Royal Government of Bhutan

Ministry of Finance

Macroeconomic Situation Report

1st Quarter Update: FY 2024-25

Department of Macro-Fiscal and Development Finance

November 2024

The macroeconomic situation report, quarterly update is prepared by Macro-Fiscal Policy Division under Department of Macro-Fiscal and Development Finance. This is as per the information compiled during the quarterly Macroeconomic Framework Coordinating Technical Committee (MFCTC) meetings and presented to the Macroeconomic Framework Coordinating Committee (MFCC).

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EXECUTIVE SUMMARY

Bhutan's economic performance and outlook reflect a blend of recovery, structural adjustments, and sector-specific challenges as the country navigates the complexities of post-pandemic stabilization and global uncertainties. The economic outlook aligns with global trends of stabilization and gradual recovery. The projected decline in inflation and steady GDP growth reflects similar global patterns, where coordinated monetary policies and fiscal measures are helping economies recover from pandemic-induced disruptions. Bhutan's focus on infrastructure and industrial growth mirrors global efforts to boost economic resilience through investment in key sectors. Nevertheless, Bhutan faces challenges similar to those on the global stage, such as managing public debt and addressing external imbalances. The reliance on external funding and the need for productivity improvement are critical areas that require attention to ensure sustainable growth now and supporting the development of Gelephu Mindfulness City.

In the first quarter of Fiscal Year 2024-25, the GDP growth projection has been revised downwards to 4.97% as compared to the previous quarter's projection of 6.13%. The downwards revision is primarily due to the deferment of the commissioning date for the PHPA-II project to June 2025 and the downwards revision of the tourism target from 200,000 to 150,000 tourist arrivals. This growth projection is at par with the actual growth of 2023, and it is mainly supported by a gradual return to a stable growth path after a mixed performance in the recent years. This growth is essential, given Bhutan's dependence on hydropower exports for fiscal and external stability. However, agriculture's modest growth of 1.5% underscores structural inefficiencies, such as low productivity and vulnerability to climate change. The services sector, traditionally a strong performer, is bolstered by the recovery of tourism and advancements in ICT, but its growth has moderated compared to previous years, reflecting external demand fluctuations and domestic adjustments.

As a result, the inflation is also projected to remain at modest level, with the average inflation rate projected at 3.1% in 2024, thereby reducing the pressure on the external balance. Moderate inflation is being bolstered by steady growth in credit and moderate liquidity in the financial sector. Nevertheless, the current account deficit, though narrowing from previous years, still stands at 19.9% of GDP in 2024-25, reflecting the structural imbalance that persists within the economy. The high level of persistent current account deficit reflects the country's dependency on imports for capital goods and essential commodities, while exports are limited, with hydropower accounting for a significant portion. Despite the deficit, Bhutan's total international reserves are projected to increase significantly with increased capital and financial inflows, providing a much-needed buffer against external shocks and ensuring coverage for essential imports. This improvement in reserves is tied to increased external grants and loans.

Labor market improvements are another encouraging sign. Unemployment has reduced to 3.6% in 2024, aided by the recovery in key sectors such as tourism and construction. However, the youth unemployment rate remains a concern at 16.5%, signaling the need for targeted interventions. As the implementation of various programs under the 13th FYP and economic stimulus program gain momentum, it is anticipated that the issue will be addressed, however, the effectiveness of such program is dependent on the implementation. In particular, programs that are designed as market conforming interventions are likely to generate gainful employment.

Historically, Bhutanese economy has relied on government spending to bolster the economic growth. While in the recent times, the fiscal multiplier of government spending has declined, expansionary fiscal policy has become inevitable post-pandemic which explains the increased estimated spending programs of the government. Nevertheless, in the first quarter of FY 2024-25 the expenditure only accounts to 14% of what was budgeted. Despite the low utilization, the revised projection of fiscal deficit is estimated to further deteriorate the fiscal balance to -5.43% of GDP, mainly due to downwards revision of tourist arrival target. The actual number of tourist arrival till 30th September 2024 was 95,633, about 64% of the revised target and 46% of the total arrival in 2019 for the same period, highlighting the underperformance of tourism sector. As a result, the total public debt for this FY 2024-25 is estimated at Nu. 319,660.50 million, a 1.97% increase from Nu. 313,480.07 million in the 4th quarter update, accounting for 105.9% of GDP.

This report also features the quarterly fiscal balance which is essential given the cyclical nature of the fiscal sector and its risks on the macroeconomy. The first quarter fiscal framework for FY 2024-25 shows a positive fiscal balance, estimated to be 4.42% of GDP. Such an outlook is on account of FY 2024-25 being the first year of 13th FYP and first quarter of the fiscal year, as a result, the planned expenditure has not yet been executed. Past spending patterns suggest that most spending in a fiscal year happens towards the fourth quarter, the trend indicates a deeper systemic issue in the fiscal sector's planning and spending. One of the motivations for producing high frequency fiscal sector data is to be able to address such issues for prudent public financial management.

Globally, the economic outlook remains uncertain, shaped by geopolitical tensions, the transition to green energy, and potential financial market volatility, with GDP growth projected at 3.0% in 2024 (IMF, 2024). The global current account balance (CAB) remains relatively stable, hovering around 0.4% of GDP in 2023 and 2024 before a slight projected decline to 0.3% in 2025 (IMF, 2023). However, this stability masks significant regional disparities, with some countries benefiting from trade surpluses while others, such as the low and middle-income countries, continue to face deficits. These imbalances reflect deeper structural issues in global trade and investment flows which could impact long-term economic stability.

India, despite its challenges, is positioned to remain a critical driver of global growth. In 2023, its GDP growth reached an impressive 8.2%, far surpassing the global average. This reflects strong domestic consumption, government investment in infrastructure, and a resilient services sector. However, growth is projected to decelerate to 7.0% in 2024 and further to 6.5% by 2025 (IMF, 2024). While the decline partly reflects the high base effect of previous years, it also points to emerging challenges such as weakening global demand, uncertain geopolitical environment including international trade, and fiscal constraints.

Against the backdrop of uncertain global environment, Bhutan’s economic outlook is shaped by its dual efforts to address structural weaknesses while seizing emerging opportunities. While growth in hydropower, tourism, and digital services offers promise, structural challenges in agriculture, fiscal discipline, and external trade require sustained policy focus. The interplay of these factors will determine Bhutan’s ability to keep the growth trajectory to achieve its desired inclusive and sustainable growth. The country's focus on productivity infrastructure development, effective fiscal management, and strategic investments in key sectors will be crucial in sustaining its growth momentum.

Table 1: Leading Economic Indicators

Indicators	Units	2022/23	2023/24	2024/25	2025/26	2026/27
		2022	2023	2024	2025	2026
		Actual		Proj.		
Real Sector						
Real GDP growth	% (CY)	5.2	4.9	5.0	9.3	6.5
Nominal GDP	Million Nu. (CY)	227,814	249,388	281,309	321,547	362,712
Agriculture Sector Growth	% (CY)	(1.1)	1.4	1.5	1.5	1.0
Industry Sector Growth	% (CY)	5.6	(0.03)	6.2	20.1	9.8
Services Sector Growth	% (CY)	6.8	7.9	5.3	4.4	5.3
GDP per Capita	USD (CY)	3,833	3,920	4,958	4,971	5,518
Fiscal Sector						
Domestic Revenue	Million Nu. (FY)	44,875	56,014	55,486	64,760	70,914
Tax Revenue, (% of GDP)	*% (FY)*	*13.8*	*13.2*	*12.3*	*13.0*	*12.45*
Grants & Other Receipts	Million Nu. (FY)	15,594	14,181	18,246	26,635	29,703
Current Expenditure	Million Nu. (FY)	35,428	43,425	50,855	53,710	56,951
Capital Expenditure	Million Nu. (FY)	33,798	26,798	38,963	50,054	51,646
Fiscal deficit, (% of GDP)	*% (FY)*	*(4.73)*	*(0.16)*	*(5.34)*	*(3.61)*	*(2.08)*
Total Public Debt[1]	Million Nu. (FY)	276,977	285,179	319,066.50	408,660.06	433,173
o.w Domestic Debt	Million Nu. (FY)	32,791	21,477	30,256.16	37,389.27	41,993.5
o.w External Debt	Million Nu. (FY)	244,186	263,702	288,810.34	371,270.78	391,180
External Sector						
Current Account balance	Million Nu. (FY)	(81,198)	(58,131)	(59,975)	(48,412)	(50,298)
o.w Trade balance (Goods)	Million Nu. (FY)	(60,358)	(47,828)	(52,687)	(48,543)	(52,696)
CAB, (% of GDP)	*% (FY)*	*(33.5)*	*(21.9)*	*(19.9)*	*(14.2)*	*(13.1)*
Total International Reserves	Million USD (FY)	574	624	783	1,271	1,736
Monetary Sector						
Inflation (average)	% (CY)	5.6	4.2	3.1*		
Money Supply	Million Nu. (FY)	216,699	220,405	242,641	274,120	309,110
Credit growth	% (FY)	25.1	5.1	6.1	14.8	16.7
Pure Excess Liquidity	Million Nu. (FY)	10,139	10,899	7,608	4,936	
Labor and Household Sector						
Unemployment**	% (CY)	5.9	3.5	3.6	3.9	3.1
Youth Unemployment Rate**	% (CY)	28.6	15.9	16.5	17.5	18.4
** Average inflation from Jan-June 2024,* *** Quarterly LFS for 2023 and 2024*						

[1] The figure for the total public debt stock between this report and quarterly debt situation report are as follows:

1. Debt figures in the quarterly debt situation report is actual debt stock as of Sept 30, 2024.
2. Debt figures in macroeconomic situation report is estimation for FY 2024-25, which includes projections.

