Royal Government of Bhutan

Ministry of Finance

Macroeconomic Situation Report

4th Quarter Update: FY 2023-24

Department of Macro-Fiscal and Development Finance

September 2024

Table of Contents

List of Tables

List of Figures

1. EXECUTIVE SUMMARY

Bhutan’s economy is expected to grow by 6.1% in 2024, a downwards revision as compared to the 3rd quarter. The downwards revision of growth rate is on account of lower performance of tourism sector as anticipated. However, in 2025, it is expected to accelerate to 9.6%. This growth projection, despite being lower than the previous quarter, is still strong supported by domestic demand fueled by the government's expansionary fiscal policy, credit growth on account of Economic Stimulus Program (ESP) and a gradual recovery in the tourism sector. In particular, the industrial sector – mainly manufacturing, electricity, and construction – and service sector – with notable gains in hotels & restaurants, transport & communications, wholesale & retail trade, and finance &insurance – is expected to contribute significantly to growth.

The impact of increased spending will not exert inflationary pressures as it is expected to ease in the medium term, largely due to declining global energy prices as supply increases. Nevertheless, the rate of changes in CPI is expected to be higher than in the previous quarter, mainly on account of higher credit creation and anticipated increased velocity of money, including the lifting of the moratorium. With modest inflation expectation in the coming quarter, the unemployment rate is expected to fall, especially the youth unemployment. However, considering the structural unemployment, the relationship between the inflation and unemployment is weak in Bhutanese context.

Despite the increased fiscal spending on account of expansionary fiscal policy, the fiscal deficit improved to 0.24% in 2023-24 mainly on account of improved non-tax revenue by 76.6% and external grants by 33.5% in the 4th quarter update. Moreover, expenditure utilization reached 92% of the revised estimate, resulting in a significantly reduced fiscal deficit due to reduction in capital expenditure by 21%. The Public debt to GDP ratio stood at 106.9% as of June 2024. In FY 2024-25 as well, the fiscal deficit is estimated to improve by 4.5%, as compared to the 3rd quarter estimate of 4.9%. As a result, public debt to GDP is expected to decline.

Finally, on the external front, Bhutan's balance of payments in FY 2024-25 is expected to improve by 32.5%, driven by increased capital account inflows and rise in non-hydro merchandise exports. Looking ahead the external sector outlook is optimistic, that is current account deficit is projected to narrow by 16.1% of GDP from 18.9% of GDP in FY 2024-25 along with increased development assistance tied to the commencement of the 13th FYP resulting in improvement in gross international reserves. Despite this positive outlook, as a result of pegged exchange rate regime, heating up of the economy as a result of increased investments and income thereby increasing the consumption and aggregate demand, while domestic production increasing marginally, could result in external imbalance which needs constant monitoring and intervention.

2. LEADING ECONOMIC INDICATORS

Table 1: Leading Economic Indicators

Indicators	Units	2021/22	2022/23	2023/24	2024/25	2025/26
		2021	2022	2023	2024	2025
		Actual			Proj.	
Real Sector						
Real GDP growth	% (CY)	4.4	5.2	4.9	6.1	9.6
Nominal GDP	Million Nu. (CY)	204,664	227,814	249,388	284,025	325,746
Agriculture Sector Growth	% (CY)	1.4	(1.1)	1.4	1.5	1.5
Industry Sector Growth	%(CY)	4.4	5.6	(0.03)	7.7	20.0
Services Sector Growth	%(CY)	5.8	6.8	7.9	5.4	4.6
GDP per Capita	US$ (CY)	3,661	3,833	3,920	4,513	5,072
Fiscal Sector						
Domestic Revenue	Million Nu. (FY)	39,043	44,875	56,014	56,804	63,547
Tax Revenue, in percent of GDP	*% (FY)*	*12.6*	*13.8*	*13.0*	*13.2*	*13.8*
Grants & Other Receipts	Million Nu. (FY)	15,312	15,594	13,798	18,432	29,789
Current Expenditure	Million Nu. (FY)	34,445	35,428	43,375	50,810	51,143
Capital Expenditure	Million Nu. (FY)	34,712	33,798	26,687	38,241	50,368
Fiscal deficit, in percent of GDP	*% (FY)*	*(7.80)*	*(4.73)*	*(0.24)*	*(4.53)*	(2.36)
Total Public Debt	Million Nu. (FY)	256,874	276,977	285,179	313,480	383,373
o.w Domestic Debt	Million Nu. (FY)	28,061	32,791	21,477	21,098	17,098
o.w External Debt	Million Nu. (FY)	228,812	244,186	263,702	292,382	366,275
External Sector						
Current Account Balance (CAB)	Million Nu. (FY)	(60,278)	(81,198)	(56,316)	(55,859)	(28,840)
o.w Trade balance (Goods)	Million Nu. (FY)	(45,690)	(60,358)	(43,880)	(47,906)	(36,553)
CAB, percent of GDP	*% (FY)*	*(31.3)*	*(33.5)*	(22.6)	(19.7)	(8.9)
Total International Reserves	Million US$ (FY)	833	574	681	847	1,587
Monetary Sector						
Inflation (average)	% (CY)	7.3	5.6	4.2	3.8*	
Money Supply	Million Nu (FY)	197,302	216,699	220,405	243,884	278,758
Credit growth	% (FY)	8.6	25.1	0.3	11.5	14.5
Pure Excess Liquidity	Million Nu (FY)	24,445	10,139	10,899	10,694	13,503
Labor and Household Sector						
Unemployment**	%(CY)	4.8	5.9	3.5	3.7	3.6
Youth Unemployment Rate**	%(CY)	20.9	28.6	15.9	19.2	17.9

Source: MFCC (As of June 2024)

** Average inflation from Jan-June 2024*
*** Quarterly LFS for 2023 and 2024*

3. GLOBAL AND REGIONAL OUTLOOK

3.1. Global and Regional Economic Situation

The global economy is projected to grow at 3.2% in 2024 and 3.3% in 2025. These projections are primarily supported by upward revisions in the outlook for emerging markets and developing economies, particularly China and India. The upward growth revisions for China, and India are mainly due to strong economic performance, driven by robust domestic demand and high levels of trade and investment.

In Europe, the recovery of service sector is expected to play a key role in the region's economic rebound and expected to grow at 0.9% in 2024. However, in the second half of 2024, both the United States and Japan encountered unexpected challenges that impacted their economic growth. As a result, the growth projection for the US has been revised downward to 2.6% for 2024, 0.1 %age point lower than the April, 2024 estimates, mainly due to a moderate consumer spending. In Japan, the growth is revised downward to 0.7%, lower by 0.2 %age point in April, 2024, following temporary supply chain disruptions caused by a major automobile plant shutdown in the 1st quarter of 2024.

According to the IMF's World Economic Outlook Update, July 2024, global inflation eased to 5.9% as of July 2024, down from 6.7% in 2023, due to monetary policy tightening and the restoration of supply chains. The global inflation is expected to continue declining but at a slower pace due to services inflation holding up progress on disinflation. In advanced economies, disinflation will likely persist due to expected decreases in energy prices and a gradual cooling of labor markets. Conversely, inflation in emerging markets and developing economies is expected to remain higher and decline more slowly than in advanced economies.

India's economy is projected to grow by 7% in 2024 and 6.5% in 2025, reflecting strong domestic demand, particularly in rural areas, driven by improved private consumption prospects. However, the ongoing monetary tightening by major economies, aimed at achieving inflation targets, combined with fiscal policy tightening—through higher taxes and reduced government spending to curb debt levels—is expected to weigh on the global growth outlook.

