b>		
Notes and Coins in circulation	2,410,545,506.00	2,108,523,256.00
Due to Banks	6,287,493,425.64	7,035,442,592.76
Due to Government	642,036,359.83	291,663,488.26
Deposits by Financial Institutions	-	-
Debt Securities Issued	200,000,000.00	200,000,000.00
<b>Total Local Currency Financial Liabilities</b>	<b>9,540,075,291.47</b>	<b>9,635,629,337.02</b>
<b>Local Currency Non Financial Liabilities</b>		
Other Liabilities	2,697,041,630.04	2,499,475,247.05
<b>Total Local Currency Non Financial Liabilities</b>	<b>2,697,041,630.04</b>	<b>2,499,475,247.05</b>
<b>CAPITAL AND RESERVES</b>		
Capital	4,400,000.00	4,400,000.00
General Reserve	581,370,039.36	13,200,000.00
Retained Earnings	217,352,020.83	51,410,677.26
Revaluation Reserves	193,212,005.31	962,639,064.81
Other Reserves	95,834,652.71	84,932,848.78
<b>Total Capital and Reserves</b>	<b>1,092,168,718.21</b>	<b>1,116,582,590.85</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>13,837,087,952.16</b>	<b>13,400,598,485.52</b>

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

( Amount in Nu.)

PARTICULARS	June 30, 2005	June 30, 2004
<b>INCOME</b>		
Interest Income	329,375,351.95	179,333,781.85
Interest Expense	52,638,867.50	85,668,010.40
<b>Net Interest Income</b>	<b>276,736,484.45</b>	<b>93,665,771.45</b>
Discount, Exchange, Commission	18,174,954.56	12,608,734.68
<b>Total Operating Income</b>	<b>294,911,439.01</b>	<b>106,274,506.13</b>
<b>EXPENSES</b>		
Security Printing and Minting Establishment	27,973,496.18	16,996,853.20
Remittance of Treasury	27,491,551.18	21,996,682.77
Agency and Contractual Services	123,663.00	75,904.00
Stationary and Supplies	1,401,362.12	1,180,641.41
Printing and Publication	3,065,787.91	832,066.02
Postage and Telecommunications	280,500.00	87,353.50
Rent, Taxes and Insurance	1,787,895.39	1,832,511.71
Power, Water etc.	278,847.77	301,825.55
Auditors Fees and Expenses	322,550.30	245,338.30
Directors Fees and Expenses	208,279.00	210,530.25
Depreciation and Repairs	90,837.00	54,023.00
Staff Superannuation Funds	7,068,874.66	6,799,139.26
Other Expenses	1,966,905.00	2,715,265.00
<b>Total Operating Expenses</b>	<b>4,940,144.25</b>	<b>1,428,100.33</b>
<b>Net Income</b>	<b>217,910,745.25</b>	<b>51,518,271.83</b>
<b>Less:</b>		
Transfer to General Reserve		
Prior Period Adjustments	558,724.42	107,594.57
Interim dividend paid to Government		
<b>Surplus payable to Government</b>	<b>217,352,020.83</b>	<b>51,410,677.26</b>

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/special studies 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 Statistical Bulletin under the Special Feature section.

### **Annual Report**

1. “The Royal Monetary Authority of Bhutan: Functions, Restructuring, and Important Projects” [2001/02]
2. “Chronology of Important Financial Sector Developments” [2001/02]
3. “Financial Institutions” [2001/02]
4. “Tourism” [2001/02]
5. “The Power Sector in Bhutan” [2001/02]
6. “Interest Rates” [2001/02]
7. “Bhutan’s External Debt: A Status Report” [2001/02]
8. “Overview of Developments in the Financial Sector” [2002/03]
9. “Housing Loan and Its Impact” [2004/05]
10. “Macroeconomic Projections” [2004/05]

Items 1 through 7 were originally featured in the 2001/02 edition of the Annual Report, while item 8 first appeared in the 2002/03 edition of the report. The feature on financial institutions (item 3) has been merged with the feature on the overview of the financial sector (item 8) in this edition of the report. Articles 1 through 8 have been updated annually since they first appeared, with the latest updates featured in this edition of the report.

### **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 Statistical 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. “9<sup>th</sup> 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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Please visit our website [www.rma.org.bt](http://www.rma.org.bt) for information on the RMA and all our publications.

Thank you.