1. GLOBAL AND REGIONAL OUTLOOK

1.1. Global Economic Situation

The global economy is experiencing a period of stabilization following the disruptions caused by the pandemic and geopolitical tensions. The October update of the World Economic Outlook (IMF, 2024) projects economic growth to be moderate, with GDP growth projected at 3.3% in 2023 and stabilizing at 3.2% for the following two years. These modest growth rates underscore the challenges faced by both advanced and developing economies. Mainly, inflation is expected to be higher than pre-pandemic level with a gradual decline to 4.5% by 2025. While the decline is encouraging, the persistence of inflation above pre-pandemic levels may cause advanced economies, particularly USA, to further tighten the monetary policy resulting in capital flight and higher borrowing cost for the rest of the world. This trend reflects sluggish consumer demand and reduced fiscal support in many countries, dampening the growth prospects.

While the emerging markets remain the primary engines of global growth, the global CAB remains relatively stable, hovering around 0.4% of GDP in 2023 and 2024 before a slight decline to 0.3% in 2025. This stability masks significant regional disparities, with some countries benefiting from trade surpluses while others, such as the low and middle-income countries, continue to face deficits. These imbalances reflect deeper structural issues in global trade, supply chain and investment flows, which could impact long-term economic stability. This position is further worsened by the high borrowing cost, capital flight from low and emerging economies to advanced economies and increasing negative attitude towards free trade.

1.2. Regional Economic Situation

Amidst these global trends, India stands out as a beacon of robust economic performance. In 2023, its GDP growth reached an impressive 8.2%, far surpassing the global average, reflecting a strong domestic consumption, government investment in infrastructure, and a resilient services sector. However, growth is projected to decelerate to 7.0% in 2024 and further to 6.5% by 2025. While the decline partly reflects the high base effect of previous years, it also points to emerging challenges of the global economy particularly the uncertain yet deteriorating geopolitical situation.

Inflation in India is expected to decrease steadily from 5.4% in 2023 to 4.1% by 2025, aligning with the Reserve Bank of India's inflation target, with relatively stable unemployment rate of 4.2% in 2023, significantly lower than global levels. This improvement is indicative of effective monetary policy measures and a stable supply environment. Yet, challenges persist in the external sector, with the current account deficit widening from 0.7% of GDP in 2023 to 1.3% in 2025. This growing deficit highlights India's dependence on energy imports and subdued export growth amid global economic uncertainties. Improving the current account deficit and sustaining the labor market performance and stable inflation will be crucial for ensuring broad-based growth in a country with a young and rapidly growing workforce.

Globally, the economic outlook remains uncertain, shaped by geopolitical uncertainties, and potential financial market volatility as a result of continued tightening of monetary policies in advanced economies. India, despite its challenges, is positioned to remain a critical driver of global growth. Its strong domestic market, emphasis on structural reforms, and focus on innovation offer opportunities to sustain its high growth trajectory and to its young dynamic workforce. By addressing external vulnerabilities, improving its productivity and continued outward focused policies aligned with the dynamics of global economy, India has the potential to emerge as a model of resilience and dynamism in an increasingly volatile world, which will inevitability have positive impact in Bhutan. With the upcoming Gelephu Mindfulness City, strong growth in South Asia will only bolster the realization of the visionary initiative.

Table 2:World and Regional Macroeconomic Variables

Country/Region	Year	Average Inflation (%)	CAB (% of GDP)	GDP Growth (%)	Unemployment rate (%)
World	2023	6.8	0.4	3.3	5.0
	2024	5.9	0.4	3.2	4.9
	2025	4.5	0.3	3.2	4.9
India	2023	5.4	(0.7)	8.2	4.2
	2024	4.4	(1.1)	7.0	
	2025	4.1	(1.3)	6.5	
USA	2023	4.1	(3.3)	2.9	3.6
	2024	3.0	(3.3)	2.8	4.1
	2025	1.9	(3.1)	2.2	4.4

Source: IMF, ILO, and GoI

2. DOMESTIC ECONOMIC DEVELOPMENT

2.1. Real & Production Sector

2.1.1. Growth Performance and Outlook

The economic growth estimate for 2024 has been revised downward to 5%, a decrease of 1.1 percentage points from the previous forecast. This adjustment is primarily due to delays in the commissioning of PHPA-II hydropower project, now expected in June 2025 instead of December 2024. As a result, the industrial sector's contribution to growth in 2024 is weaker than anticipated, though the service sector remains the key driver. Another major factor contributing to the downwards revision is the lower anticipated tourist arrivals for the remaining of 2024. Looking ahead, the growth for 2025 is revised upwards to 9.6% from 9.3%, attributed to the commissioning of PHPA-II. As a result of the base effect in 2025, the growth rate is expected to decelerate to 6.6%.

Overall, in the medium term, the economy is expected to grow at an average of 7.0%, which, while robust, falls short of the targeted growth rate of 8.0%, which needed to achieve the vision of high-income economy envisioned in the 13th FYP. This projection underscores the need to improve the efficacy of fiscal spending to boost the productivity especially in agriculture and diversify from hydropower and tourism.

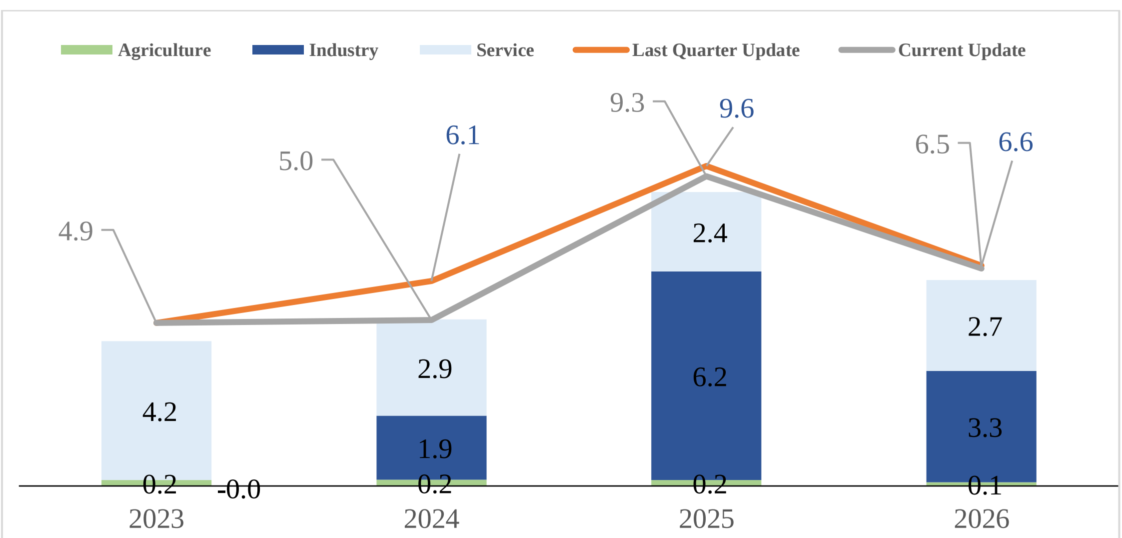


Figure 1: GDP growth

2.1.1.1. Agriculture, Livestock, and Forestry

The agriculture sector growth continues to remain stagnant with minimal positive growth since 2023, with an expected growth rate of 1.5% in 2024 and 2025, contributed by crops (0.6%), livestock (2.4%), and forestry and logging (1.9%). The current growth estimates for the agriculture sector over the medium term is much lower than the annual growth target of 7.0% in the 13th FYP.

The Economic Stimulus Program for agriculture and livestock sector in addition to the projects under the 13th FYP such as farm road, irrigation channel, and fencing, is expected to drive growth in the sector. This includes the Concessional Credit Line (CCL) under the ESP, which aims to improve financing access in the agriculture, livestock, and forestry sector.