Table 2: Other Macroeconomic Variables

Country/Region	Year	Average Inflation (%)	CAB (% of GDP)	GDP Growth	Unemployment rate (%)
World	2023	6.8		3.2	5.0
	2024	5.9		3.2	4.9
	2025	4.5		3.3	4.9
India	2023	5.4	(1.2)	7.6	3.1
	2024	4.6	(1.4)	7.0	
	2025	4.2	(1.6)	6.5	
U.S.A	2023	4.1	(3.0)	2.5	3.6
	2024	2.9	(2.5)	2.6	4.0
	2025	2.0	(2.5)	1.9	4.2

Source: IMF, ILO, and GoI

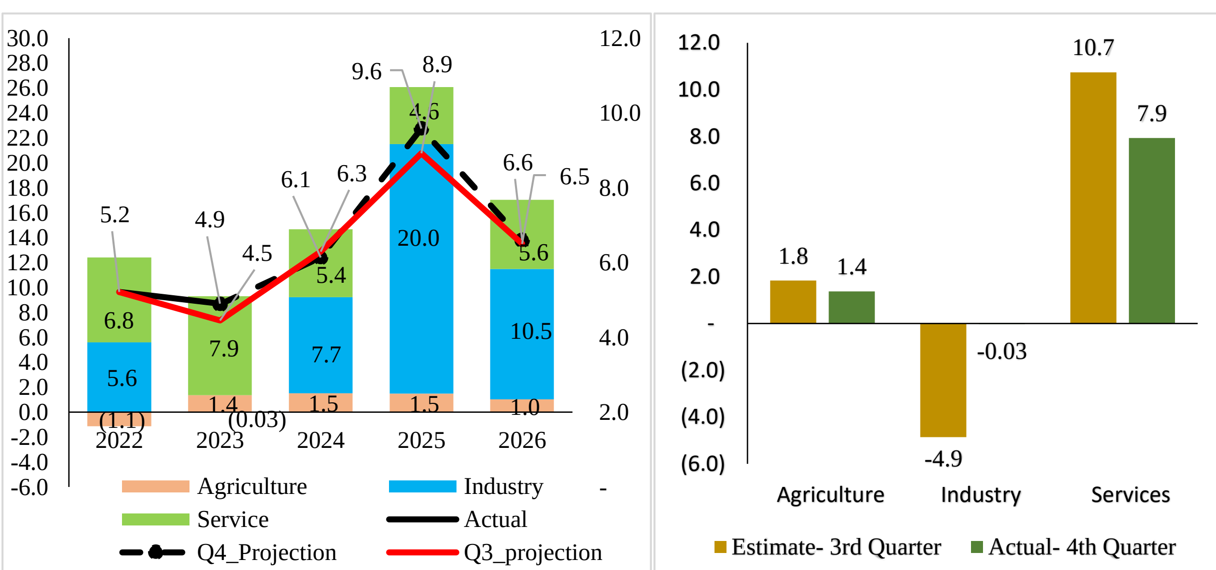
4. DOMESTIC ECONOMIC DEVELOPMENT

4.1. Real & Production Sector

4.1.1. Growth Performance and Outlook

The economy is expected to grow by 6.1% in 2024 and 9.6% in 2025, driven by the anticipated commissioning of Punatsangchu-II hydropower project, an expansion in the domestic demand, and a recovery in the tourism sector. As per the current update, the economy grew by 4.9% in 2023 as compared to the 3rd quarter growth estimate of 4.5% in March 2024, an increase by 0.4 %age point. This increase in the growth is mainly on account of better-than-anticipated performance in the industry sector, while agricultural and service sectors didn't perform as well as estimated during the 3rd quarter update.

Figure 1: GDP growth



As of June 30, 2024, the agricultural sector grew by 1.4%, falling short of the earlier anticipated growth of 1.8%. This shortfall was primarily due to a decline of (1.9%) in agricultural crop production, while livestock production and logging & forestry grew by 3.7% and 5.4%, respectively. The agriculture sector is projected to witness a marginal growth of 1.5% in 2024 and 2025 due to the anticipated growth in the livestock production [2.4] %, and forestry & logging [3.1%] in 2024 and 2025 respectively.

The industry sector is expected to experience significant growth, with a projected increase of 7.7% in 2024 and 20% in 2025. This growth will be driven by the anticipated commissioning of the Punatsangchu-II and the lifting of loan moratoriums, which will boost activities in mining & quarrying [7%], manufacturing [2.9%], electricity [5.6%] and construction [13.1%]. The industry sector, initially expected to decline by (4.86%) in the 3rd quarter update, showed only a marginal decline of (0.03%). This was largely due to improved performance in mining & quarrying, which grew by 37%, and in the manufacturing sector, which grew by 4.4 %. However, the electricity and construction sectors experienced declines of (2.1%) and (7.1%), respectively, due to reduced energy generation and decreased spending on construction activities.

The service sector is expected to grow by 5.4% in 2024 and 4.6% in 2025 due to projected rebound in tourism and related industries such as hotels & restaurants [20.4%], transport [7.4%] and communications [6%]. Additionally, the anticipated service sector growth in 2024 will be supported by improved performance in professional, administrative, and support services [10.6%], as well as in entertainment, recreation, and other services [0.6%].

According to the latest update, the service sector experienced actual growth of 7.9% in 2023, lower than the 3rd quarter growth estimate of 10.7%. This decline was mainly due to slower growth in wholesale & retail trade [6%], transport & storage [7.9%], public administration [5.4%], education [6.8%], and health [6.3%]. However, the hotel & restaurant sector [50.6%], finance & insurance [13.4%], and professional, administrative, and support services [9.6%] outperformed expectations.

In the medium term, the economy is projected to exhibit a robust growth, supported by the government spending, hydropower investments, and interventions aimed at improving access to finance and boosting private sector participation through the Economic Stimulus Program.

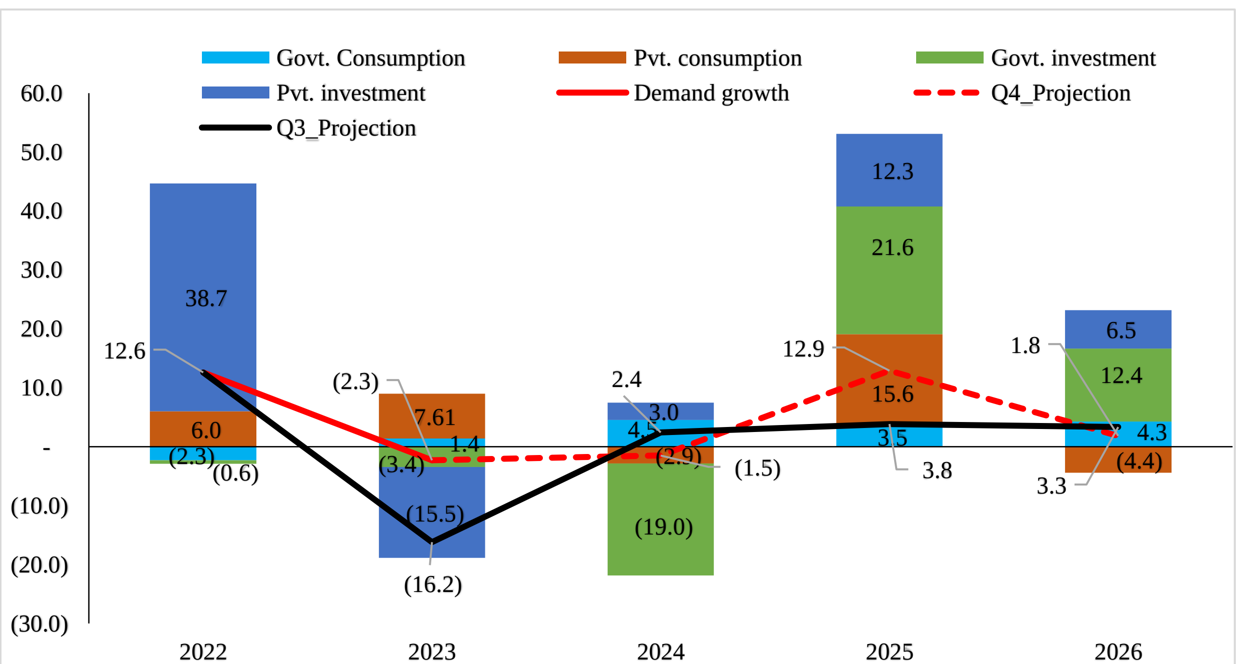
However, risks to this growth outlook may arise from the spillover effects of geopolitical tensions, which could disrupt supply chains in commodity and financial markets.

4.1.2. Growth Performance and Outlook: Demand side

On the demand side, aggregate demand in 2024 is expected to decline by (1.5%) as against the 3rd quarter growth estimate of 2.4% due to anticipated reduction in government investment by (19%) and a decrease in private consumption by (2.9%). However, in 2025, aggregate demand is projected to rise sharply by 12.9%, a substantial increase compared to the 3rd quarter growth estimate of 3.8%. This growth is expected to be driven by significant increases in government investment [21.6%], private consumption [15.6%], private investment [12.3%], and government consumption [3.5%], largely attributed to the anticipated commissioning of Punatsangchu-II and the lifting of moratoriums.

As of June 30, 2024, the actual aggregate demand had declined by a marginal (2.3%), a much smaller drop than the initially expected decline of (16.2%) in the 3rd quarter. This lesser decline was mainly attributed to a (3.4%) reduction in government investment and (15.5%) decrease in private investment.