As of August 2024, the outstanding credit in the agriculture and livestock sector is only 2.4% of the total credit. Furthermore, the credit growth in agriculture sector was only 25% compared to the overall credit growth by 178% as compared to September 2015 (Monthly Statistical Bulletin, RMA). However, the recently launched Price Guarantee Scheme is expected to stabilize the market by aggregating collection, distribution and processing of essential crops, addressing low productivity and supply chain issues. Nevertheless, the impact of such a novel policy is yet to be observed as the impact of CCL for agriculture and livestock sector’s impact has been negligible till date.

2.1.1.2. Industry Sector

The industry sector is projected to grow by 6.2% in 2024 and increase to 20.1% in 2025 with the anticipated commissioning of the PHPA-II. The average growth in the 13th FYP is estimated at 9.9%, lower by 0.3% than the growth of 10.2% required to achieve a GDP size of USD 5 billion. The mining & quarrying sector growth for 2024 is estimated at 7.0% and increases to 14.0% in 2025, which is well within the targeted growth rate. However, manufacturing is expected to grow from 2% to 4.6% in 2025, highlighting the need for more focused interventions to improve the level of production within the economy mainly to provide gainful employment to the youth.

Electricity growth for 2024 has been revised to 2.9% from the previous quarter estimate of 5.6% due to delays in PHPA-II commissioning, but for the same reason, strong growth of 19.8% is projected for 2025. The construction sector is projected to exhibit a strong growth in 13th FYP given the significant size of the government investment and construction of the Small Hydropower Projects and new hydropower projects aimed at enhancing and realizing the country's hydropower potential. Nevertheless, considering the current delayed spending trend, such estimates may also be deemed optimistic.

2.1.1.3. Service Sector

The service sector growth is estimated at 5.3% in 2024, driven by wholesale and retail trade (5.0%), transport and storage (7.4%), hotel and restaurants (20.4%), communication (6.0%), and finance & insurance (5.6%). However, the service sector growth is anticipated to slow down to 4.4% in 2025, mainly due to decline in the real wage growth for public administration. The current estimates suggests that sector growth will be lower than annual growth requirement estimated in the plan period. However, the sector's performance is contingent upon the recovery of the tourism industry and its achievement of the tourist arrival target.

Overall, the economy is expected to grow at an average annual rate of 7.0% in the medium term, slightly below the 8% target for the 13th FYP. These estimates are based on the assumption that both the PHPA-II & PHPA-I will be commissioned in the plan period and that tourism arrival will gradually reach pre-pandemic level by 2026.

However, there are looming internal and external risk to the growth estimates ranging from the intensity of the geopolitical fragmentation and international spill-over, efficiency of the government investment, and interventions in the labor market.

2.1.2. Growth Performance and Outlook: Demand side

As of 30th September, the aggregate demand for 2024 is estimated to deteriorate to 5.0% compared to the 4th quarter estimate of 6.1%, mainly on account of estimated decline in private consumption (9.6%) and government investment (14.4%). In 2025, the aggregate demand is estimated to grow by 9.3% driven by the projected growth in government investment (21.7%) and government consumption, leading to higher government spending with an increased outlay of 28% in FY 2024-25 as compared to previous year.

Similarly, the private consumption (15.1%) and private investment (12.3%) which constitutes 70% of the GDP will increase as the government gradually implements projects and activities under 13th FYP, resulting in higher household income which will be either consumed or invested.

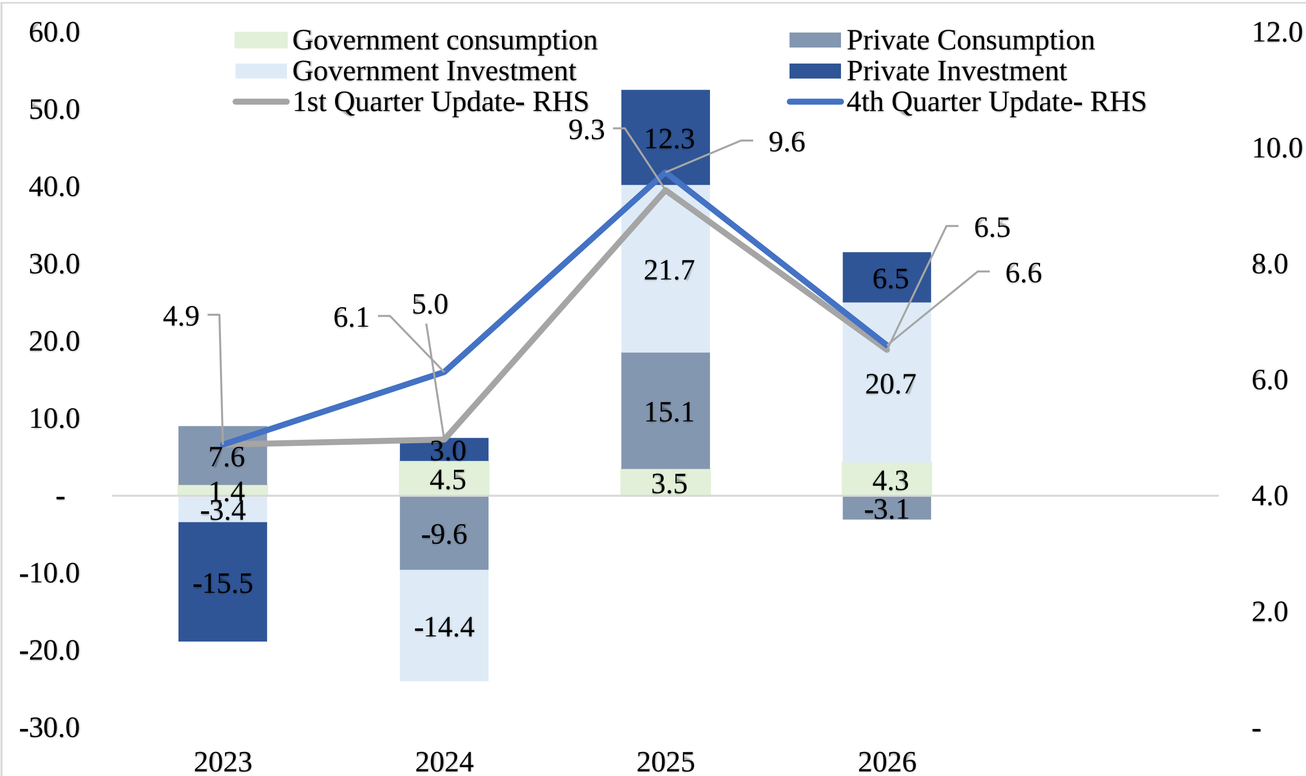


Figure 2: GDP by expenditure

2.2. Fiscal Development

2.2.1. Resources

The domestic revenue estimate for FY 2024-25 has been revised upward to Nu. 55,486.25 million, from the initially approved budget estimate of Nu. 54,749.94 million. This increase primarily comes from the higher-than-expected revenue collection in FY 2023-24 from Personal Income Tax (PIT). Additionally, a profit transfer of Nu. 2,181.05 million has been received from the Royal Monetary Authority (RMA), which is significantly higher than the budgeted amount of Nu. 540 million. Further revenue growth is anticipated from an expected increase in dividend from Druk Holding and Investments (DHI).

Table 3: Updated revenue collection and estimation (Nu. in million)

							Nu. in millions
Sl. No.	**Particulars**	**FY 2023-24**		**FY 2024-25**			
		Collection as of 30th Sept 2023	**Actual collection**	**Approved Budget**	**Revised Estimate**	**Collection as of 30th Sept 2024**	**% of revised**
	Total Revenue	**14,848.42**	**56,014.46**	**54,749.94**	**55,486.25**	**12,203.58**	**22%**
A	**Taxes**	**7,482.13**	**35,037.73**	**39,246.35**	**37,076.54**	**8,831.87**	**24%**
1	Taxes on Income, Profits & Cap. Gains	4,671.83	17,067.21	16,776.30	17,285.07	5,552.47	32%
	o.w. CIT	3,751.59	11,966.94	11,990.68	11,908.24	4,391.87	37%
	BIT	282.44	1,712.94	1,930.73	1,833.71	302.05	16%
	PIT	637.81	3,387.34	2,854.89	3,543.12	858.55	24%
2	Taxes on Property	33.07	709.24	708.39	772.03	147.70	19%
3	Taxes on Goods and Services	2,322.07	9,700.57	10,743.06	10,638.22	2,694.11	25%
	o.w. Sales Tax	1,870.99	7,601.45	8,405.85	8,330.90	2,153.63	26%
	Excise Duty	150.23	717.98	765.01	780.04	166.19	21%
	Green Tax	185.40	813.47	908.26	908.26	252.04	28%
4	Customs Duty	164.40	640.28	985.88	752.81	252.83	34%
5	Other Taxes	290.76	6,920.45	10,032.71	7,628.41	184.76	2%
	o.w. Royalty	269.12	6,808.68	9,881.19	7,495.84	160.16	2%
B	**Other Revenue**	**6,643.13**	**18,335.78**	**13,381.42**	**15,616.62**	**2,518.10**	**16%**
	o.w. Interest Receipt from Corp.	1,240.23	2,999.50	3,136.76	2,794.00	146.51	5%
	DHI Dividend		5,058.29	4,066.21	5,135.62		0%
	Profit Transfer RMA	5,269.21	5,269.21	540.00	2,181.05	2,181.05	100%
C	**Current Rev. from Govt. Agencies**	**688.15**	**1,813.26**	**1,465.86**	**1,888.47**	**795.30**	**42%**
D	**Capital Rev. from Govt. Agencies**	**35.02**	**827.69**	**656.32**	**904.63**	**58.31**	**6%**

As of September 30 2024, total external grant receipts amounted to Nu. 3,770.67 million, representing 23% of the revised estimate. Of this, Nu. 2,833.69 million was received from the Government of India (GoI) under the ESP and Project Tied Assistance (PTA), Nu. 936.98 million from other development partners, and Nu. 24.61 million was received as internal grants. This quarter's external grant receipt is 3 percentage points higher than the same quarter in FY 2023-24, which achieved 20% of its revised estimate.

The grant estimate for FY 2024-25 has been revised to Nu. 16,283.77 million from the initially approved budget estimate of Nu. 16,521.62 million, based on budget incorporation requests from agencies. While the grant estimate for GoI is maintained as per the budget report, grants from other donors have increased by Nu. 779.24 million based on the commitment received, and implementation plan.

Table 4: External grants (Nu. in million)

							Nu. in million
Sl. No	**Particulars**	**FY 2023/24**		**FY 2024-25**			
		As of 30th Sept, 2023	**Actual receipt**	**Approved Budget**	**Revised estimate**	**As of 30th Sept, 2024**	**% of revised**
I	**External Grants**	**1,555.50**	**10,615.57**	**16,521.62**	**16,283.77**	**3,770.67**	**23%**
1	GoI	789.01	6,773.26	12,206.20	11,189.11	2,833.69	25%
	PTA & SDP	789.01	6,773.26	10,539.54	10,189.11	2,833.69	28%
	Programme Grants			1,666.67	1,000.00		0%
2	Others	766.50	3,842.31	4,315.42	5,094.66	936.98	18%
	Project-tied Grants	766.50	3,842.31	4,315.42	5,094.66	936.98	18%
	Programme Grants		-	-	-	-	
ll	**Internal Grants (Trust Funds)**	**282.94**	**880.23**	**916.62**	**1,000.73**	**24.61**	**2%**
	Total Grants	1,838.44	11,495.80	17,438.24	17,284.50	3,795.28	22%

2.2.2. Expenditure

As of 30th September 2024, the total expenditure has been revised upwards by 0.75% to Nu. 89,818.11 million as compared to the approved budget estimate of Nu. 89,154.22 million. The upwards revision stems from marginal increase in both current (57% of the revised estimate) and capital expenditure (43% of the revised estimate). The total projected outlay for FY 2024-25 is Nu. 89,818.11 million, reflecting a 28% increase from the previous fiscal year, FY 2023-24.

In the first quarter of FY 2024-25, total expenditure utilization reached Nu. 12,838.76 million, 14% of the revised estimate. This utilization rate is 2 percentage points lower than that of the same quarter of FY 2023-24, which stood at 16% of the revised estimate. However, expenditure utilization is expected to accelerate in the coming quarters as activity implementation progresses.

Table 5: Updated expenditure estimates (Nu. In Millions)

Sl.#	Particulars	FY 2023-24			FY 2024-25			
		Actual	Utilization as of 30th Sept, 2023	% Utilization (Q1)	Approved Budget	Revised Estimates	Utilization as of 30th Sept, 2024	% Utilization (Q1)
	Total Expenditure	**70,223.00**	**12,406.04**	**16%**	**89,154.22**	**89,818.11**	**12,838.76**	**14%**
I	**Current Expenditure**	**43,424.60**	**9,523.13**	**21%**	**50,809.91**	**50,855.13**	**10,110.86**	**20%**
	Primary Current	38,301.73	7,929.38	20%	43,662.55	43,707.78	8,553.76	20%
	Interest Payment	5,122.88	1,593.74	30%	7,147.35	7,147.35	1,557.11	22%
II	**Capital Expenditure**	**26,798.40**	**2,882.91**	**9%**	**38,344.31**	**38,962.98**	**2,727.90**	**7%**

2.2.3. Medium-Term Fiscal Framework

With the revised resource estimate at Nu. 73,732.69 million and a total outlay of Nu. 89,818.11 million, the overall fiscal balance for FY 2024-25 is projected at Nu. -16,085.42 million, or -5.34% of GDP – slightly higher than the initial fiscal deficit estimate of -5.2% of GDP as shown in Table 6. This increase in the fiscal deficit is primarily due to upwards revision of capital expenditure, despite the marginal increase in total resources. As the year-on-year fiscal deficit increases, the likely hood of maintaining fiscal deficit within 3% of GDP becomes increasingly difficult.

Looking ahead, the fiscal deficit for FY 2025-26 is projected to narrow to -3.61% of GDP. With anticipated growth in tax and non-tax revenue, alongside the mobilization of external grants, the medium-term fiscal outlook is expected to improve.

Table 6: Medium-term Fiscal Framework (Nu. in million)

Sl. No	Particulars	2023/24	2024/25		2025/26	2026/27
		Actual	*Approved Budget*	*Revised Estimate*	*Projections*	
A	**Total Resources**	**70,195.19**	**73,182.05**	**73,732.69**	**91,395.50**	**100,616.72**
1	**Internal Resources**	**59,579.63**	**56,660.43**	**57,448.92**	**66,901.25**	**73,162.94**
i	Domestic Revenue	56,014.46	54,749.94	55,486.25	64,760.39	70,913.80
	Tax	35,037.73	39,246.35	37,076.54	44,533.47	47,723.30
	Non-tax	20,976.73	15,503.60	18,409.71	20,226.92	23,190.50
ii	*Other receipts (including internal grants)*	*3,565.17*	*1,910.48*	*1,962.67*	*2,140.86*	*2,249.13*

2	**External Grants**	**10,615.57**	**16,521.62**	**16,283.77**	**24,494.25**	**27,453.78**
i	GoI	6,773.26	12,206.20	11,189.11	16,496.79	18,453.78
ii	Others	3,842.31	4,315.42	5,094.66	7,997.46	9,000.00
B	**Total Expenditure**	**70,626.00**	**89,154.22**	**89,818.11**	**103,763.11**	**108,596.76**
1	**Current**	**43,424.60**	**50,809.91**	**50,855.13**	**53,709.61**	**56,950.76**
	Primary Current	38,301.73	43,662.55	43,707.78	45,206.36	46,342.33
	Interest payments	5,122.88	7,147.35	7,147.35	8,503.25	10,608.43
2	**Capital**	**26,798.40**	**38,344.31**	**38,962.98**	**50,053.50**	**51,646.00**
3	Advance/Suspense (Net)	403.00				
C	**Fiscal Balance**	**(430.81)**	**(15,972.17)**	**(16,085.42)**	**(12,367.61)**	**(7,980.04)**
	In percent of GDP	***(0.16)***	***(5.25)***	***(5.34)***	***(3.61)***	***(2.08)***

2.2.3.1. Quarterly fiscal framework

With the objective of improving the fiscal prudence and fiscal disciple, beginning this fiscal year 2024-25, the quarterly fiscal projections are introduced. The quarterly fiscal framework for FY 2024-25 is as outlined below.