Figure 2: Aggregate Demand



4.2. Fiscal Development

4.2.1. Fiscal Framework

As of June 30, 2024, total revenue collection amounted to Nu. 56,014 million, which is 107% of the revised revenue estimate of Nu. 52,133 million for the FY 2023-24. This increase in domestic revenue was primarily driven by higher non-tax revenue, including profit transfers from the RMA and dividends from DHI. In the medium term, tax revenue performance is expected to improve with the implementation of GST.

As of June 30, 2024, total expenditure[1] utilization reached Nu. 70,465 million, representing 92% of the revised estimate, compared to Nu. 45,567 million spent by the 3rd quarter update. Recurrent expenditure utilization was Nu. 43,375 million, which is approximately 95% of the revised estimate of Nu. 45,706 million. Similarly, capital expenditure utilization was Nu. 26,686 million, or 87% of the revised estimate of Nu. 30,672 million. The reduction in expenditure utilization is mainly due to the completion of various activities within the allocated budget. However, expenditure projections indicate a significant increase in the medium term as the implementation of the 13th FYP activities begins, signaling an expansionary fiscal policy aimed at reviving sluggish economic growth.

Table 3: Medium Term Fiscal Framework

Sl. No	Particulars	2022/23	2023/24	2024/25	2025/26	2026/27
		Actual	*Provisional*	*Estimate*	*Projections*	
A	**Total Resources**	**60,469**	**69,812**	**75,236**	**93,336**	**97,946**
1	**Internal Resources**	**46,106**	**59,580**	**58,714**	**64,082**	**66,546**
i	**Domestic Revenue**	**44,875**	**56,014**	**56,804**	**63,547**	**65,935**
	Tax	31,487	32,365	37,530	44,870	47,337
	Non-tax	13,388	23,649	19,274	18,677	18,598
ii	***Other receipts***	***1,231***	***3,565***	***1,910***	***535***	***611***
2	**External Grants**	**14,363**	**10,233**	**16,522**	**29,254**	**31,400**
i	GoI	10,968	6,773	12,154	19,771	22,171
ii	Others	3,395	3,460	4,367	9,483	9,229
B	**Total Expenditure**	**71,691**	**70,465**	**89,051**	**101,511**	**106,050**
1	Current	35,428	43,375	50,810	51,143	53,113
	Primary Current	31,392	38,252	43,663	42,589	42,579
	Interest payments	4,037	5,123	7,147	8,554	10,534
2	**Capital**	**33,798**	**26,687**	**38,241**	**50,368**	**52,938**
3	Advance/Suspense (Net)	(406)	403			
4	Other Net Payments	2,871				
C	**Fiscal Balance**	**(11,222)**	**(653)**	**(13,815)**	**(8,175)**	**(8,105)**
	In percent of GDP	*(4.73)*	*(0.24)*	*(4.53)*	*(2.36)*	*(2.08)*

[1] Total expenditure of Nu. 70,465 million is including an advance of Nu. 403 million.

The overall fiscal deficit for FY 2023-24 significantly decreased from Nu. 15,044 million in the 3rd quarter to Nu. 653 million in the current quarter update, accounting for 0.24% of GDP. This improvement is largely due to the release of ESP grants towards the end of the fiscal year, coupled with higher domestic revenue and reduced government spending compared to the revised estimates.

In this update, the estimated fiscal deficit for FY 2024-25 has been revised down to 4.5% of GDP from the 5.2% projected in the 3rd quarter estimate. This adjustment is due to an increase in the total resource estimate, which has been revised from Nu. 73,182 million in the 3rd quarter to Nu. 75,236 million in the 4th quarter, driven by higher revenue projections. With the expected increase in tax and non-tax revenue, along with the mobilization of external grants, the fiscal outlook for the medium term appears positive.

4.2.2. Public Debt

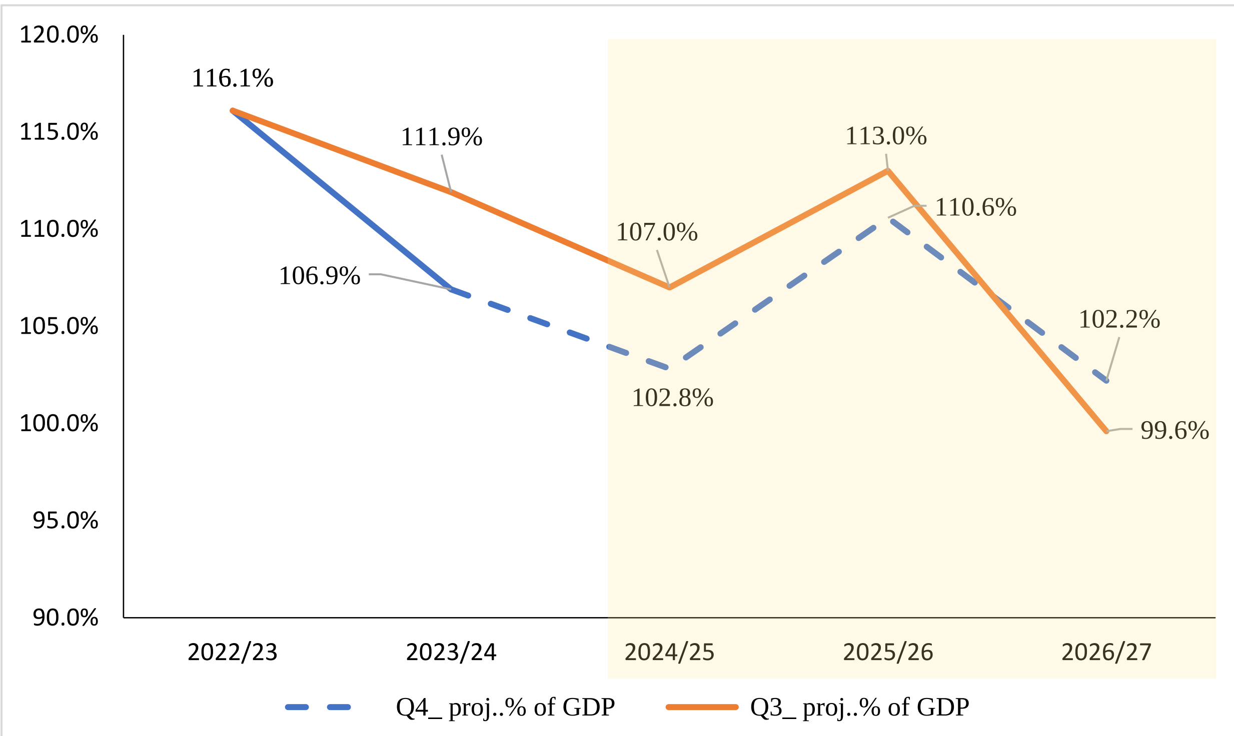
As of June 30, 2024, total public debt stood at Nu. 285,179 million, a 2.6% decrease from Nu. 293,089 million in the 3rd quarter, accounting for 106.9% of GDP. This reduction is mainly due to the redemption of Treasury Bills and the repayment of government bonds. Compared to the 3rd quarter's projections, public debt as a percentage of GDP is expected to decline further according to the 4th quarter projections in the medium term.

Table 4: Public Debt Situation

Sl.No	Particulars	2022/23	2023/24	2024/25	2025/26	2026/27
		Actual		Estimates	Projections	
	Total Public Debt	**276,976.95**	**285,179.41**	**313,480.07**	**383,372.60**	**399,672.44**
	% of GDP	116.1%	106.9%	102.8%	110.6%	102.2%
1	**Domestic Debt**	**32,790.62**	**21,477.36**	**21,098.05**	**17,098.05**	**14,101.12**
	% of GDP	13.7%	8.1%	6.9%	4.9%	3.6%
	% of Total Public Debt	11.8%	7.5%	6.7%	4.5%	3.5%
2	**External Debt**	**244,186.33**	**263,702.05**	**292,382.02**	**366,274.55**	**385,571.32**
	% of GDP	102.3%	98.9%	95.9%	105.7%	98.6%
	% of Total Public Debt	88.2%	92.5%	93.3%	95.5%	96.5%