Table 7: Quarterly Fiscal Framework for Q1 FY 2024-25 (Nu. in million)

Sl.No	**Particulars**	**FY 2023/24**	**FY 2024/25**			
		Q1	**Q1**	**Q2**	**Q3**	**Q4**
		Actual	***Provisional***	***Projections***		
A	**Total Resources**	**17,358.10**	**15,943.99**	**14,118.76**	**14,279.26**	**29,390.25**
1	**Internal Resources**	**15,802.60**	**12,173.32**	**11,441.60**	**12,085.19**	**21,748.38**
i	Domestic Revenue	**14,848.42**	**11,590.31**	**11,212.12**	**11,920.85**	**20,762.97**
	Tax	7,482.13	8,831.87	7,601.45	9,647.23	10,995.98
	Non-tax	7,366.29	2,758.43	3,610.68	2,273.62	9,766.98
ii	*Other receipts (including internal grants)*	***954.17***	***583.01***	***229.48***	***164.34***	***985.41***
2	**External Grants**	**1,555.50**	**3,770.67**	**2,677.16**	**2,194.07**	**7,641.87**
	GoI	789.01	2,833.69	1,417.79	1,049.33	5,888.29
	Others	766.50	936.98	1,259.37	1,144.74	1,753.58
B	**Total Expenditure**	12,505.76	12,838.76	19,158.89	24,428.00	33,392.45
1	Current	9,576.90	10,110.86	12,145.45	13,957.22	14,641.60
	Primary Current (Regular)	7,983.16	8,553.76	10,791.22	11,529.83	12,832.97
	Interest payments	1,593.74	1,557.11	1,354.22	2,427.39	1,808.63
2	Capital	2,928.86	2,727.90	7,013.45	10,470.77	18,750.86
C	**Fiscal Balance**	**4,852.34**	**3,105.23**	**(5,040.13)**	**(10,148.73)**	**(4,002.21)**

In the first quarter, provisional total resources amounted to Nu. 15,943.99 million, representing 21% of the revised resource estimate. Although total resources are projected to decrease slightly in the second quarter, it is expected to double in the fourth quarter, driven by anticipated increases in non-tax revenue and external grants as budgetary agencies accelerate activity implementation towards the fiscal year-end. Similarly, as the tax filing dates ends in the 3rd quarter it is also a trend to expect more revenue in the 4th quarter.

With respect to the expenditure, it is worth nothing that the trend for current expenditure spending within different quarters in a fiscal year is linear while for capital expenditure it increases each quarter. This erratic capital expenditure pattern can be attributed to various factors. Areas in the north have very limited window to execute the infrastructure projects due to natural climatic constraints which contributes to the erratic capital expenditure pattern within the fiscal year. There is also a factor of improper planning and execution of programs, which also contributes significantly to the erratic capital expenditure.

As a result, in the 1st quarter of the FY 2024-25 a fiscal surplus of Nu. 3,105.23 million is anticipated, while the remaining quarters are expected to have deficits. The largest deficit of Nu. 10,148.73 million is projected in the third quarter. In the fourth quarter, despite higher expenditure, the revenue inflows are projected to be significantly higher making the deficit only about Nu. 4,002.21 million.

In comparison to the 1st quarter of FY 2023-24 (Annexture1), resource collection was comparatively higher, while expenditure utilization is higher in this quarter of FY 2024-25. In both the periods, positive fiscal balance is observed which is largely attributed to lower expenditure levels at the start of the fiscal year.

2.2.3 Public Debt

As of September 30, 2024, the total public debt for this FY 2024-25 is estimated at Nu. 319,660.50 million, a 1.97% increase from Nu. 313,480.07 million in the 4th quarter update, accounting for 105.9% of GDP. This anticipated increase in the total public debt is mainly attributed to expected loan disbursement from the World Bank and ADB for small hydropower projects scheduled to be started in this FY. As a result, compared to 4th quarter's projection, the total public debt as a percentage of GDP is expected to rise over the medium term.

For FY 2024-25, 90.5% of the total public debt is external, while 9.5% is domestic. Public debt is projected to increase by an additional Nu. 89,593.56 million in FY 2025-26 to cover budgetary deficits and hydropower borrowing needs. Over the medium term, both the external debt and the domestic debt are projected to increase on account of additional hydropower disbursements and budgetary borrowings to meet the financing gap.

Table 8: Medium-term debt projections (Nu. in million)

Sl. #	Particulars	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Actual	Estimate	Projections			
	Total Public Debt	**285,179.41**	**319,066.50**	**408,660.06**	**433,173.58**	**476,258.94**	**498,882.20**
	% of GDP	107.5%	105.9%	119.4%	113.0%	111.8%	103.4%
1	**Domestic Debt**	**21,477.36**	**30,256.16**	**37,389.27**	**41,993.54**	**59,116.34**	**74,211.48**
	% of GDP	8.1%	10.0%	10.9%	11.0%	13.9%	15.4%
	% of Total Public Debt	7.5%	9.5%	9.1%	9.7%	12.4%	14.9%
2	**External Debt**	**263,702.05**	**288,810.34**	**371,270.78**	**391,180.04**	**417,142.60**	**424,670.72**
	% of GDP	99.4%	95.8%	108.5%	102.0%	97.9%	88.1%
	% of Total Public Debt	92.5%	90.5%	90.9%	90.3%	87.6%	85.1%
i	**Hydro Debt**	**167,194.63**	**176,748.27**	**249,251.16**	**272,768.09**	**300,016.85**	**310,573.29**
	% of GDP	63.0%	58.6%	72.9%	71.1%	70.4%	64.4%
	% of Total Public Debt	58.6%	55.4%	61.0%	63.0%	63.0%	62.3%
ii	**Non-Hydro Debt**	**96,507.43**	**112,062.08**	**122,019.62**	**118,411.95**	**117,125.75**	**114,097.43**
	% of GDP	36.4%	37.2%	35.7%	30.9%	27.5%	23.7%
	% of Total Public Debt	33.8%	35.1%	29.9%	27.3%	24.6%	22.9%

As of 30th September 2024, Central Government debt has increased to Nu. 121,441 million from Nu. 112,242 million as of June 30, 2024, reaching 40% of GDP. According to current projections, Central Government debt as a percentage of GDP is expected to increase compared to fourth quarter projections, mainly due to an anticipated rise in notional financing, which has been nil as of June 30, 2024.

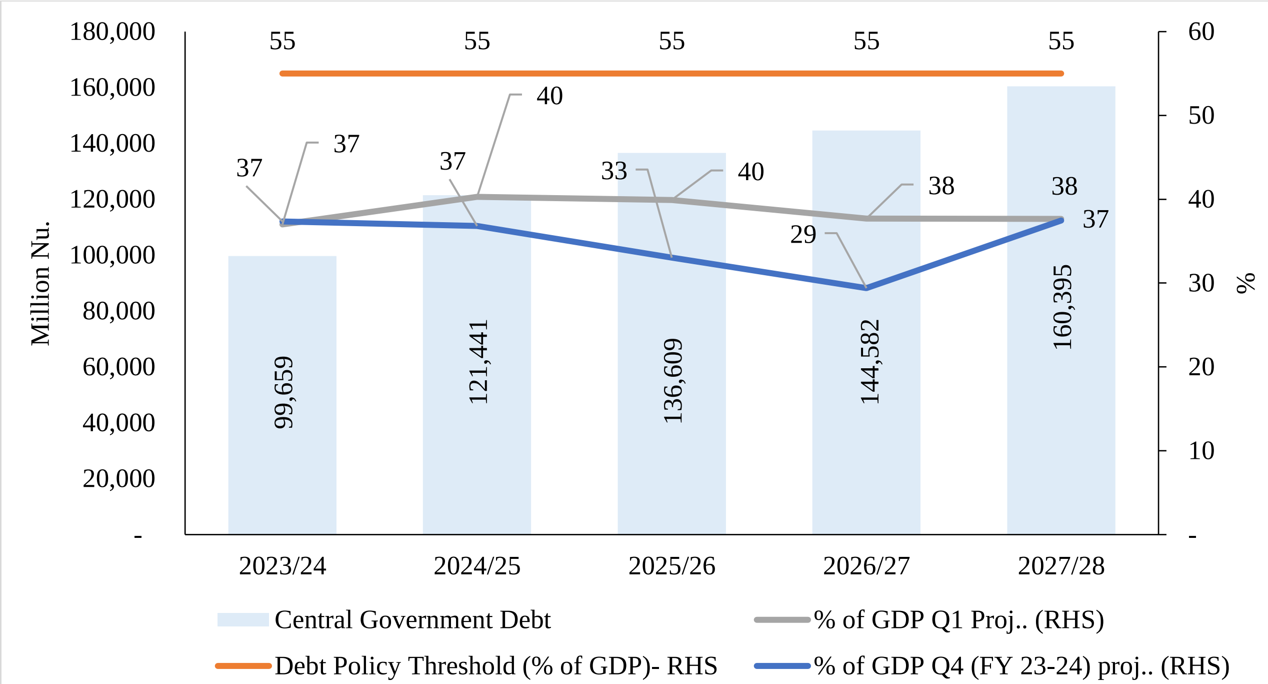


Figure 3: Central Government Debt

2.3. Monetary and Financial Market

2.3.1. Inflation

In September 2024, the headline inflation eased to 1.35%, down from 2.05% in August, bringing the national average inflation for January to September 2024 to 3.12%. The moderation in inflation comes from a confluence of rising prices in the food and non-alcoholic beverages category, offset by declining prices in non-food items. However, with the rebasing of consumption baskets[2] in May 2024, inflation rates after April 2024 are not directly comparable to those before the base year change.

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

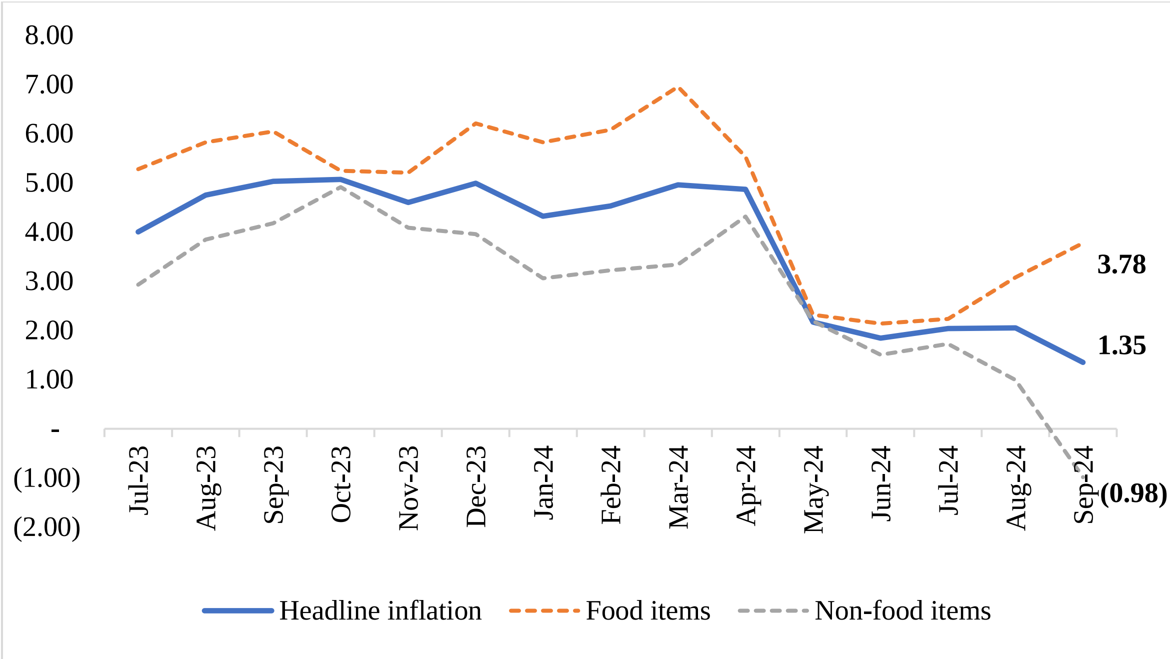


Figure 4: Monthly inflation

Following the rebasing in May 2024, month-on-month inflation registered a decline to -0.10% in September, reflecting reduction of .49 percentage points from August. This downward movement was largely driven by significant contractions within the Transport sector by -2.90% and Housing and Utilities by -0.65%, which exerted considerable downward pressure on the overall inflation rate.

2.3.2. Liquidity position

For the fiscal year 2023-24, the liquidity position after the Cash Reserve Ratio (CRR) was recorded at Nu. 24,529 million, with the required cash reserve at Nu. 17,962 million. In the upcoming fiscal year, however, liquidity is projected to decrease due to the lifting of the loan moratorium and an anticipated increase in economic investments. Further declines are expected in FY 2025-26, driven by increased investment activity. Additionally, liquidity reduction is influenced by the planned reinstatement of the sweeping arrangement, which had been halted temporarily in June 2023 to alleviate the immediate liquidity shortfall in the banking sector. The Royal Monetary Authority (RMA) intends to reintroduce the sweeping mechanism next year, which is anticipated to tighten excess liquidity in the banking sector. Consequently, the projected liquidity after the cash reserve requirement for FY 2024-25 and 2025-26 remains significantly lower than projections made in the fourth quarter of FY 2023-24.

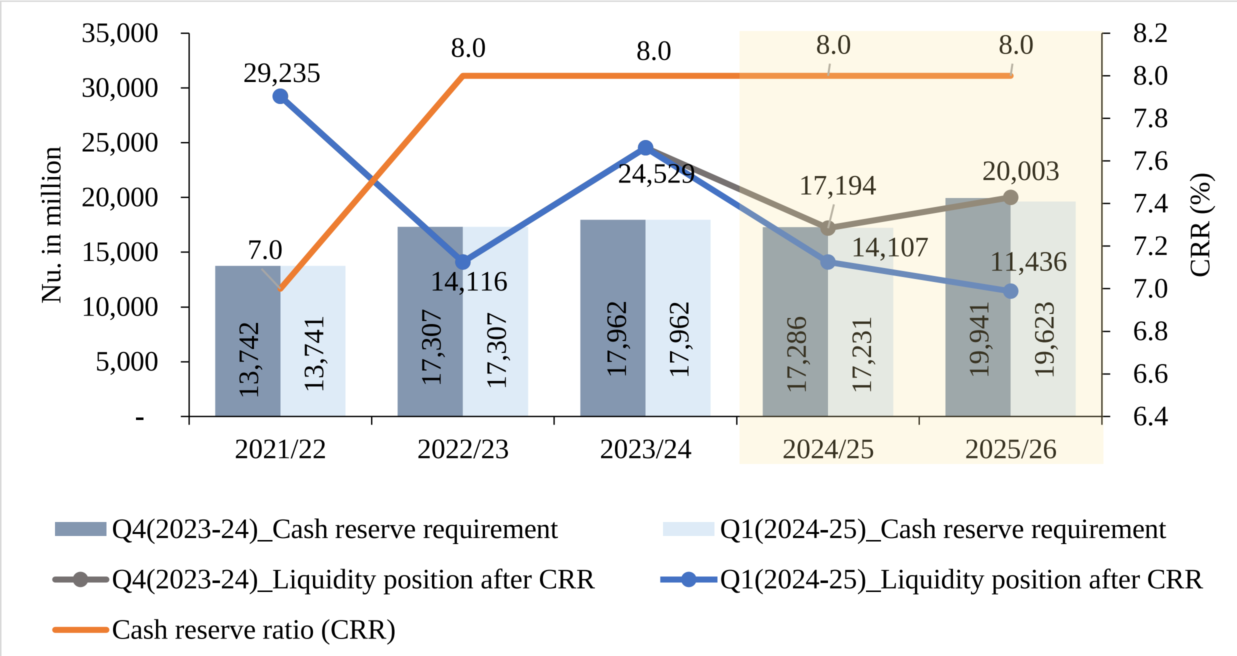


Figure 5: Liquidity position update

Among the financial institutions, Bank of Bhutan Limited holds the largest share of liquidity, accounting for over 30.62%, followed by Druk PNB Bank Ltd. at 27.89% and Bhutan Development Bank Limited at 20.97%. Moving forward, Bank of Bhutan Limited is expected to continue leading in liquidity levels, followed by Bhutan Development Bank Limited.

2.3.3. Money multiplier

In the fiscal year 2023-24, the money multiplier stood at 4.70, indicating that for every Nu.1 introduced into the banking system, the money supply increases by 4.70 times, as a result of the fractional reserve banking system. For the FY 2024-25, the money multiplier is projected to rise to 5.01, reflecting an increase in the potential money supply expansion, and as shown in the graph below, the previous quarter's projection also stood at 5.01 for the same fiscal year.

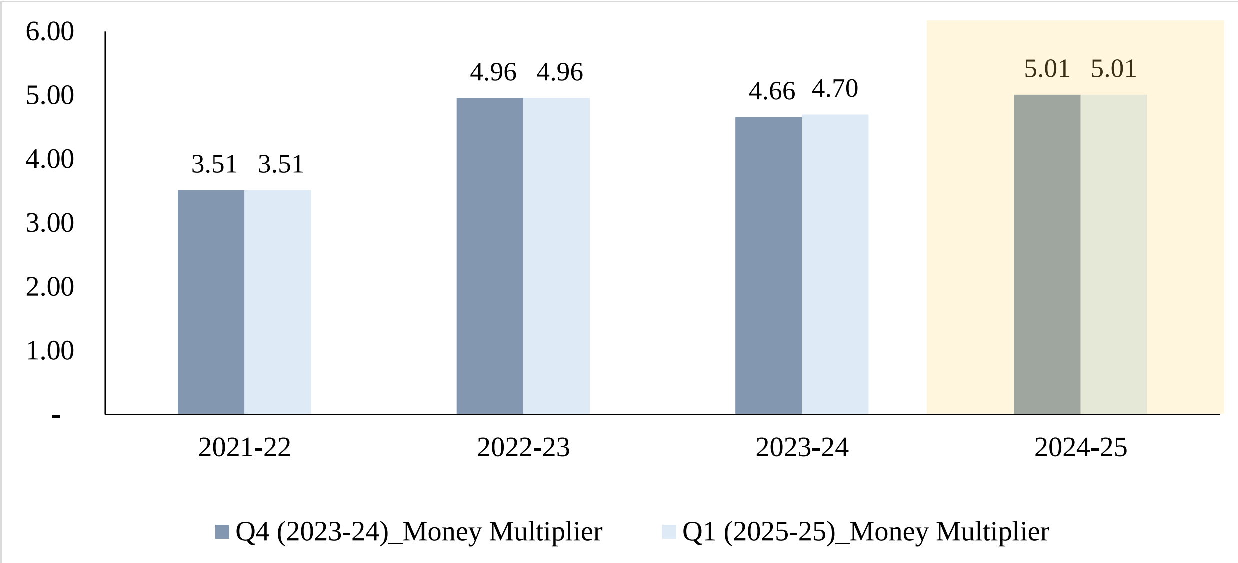


Figure 6: Money multiplier update

2.3.4. Credit situation

Compared to the last quarter's update, the credit growth projection for the fiscal year 2024-25 has been revised downward by 3.40%, i.e. Nu. 10,478 million. In the fourth quarter update for the fiscal year 2023-24, projections had assumed that ESP loans would be disbursed across various sectors, supporting growth. However, the planned disbursements under the ESP loans did not occur as anticipated. Consequently, the credit growth projections in this quarter's update are lower than those reported in the previous quarter for the same fiscal year.