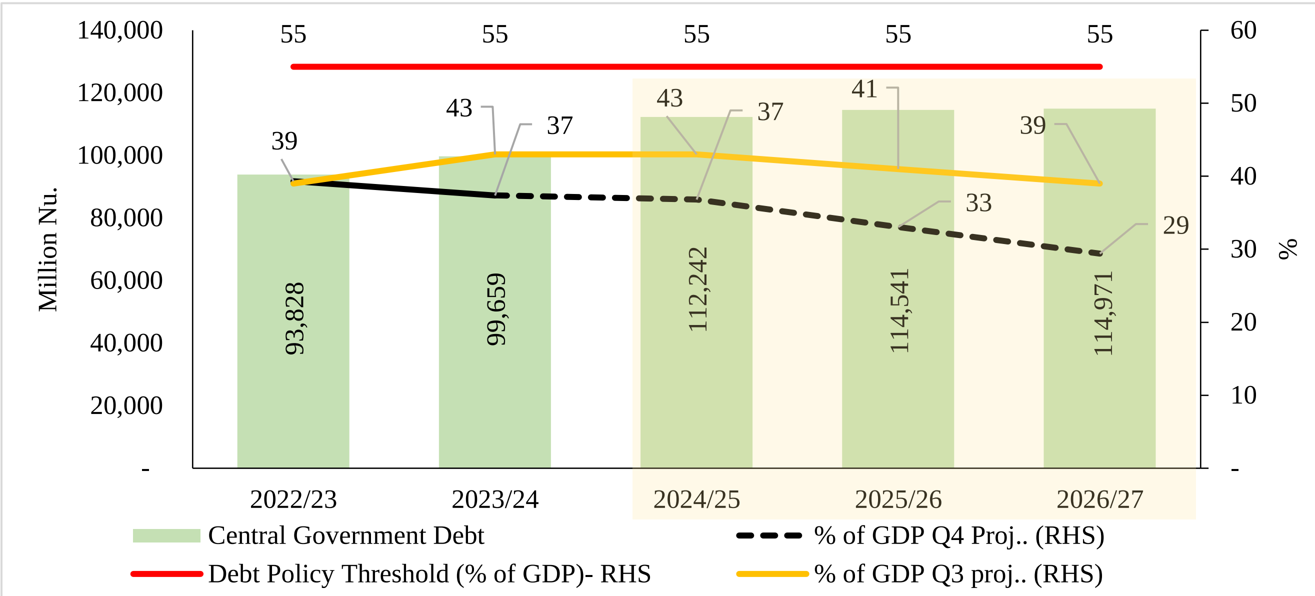
Of the total public debt, 7.5% is domestic, while 92.5% is external in FY 2023-24. However, public debt is projected to increase by Nu. 28,300 million in FY 2024-25 to finance budgetary deficits and meet borrowing needs for hydropower projects. In the medium term, the share of external debt in total public debt is expected to increase, while the share of domestic debt will decrease. This shift is primarily due to the rising levels of debt associated with hydropower projects.

Figure 3: Public debt in % of GDP (Q3 vs Q4)



The Central Government debt as of 30th June 2024 was decreased to Nu. 99,659 million from Nu. 116,456 million as of 31st March 2024 accounting for 37% of GDP, which is well within the debt threshold of 55% of GDP mandated by the Public Debt Management Policy 2023. As per the current update, the central government debt as a percent of GDP is expected to decline as compared to the 3rd quarter projections due to anticipated decrease in the domestic debt.

Figure 4: Central Government Debt



4.3. Monetary and Financial Market

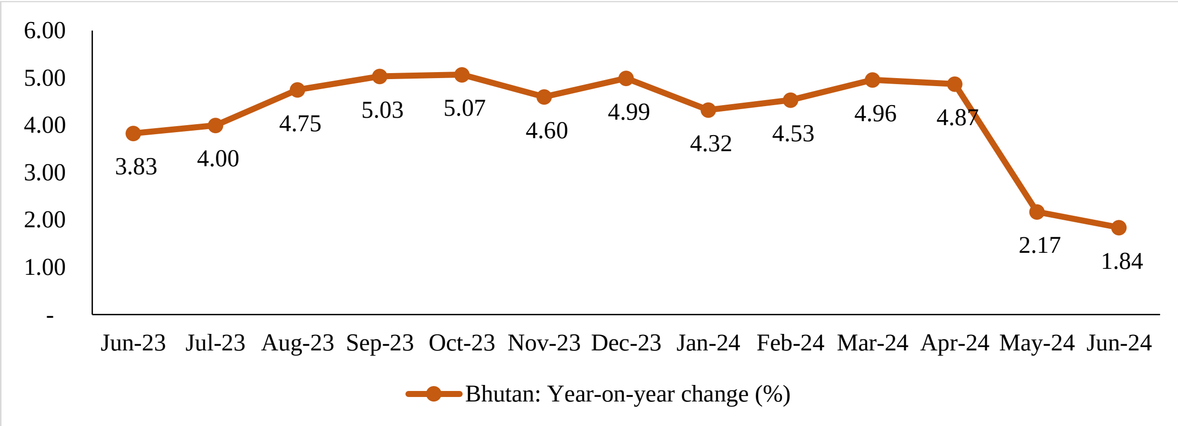
4.3.1. Inflation

From June 2023 to April 2024, inflation rates ranged between 3.83% and 5.07%, indicating steady inflationary pressures due to factors like rising demand, supply constraints, and cost-push inflation. However, with the rebasing of consumption baskets[2] in May 2024, inflation dropped sharply to 2.17%, likely reflecting a recalibration of the index to align with more recent economic conditions, resulting in lower relative price increases. As a result, inflation rates after May 2024 are not directly comparable to those before the base year change.

Following the recent rebasing, the month-on-month inflation rate for June 2024, relative to May 2024, decreased by 0.33 %age point. This decline was primarily driven by a 0.47 %age point reduction in the non-food index, while the food index experienced a modest increase of 0.15% age point. Within the non-food categories, notable decreases were observed in transport, housing, and utilities in June compared to May 2024.

[2] Rebasing of consumption baskets: Changes in weightage and commodities of the CPI baskets.

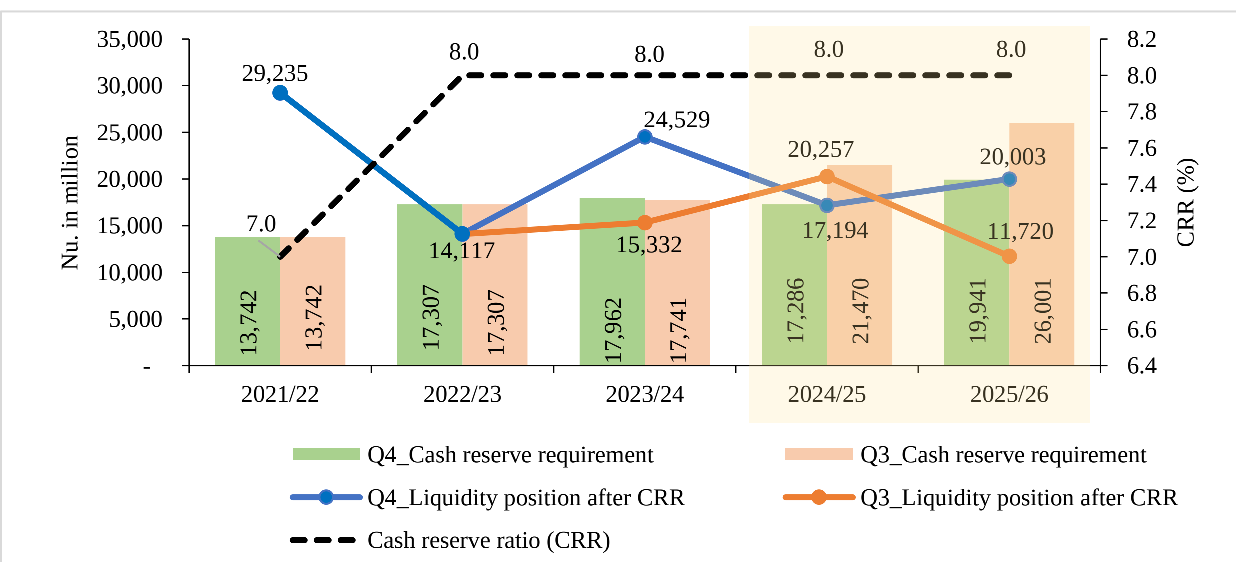
Figure 5: Inflation (Y-O-Y)



4.3.2. Liquidity position

The liquidity position after the Cash Reserve Ratio for the fiscal year 2023-2024 stands at Nu. 24,529 million, reflecting an increase from the 3rd quarter estimate of Nu. 15,322 million. This rise is attributed to the growth in bank deposits and the continued moratorium on housing and construction loans. However, for the next fiscal year, the liquidity position after the Cash Reserve Requirement is projected to decrease due to the lifting of the loan moratorium and an expected increase in investments within the economy. In contrast, the liquidity position is projected to rise in the fiscal year 2025-26, driven by an anticipated increase in deposits.