Compared to the previous quarter's updated figures, there is a notable increase in credit extended across several sectors. The manufacturing sector recorded the highest growth, with an increase of Nu. 8,162 million, followed by the housing sector, which grew by Nu. 7,332 million, and the hotel and tourism sector, by Nu. 3,929 million. The significant growth in the manufacturing sector can be attributed to the expansion of manufacturing activities. Similarly, the increase in housing sector credit is primarily due to the lifting of the loan moratorium on housing loans. Additionally, the increase in credit to the hotel and tourism sector reflects the gradual recovery of the tourism industry, albeit at a slower pace.

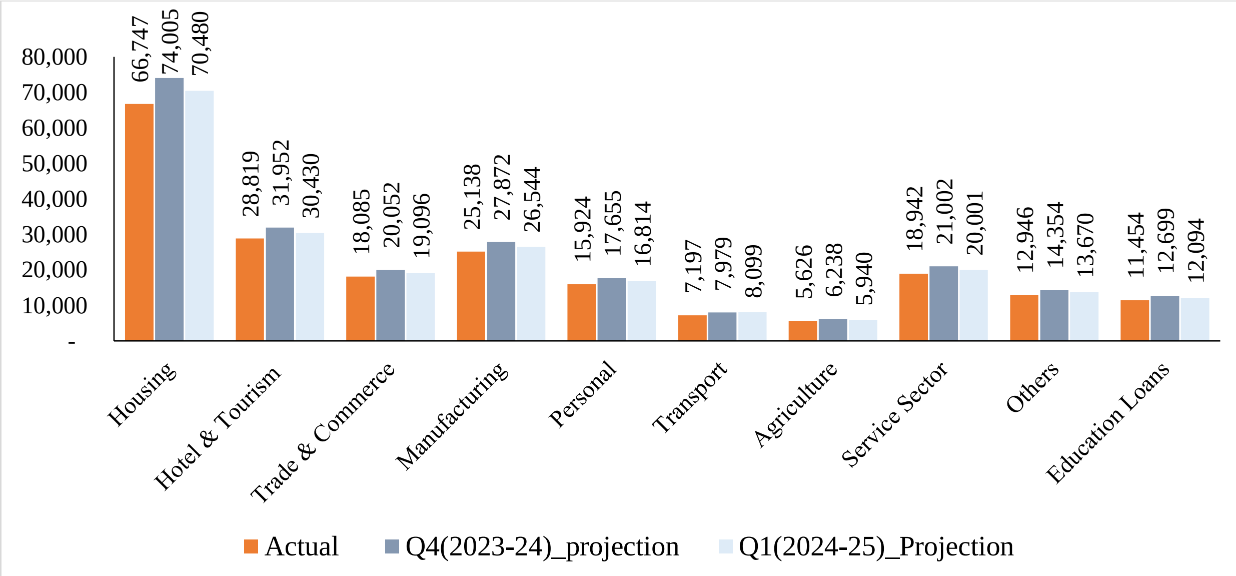


Figure 7: Sectoral credit update

However, there has been a decline in credit extended to contractors by Nu. 3,746 million and to the transport sector by Nu. 755 million. The decrease in credit to contractors can be attributed to the commencement of the financial year/plan period, during which various organizations are in the process of tendering construction projects. Similarly, the decline in credit to the transport sector is driven by factors such as the rising prices of vehicles and the increasing level of non-performing loans, which has led banks to provide less credit to this sector.

Table 9: Sectoral Credit Comparison (Nu. in million)

Sl. No.	Sector	Q1 FY 2023-24	Q1 FY 2024-25	% Change
1	Agriculture and Livestock	17,565.72	15,114.84	-13.95
2	Hotel and Tourism Sector	77,177.87	88,507.77	14.68
3	Manufacturing	65,492.79	80,236.52	22.51
4	Housing Sector	180,307.62	206,297.67	14.41
5	Trade & Commerce	48,311.23	54,306.98	12.41
6	Transport	25,438.15	21,189.42	-16.70
7	Personal Loans	47,370.95	47,955.44	1.23
8	Others	3,264.97	6,602.72	102.23
9	Service Sector	53,457.26	59,780.20	11.83
10	Education Loans	46,934.17	30,776.01	-34.43

11	Loan to Contractor	28,600.37	30,620.62	7.06

As shown in Table 9, credit has as expanded across a many sectors. Significant increases are observed in the Housing, Manufacturing, Hotel & Tourism, and Service sectors. These increases are primarily driven by the expansion of manufacturing activities, the lifting of the loan moratorium on housing loans, and the anticipated recovery of the tourism industry.

However, there has been a notable decline in credit extended to the Education, Transport, and Agriculture sectors. The decrease in education loans is mainly attributed to a reduction in the number of applicants for third-country universities. The decline in the agriculture sector is due to delays in the disbursement of ESP loans. Despite this delay, looking forward, it is anticipated that credit will increase across all sectors in the next quarter, supported by government investments and the extension of ESP loans to various sectors.

3. BALANCE OF PAYMENT

The balance of payment in the current quarter update has been revised downwards by 4%, to Nu. 12,586 million from the previous quarter's estimates of Nu. 13,050 million. The downward revision was primarily driven by the worsening trade deficit as a result of anticipated increase in import to Nu. 116 million in the current quarter update, up from previous quarter estimates of Nu. 110 million.

The overall balance of payment in FY 2024-25 is an improvement from the overall balance deficit of Nu. 246 million in FY 2023-24. This is expected to further improve and remain positive in the medium term as a result of anticipated increase in inflow of budgetary grants and external borrowings as shown in Table 9.

Table 10: Balance of Payment Projections (Nu. in million)

Particulars	FY 2023-24	Q4 FY 2023-24				Q1 FY 2024-25			
	Actual	Projections							
	2023/24	2024/25	2025/26	2026/27	2027/28	2024/25	2025/26	2026/27	2027/28
Current Account	(58,131)	(55,859)	(28,840)	(23,241)	(55,836)	(59,975)	(48,412)	(50,298)	(68,731)
o.w Trade Balance (Goods)	(47,828)	(47,906)	(36,553)	(30,361)	(60,417)	(52,687)	(48,543)	(52,696)	(70,418)
Capital Account	7,903	18,672	24,989	20,528	16,987	18,141	25,749	23,202	21,223
Financial Account	(41,753)	50,237	65,931	(66,822)	(69,217)	(54,421)	(63,675)	(66,770)	(69,945)
Net Errors and Omissions	403	-	-	-	-	-	-	-	-
Overall Balance	**(246)**	**13,050**	**62,079**	**64,109**	**30,369**	**12,586**	**41,012**	**39,674**	**22,436**

Source: MFCTC Q1 FY 2024-25 projections

The improvement in current account and further projected improvement in the capital and financial accounts results in increase in gross international reserves, projected to reach USD 783 million at the end of FY 2024/25, sufficient to cover 20 months of essential imports during critical period. The reserves projection is expected to improve further in the medium term as illustrated in Figure 8. While the increase in the gross international reserves is welcomed, it is worth highlighting that the accumulation of reserves is not on account of improved efficiency or productivity but rather reliance on the loans and grants which has been one of the core structural issues plaguing Bhutan's economy.