Figure 6: Liquidity Position

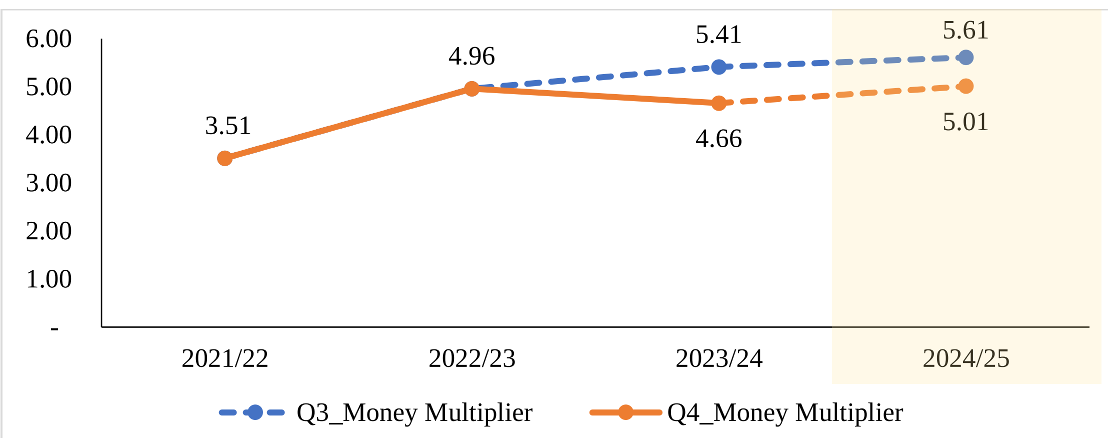


Among the financial institutions, the Bank of Bhutan Limited maintains the highest holding at over 57.10%, followed by Bhutan National Limited with 18.17%, and Bhutan Development Bank Limited with 12.71%. Looking forward, it is anticipated that Bank of Bhutan Limited will maintain the highest liquidity levels, followed by Bhutan National Limited and Bhutan Development Bank Limited.

4.3.3. Money multiplier

In the fiscal year 2023-24, the money multiplier stood at 4.66, signifying that each additional Nu. 1 introduced into the banking system could potentially expand the money supply by 4.66 times under the fractional reserve banking system. This figure is lower than the 3rd quarter's projection, primarily due to an increase in the monetary base (M0) and a decrease in broad money (M2). Compared to the previous year, the money multiplier has declined by (6.05%). However, projections for the next fiscal year suggest an increase in the money multiplier, driven by anticipated growth in deposits and improved liquidity conditions.

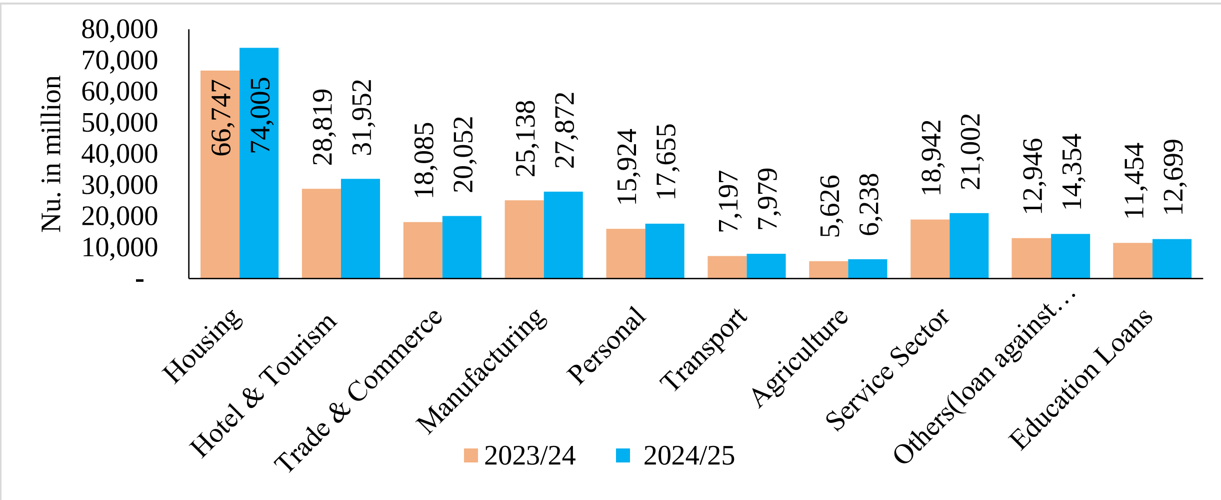
Figure 7: Money Multiplier



4.3.4. Credit Situation

In the fiscal year 2023-24, the outstanding domestic credit reached Nu. 220,416 million, driven primarily by significant credit expansion in specific sectors. Notably, the manufacturing sector recorded a robust growth rate of 19.85%. The agriculture sector and the hotel and tourism sector also experienced substantial credit growth, with rates of 17.70% and 14.78%, respectively. However, it's important to note that the credit growth for the housing and construction sectors remained almost constant due to the moratorium on housing and construction loans. Looking forward, the credit growth is expected to maintain its upward momentum in the upcoming fiscal year.

Figure 8: Sectoral Credit (Million Nu.)



5. BALANCE OF PAYMENT

The external sector's overall balance for FY 2023-24 improved significantly, reaching Nu. 9,848 million in the 4th quarter, up from Nu. (1,283) million in the 3rd quarter. This improvement was primarily driven by an increase in the financial account during the 4th quarter, which was boosted by a higher inflow of hydropower and RGoB Convertible Currency loans. Additionally, the rise in non-hydro merchandise exports, which grew from Nu. 40,980 million in the 3rd quarter to Nu. 44,159 million in the 4th quarter, also contributed to the betterment of the Balance of Payments (BOP).

The BOP is expected to improve further, supported by anticipated increases in hydropower exports and higher inflows of grants and loans from development partners. As a result, the gross international reserves at the end of the fiscal year 2023-24 stand at US$ 681.44 million, sufficient to cover 14.3 months of essential imports. This is an improvement from the US$ 551 million estimated during the 3rd quarter update. The reserve position is projected to strengthen further due to expected increases in capital inflows, service earnings from tourism, and continued growth in non-hydro merchandise exports.

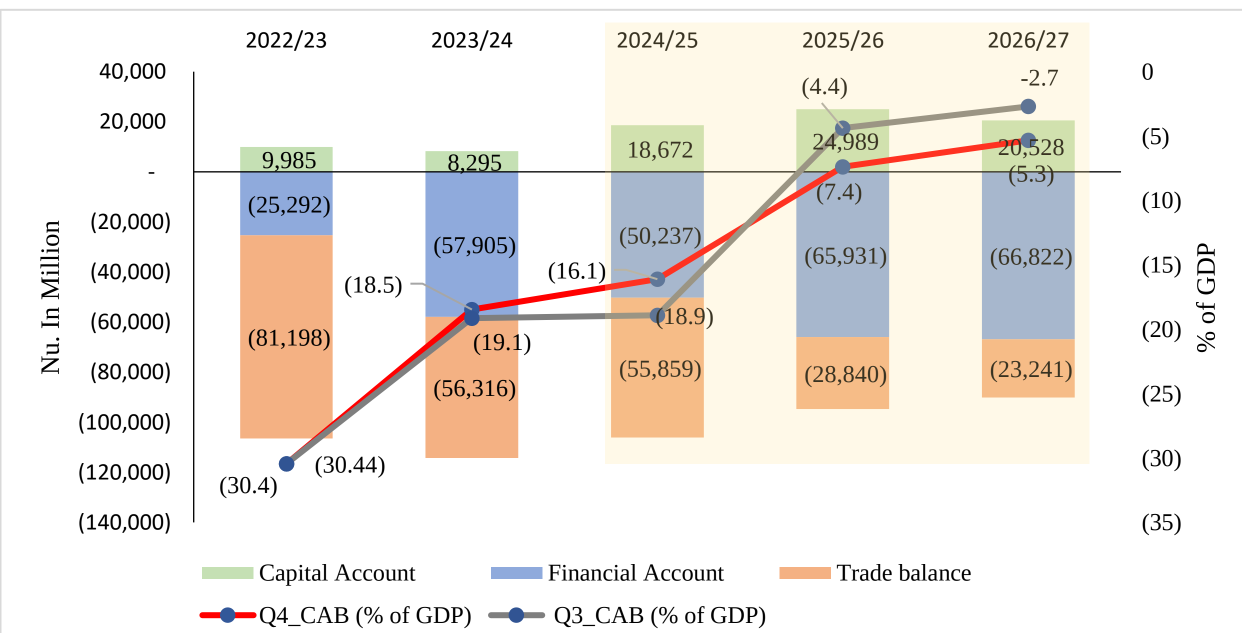
Table 5: Balance of Payment (Million Nu.)

Items	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual			*Projections*	
Current Account	-60,278	-81,198	-56,316	-55,859	-28,840
Capital Account	11,915	9,985	8,295	18,672	24,989
Financial Account	17,644	25,292	57,905	50,237	65,931
Net Errors & Omissions	9,729	17,645	0	0	0
Overall Balance	-32,401	-28,792	9,848	13,050	62,079
Memo Items					
Gross Reserves (Million US$)	*832.93*	*573.61*	*681.44*	*846.65*	*1,586.89*
Months of Essential Imports	*15.0*	*14.9*	*14.3*	*22.9*	*41.0*

5.1. Current Account Balance (CAB)

The current account deficit improved from Nu. 81,198 million in FY 2022-23 to Nu. 56,316 million by the end of FY 2023-24. However, in the 4th quarter, the CAB worsened, reaching Nu. (56,316) million compared to Nu. (51,039) million in the 3rd quarter. This decline was mainly due to an increase in service imports during the 4th quarter compared to the 3rd quarter. Nevertheless, CAB is expected to improve further in the medium term due to projected increase in financial and capital accounts, and rise in non-hydro exports.

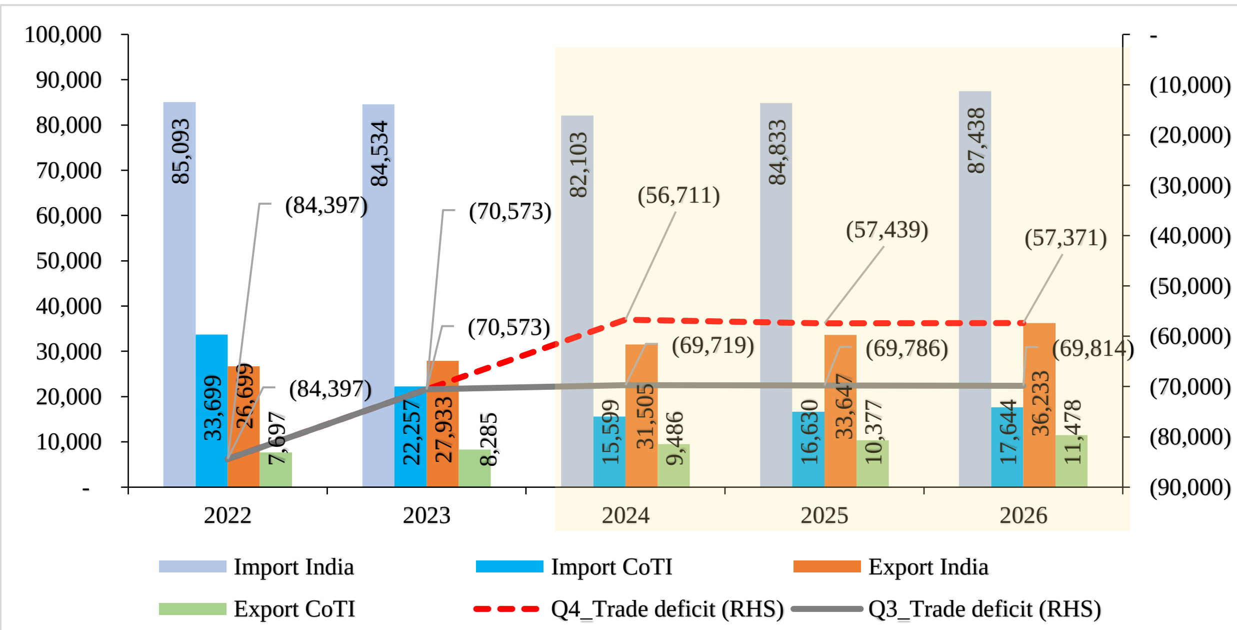
Figure 9: Current Account Balance (Million Nu)



5.1.1. Merchandise Trade

As illustrated in the figure below, during FY 2023-24, imports from both India and COTI have slightly decreased, while exports have seen a modest increase. As a result, the trade deficit is expected to decrease significantly in 2024. In the medium term, the trade deficit is projected to stabilize at an average of Nu. 57,405 million. Compared to the 3rd quarter update, the 4th quarter projections indicate a significant improvement in the trade deficit, mainly due to the expected increase in exports.

Figure 10: Merchandise Trade (Million Nu.)



5.2. Capital & Financial Account

During FY 2023-24, financial account inflows increased to Nu. 57,905 million, up from the 3rd quarter estimate of Nu. 41,497 million and significantly higher than the Nu. 25,292 million recorded in the previous fiscal year. This improvement is mainly due to a higher inflow of loans in the 4th quarter. Meanwhile, the capital account remained steady at Nu. 8,295 million, consistent with the 3rd quarter estimate.

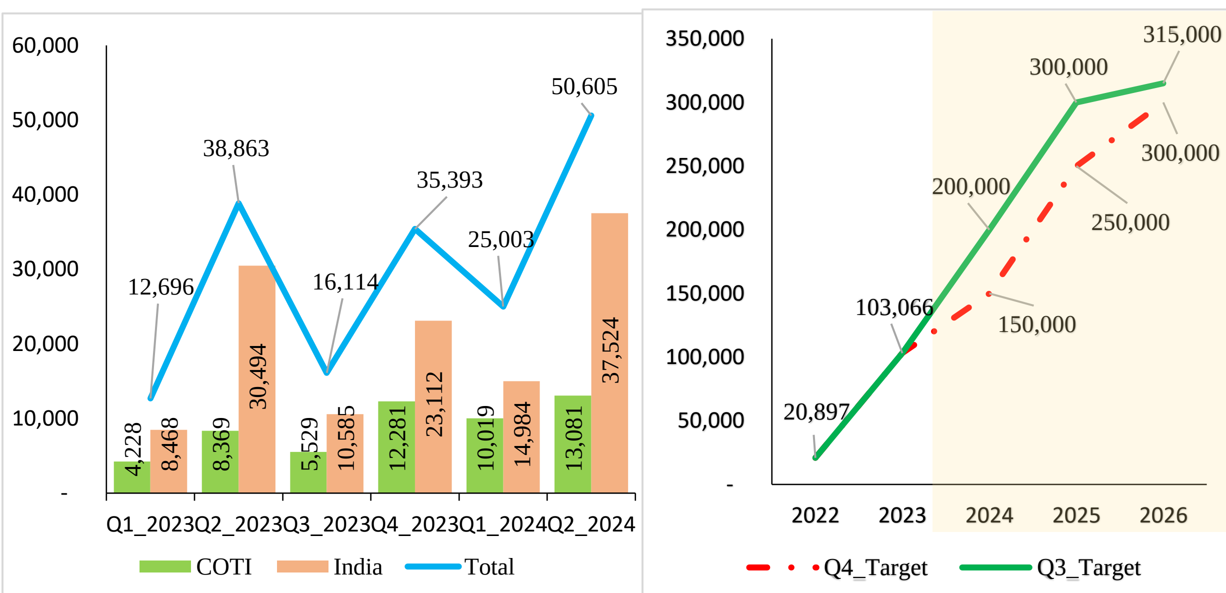
In the medium term, both the financial and capital accounts are expected to improve further, driven by anticipated increases in loan and grant inflows associated with the implementation of the 13th FYP and the construction of ongoing and new hydropower projects.

6. KEY SECTOR DEVELOPMENT

6.1. Tourism Sector

Bhutan's tourism sector is steadily recovering after being severely affected by the pandemic. As of June 30, 2024, Bhutan received 75,608 tourists, a 47% increase compared to the same period in 2023. This number represents approximately 147 % of last year's arrivals in the same period. The majority of tourists, about 69%, came from India, while the remaining 31% were from COTI. For the remainder of 2024, we expect to receive an additional 75,000 tourists, which would help reach the revised annual target of 150,000 tourists.

Figure 11: Quarterly tourist arrival and outlook



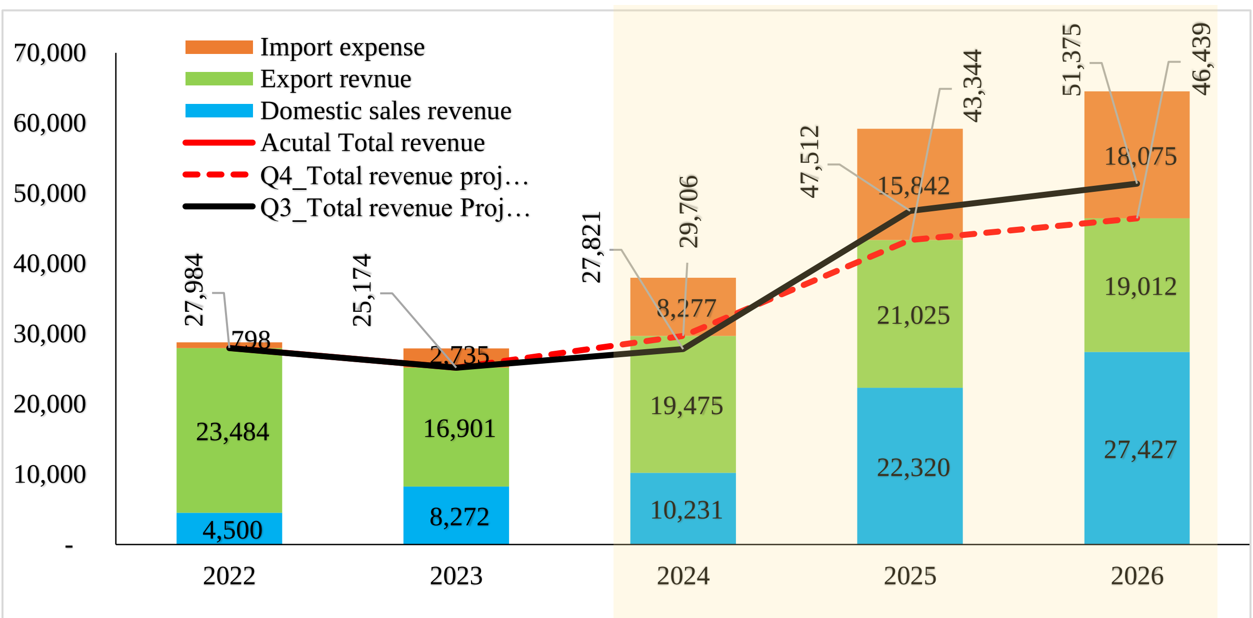
In the 4th quarter update, the estimated number of tourist arrivals for 2024 and 2025 has been revised downward. The new estimates are 150,000 tourists for 2024 and 250,000 for 2025, compared to the 3rd quarter targets of 200,000 and 300,000, respectively. This revision is based on the actual number of tourists who have visited the country so far and the expectation of achieving only 50% of the target during the remaining peak tourist season before the year ends.

6.2. Electricity Sector

As of June 30, 2024, hydropower sector is projected to generate gross earnings of Nu. 29,706 million in 2024, with 34% coming from domestic sales. This estimated earning is higher than the 3rd quarter estimate of Nu. 27,821 million largely due to projected increases in both exports and domestic sales. While hydropower sales are anticipated to rise due to higher generation, domestic demand for electricity is also expected to grow. As a result, the overall sales revenue is projected to be lower in the medium term compared to the 3rd quarter estimates, as a larger share of energy is consumed domestically, reducing the export capacity.

As such, the expense for electricity imports is estimated at Nu. 8,276.8 million in 2024, a significant 203% increase compared to the previous year, reflecting a sharp rise in domestic energy demand. Hence, even with the commissioning of the PHPA-II hydropower project, electricity imports during the lean season are expected to increase in the medium term. Consequently, net energy exports are expected to decline, potentially dropping to as low as Nu. 937 million by 2026.

Figure 12: Electricity earning and import expense (Million Nu.)



This situation suggests that Bhutan can no longer rely on hydropower as a major source of foreign currency earnings through exports. Instead, there is growing concern about how the increasing domestic energy demand can be harnessed to boost domestic production and enhance the country's growth potential.

6.3. Household and Labor Market Situation

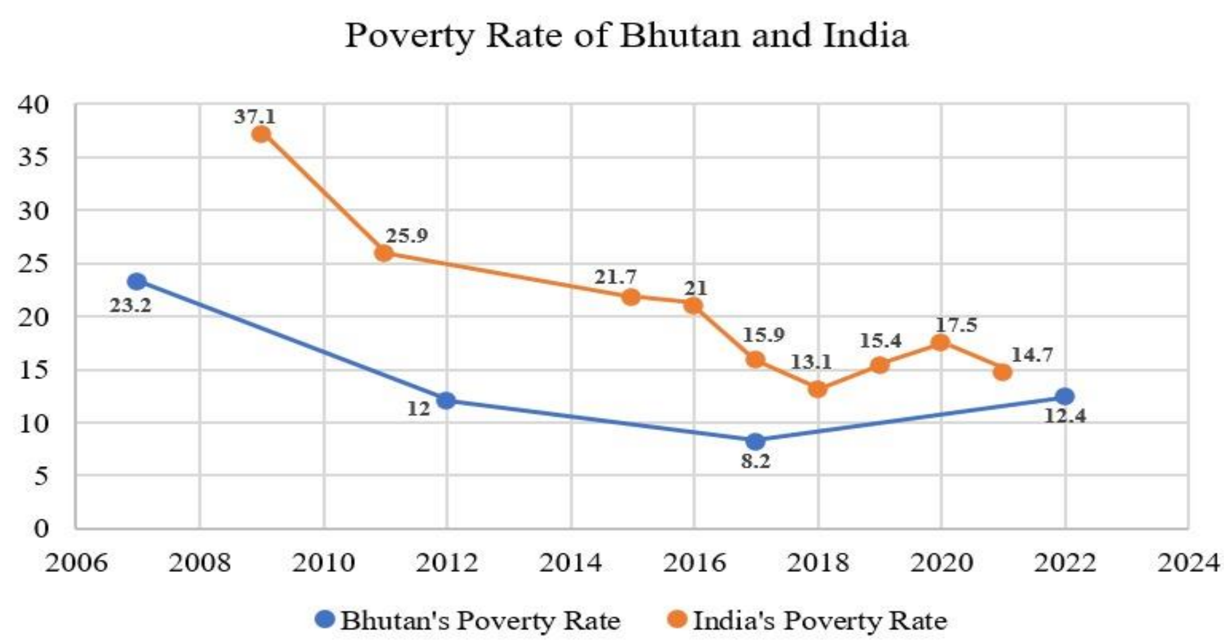
6.3.1. Poverty Rates

The analysis of poverty trends in Bhutan over the past years is based on the most recent data available for 2007, 2012, 2017, and 2022, as poverty is measured every five years. Between 2007 and 2022, Bhutan's poverty rates have shown significant fluctuations, with periods of both decline and resurgence. A change in the poverty evaluation methodology contributed to an increase in the poverty rate in 2022.

Similarly, India too experienced a fluctuating trend in poverty reduction between 2015 and 2021. The country made significant progress, reducing poverty from 21.7% to 13.1%, but this was followed by an increase to 17.5% in 2020, likely due to the economic impacts of the pandemic.

While India's poverty rates have fluctuated, Bhutan has seen a more consistent decline in poverty over the years.

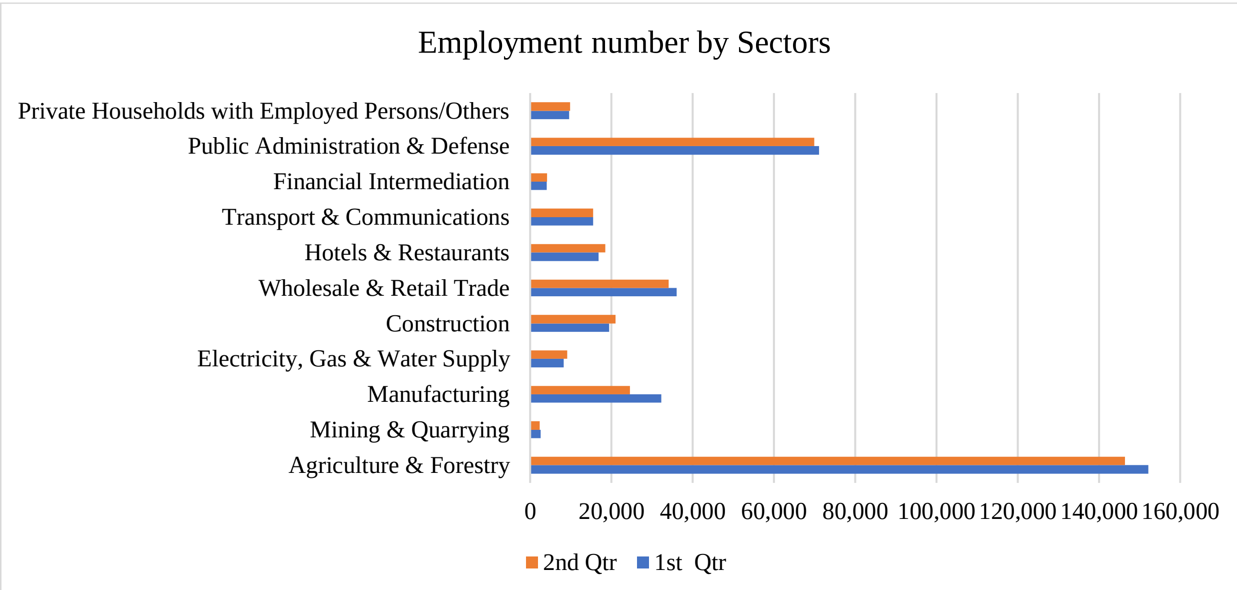
Figure 13: Poverty Rate (%)



6.3.2. Labor Market Situation

The number of employed individuals across various sectors decreased to 355,416 in the 2nd quarter of 2024, down from 368,048 in the 1st quarter. A significant part of this decline is due to a reduction in employment within the manufacturing sector, which saw a drop of 7,652 jobs from the 1st quarter. However, this decrease cannot be entirely attributed to the manufacturing sector alone, as the surveys were conducted in different quarters. Short-term fluctuations in employment may also be influenced by seasonal factors.

Figure 14: Sectoral Employment (Number)



According to the Quarterly Labor Force Survey Report of the 2nd quarter of 2024, Bhutan's unemployment rate is estimated at 3.7%, a decrease of 0.4 %age point from the 1st quarter's rate of 4.1%. The unemployment rate for females is slightly higher at 4.5% compared to 3.1% for males.

The youth unemployment rate has also improved, dropping to 19.2% from 22.9% in the 1st quarter. Among youth, the unemployment rate is 18.9% for males and 19.6% for females.

Figure 15: Unemployment rate & youth unemployment rate (%)

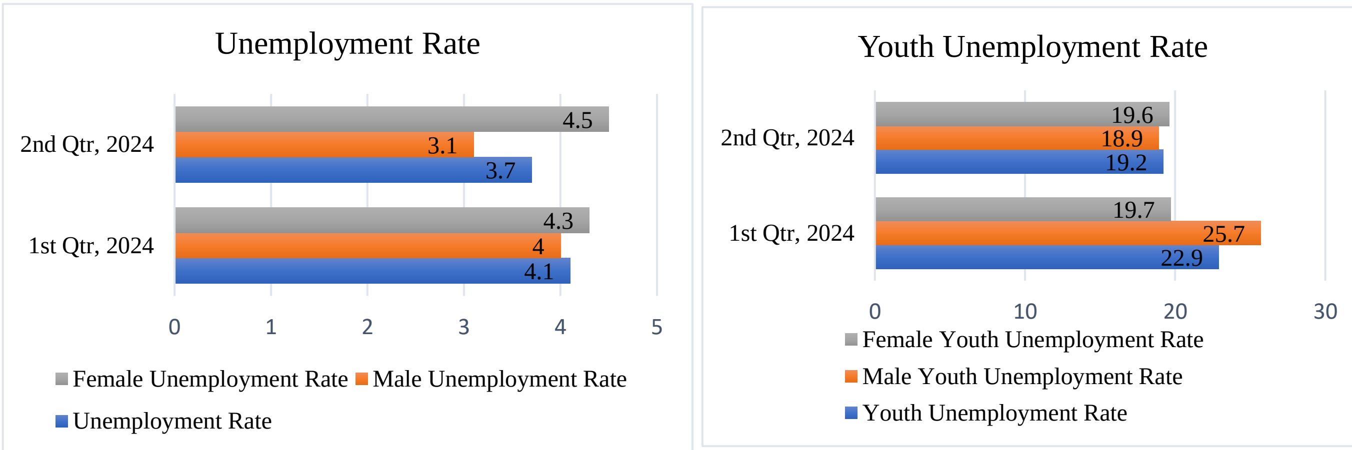
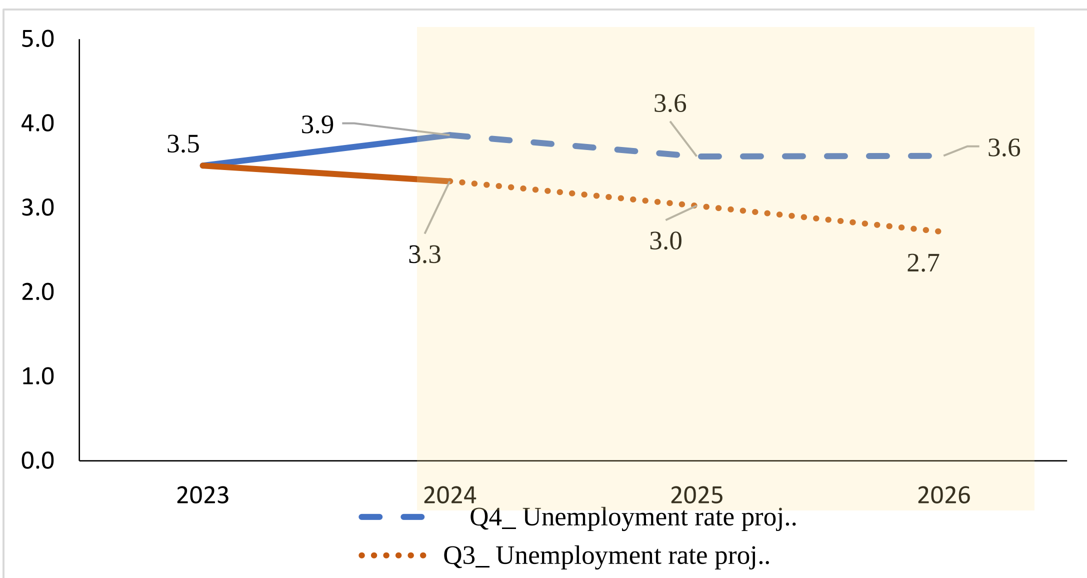


Figure 16: Unemployment projection (%)



According to the 4th quarter update, the overall unemployment rate in 2024 is projected to be around 3.9%, an increase of 0.6 %age point compared to the 3rd quarter estimate of 3.3% from March 2024. Looking ahead to 2025 and 2026, the unemployment rate is expected to decrease to 3.6%, though this remains marginally higher than the 3rd quarter estimates. This shift in unemployment projections may be attributed to various factors, including a potential increase in the working age population entering the labor market.

7. CONCLUSION

Bhutan's economy is projected to grow strongly in tandem with the global and regional economy, with an expected growth rate of 6.1% in 2024 and 9.6% in 2025, driven by strong performance in the industry and services sectors. The labor market shows mixed signals, with unemployment rates improving in the 2nd quarter of 2024, but a decline in overall employment, reflecting a seasonality factor in employment.

Looking forward, Bhutan’s medium-term outlook suggests potential growth, supported by government spending and investments, though geopolitical tensions and supply chain disruptions pose significant risks. The fiscal and debt situation appears manageable, with improvements in revenue collection and a focus on maintaining fiscal discipline despite adopting expansionary fiscal policy. However, as a result of increased investments and consumption, pressures on inflation, market liquidity and external reserves position will require close monitoring to sustain projected economic growth.

8. REFERENCE

Department of Macro-Fiscal and Development Finance. (2024, July). Macroecroeconomic Situation Report: 3rd Quarter Update FY 2023-24. https://www.mof.gov.bt/wp-content/uploads/2024/07/3rd-Macroeconomic-Situation-Report-FY-2023-24.pdf

International Labor Organization. (2024). *World Employment and Social Outlook: May 2024 Update | International Labour Organization*. Www.ilo.org. https://www.ilo.org/publications/flagship-reports/world-employment-and-social-outlook-may-2024-update

International Monetary Fund. (2024, April and July). *World Economic Outlook Update, July 2024: The Global Economy in a Sticky Spot*. IMF. https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024

National Statistics Bureau. (2024). *Labour Force Survey Quarterly Report, Second Quarter, 2024*. https://www.nsb.gov.bt/publications/labour-force-survey-report/

Reserve Bank of India. (2024). *Annual Report 2023-24*. Rbi.org.in. https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202324_FULLDF549205FA214F62A2441C5320D64A29.PDF

World Bank Group. (2024). *Global Economic Prospects, June 2024.* https://openknowledge.worldbank.org/server/api/core/bitstreams/6feb9566-e973-4706-a4e1-b3b82a1a758d/content