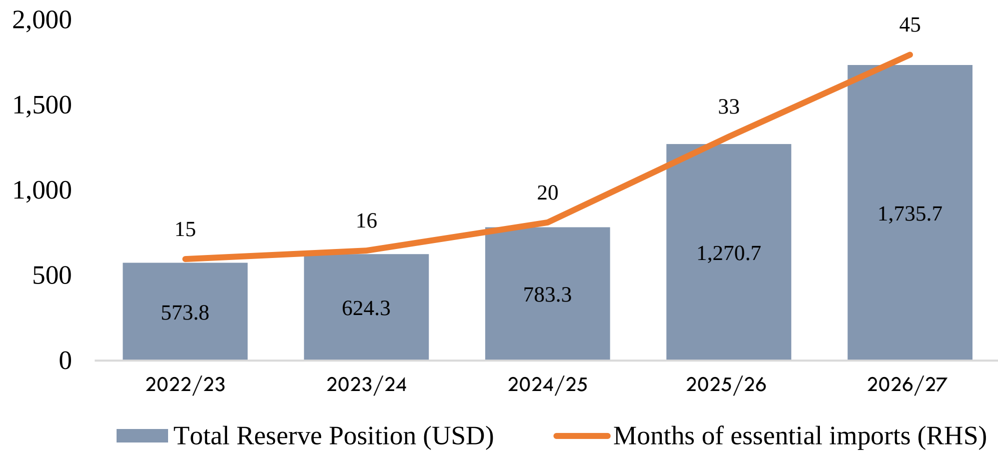


Figure 8: Foreign Reserves Projections

3.1. Current Account Balance

The current account deficit is expected to deteriorate by 7%, to Nu. 59,975 million in the current update from Q4 estimates of Nu. 55,859 million. The increase in current account deficit is a result of deterioration in trade deficit by 10%, to Nu. 52,687 million in Q1 FY 2024/25 from Q4 estimates of Nu. 47,906 million. The worsening trade deficit can be attributed to an increase in goods import projected in 2024/25. Of this, trade deficit with India account for 96% of the overall trade deficit.

The current account deficit in FY 2024-25 is an increase by 3%, from Nu. 58,131 million in FY 2023-24 to Nu. 59, 975 million in FY 2024-25 as a result of deterioration of trade deficit which can be attributed to increase in electricity and goods imports.

The current account balance is expected to improve in 2025-26 mainly on account of improvement in non-hydropower exports, increase in service exports and increased inflow of budgetary grants for 13th FYP.

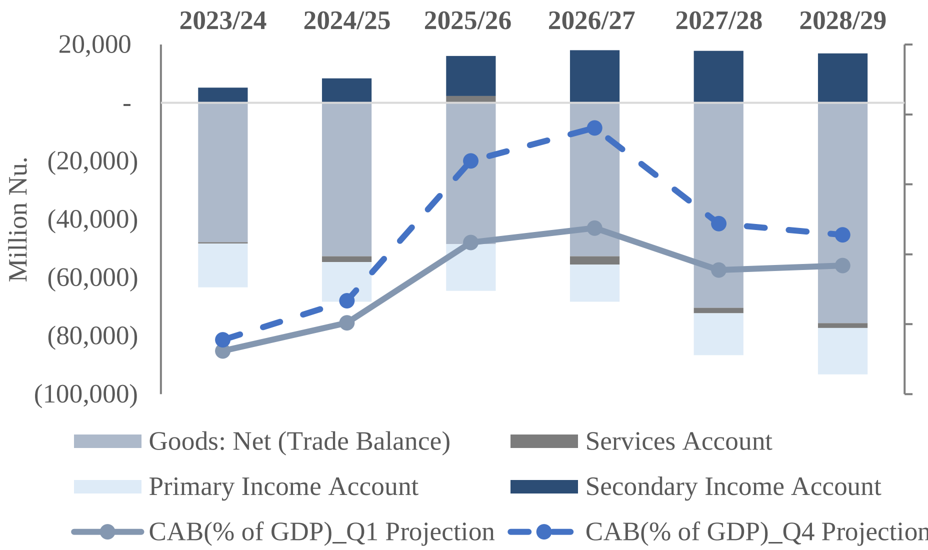


Figure 9: Current account balance update

3.1.1. Merchandise Trade

The quarterly merchandise trade deficit has worsened in this quarter of FY 2024-25 to Nu. 17,158 million from Nu. 14,186 million in Q4 of FY 2023-24. This is mainly the result of increased trade deficit with Countries other than India (COTI). The imports from COTI increased from Nu. 2,783 million in Q4 FY 2023-24 to Nu. 4,368 million in Q1 FY 2024-25, an increase of 57%, mainly attributed to the increase in import of base metals and articles of base metal. On the other hand, export declined by 52%, from Nu. 4,882 million to Nu. 2,321 million mainly attributed to decrease in export of physical foreign currency in cash. The trade deficit with India improved slightly in Q4 of FY 2024-25.

The merchandise trade deficit for FY 2024-25 is projected to increase to Nu 64,666 million. In the medium term, the merchandise trade deficit is expected to worsen.

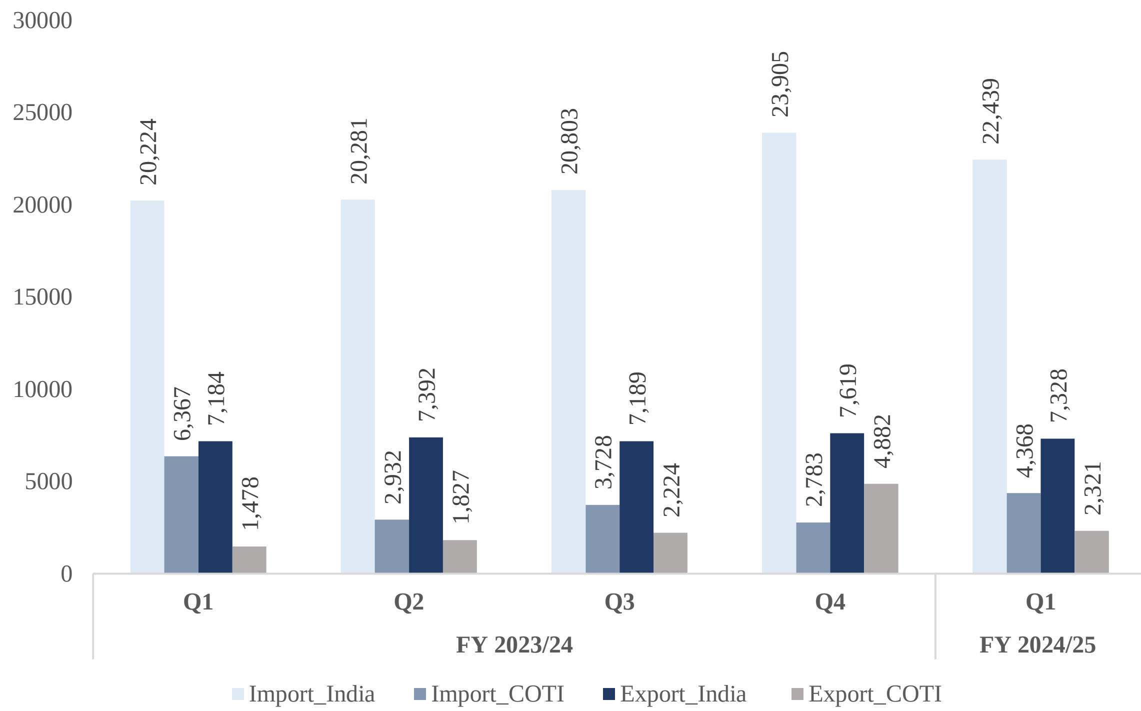


Figure 10: Trade statistics update

3.2. Capital Account

The FY 2024-25 capital account inflows is 3% lower than the Q4 FY 2023-24 projection due to downward revision in inflow of budgetary grants from India by 6%. The inflows in the capital account in FY 2024-25 is projected to improve to Nu. 18,141 million, a growth of 129 % compared to inflows in FY 2023-24. This is mainly on account of increase in inflow of grants, of which 83 % is inflow of grants from India.

The capital account is expected to improve in the medium term as a result of increase in inflow of grants for implementation of 13th FYP and hydropower development.

3.3. Financial Account

The net financial inflow in FY 2024-25 is projected at Nu. 54,421 million, an increase of 8% from Q4 estimates of Nu. 50,237 million. The upward revision in increase of financial inflows is due to the increase in net other investment from COTI in the form of increase in currency and deposit liabilities. The net inflow in FY 2024-25 is also an increase from FY 2023-24 inflow of Nu. 41,753 million. This increase is mainly on account of increase in external borrowings in convertible currency. In the medium term, the net financial inflow is projected to increase driven by anticipated increase in inflows through external borrowings for hydropower development.

It is worth highlighting that the government targets the Foreign Direct inflows of Nu. 500 billion in the 13th FYP. However, under the current circumstances, majority of financial inflows are on account of public sector borrowings which also includes borrowings by budgetary institutions and the State-Owned Enterprises.

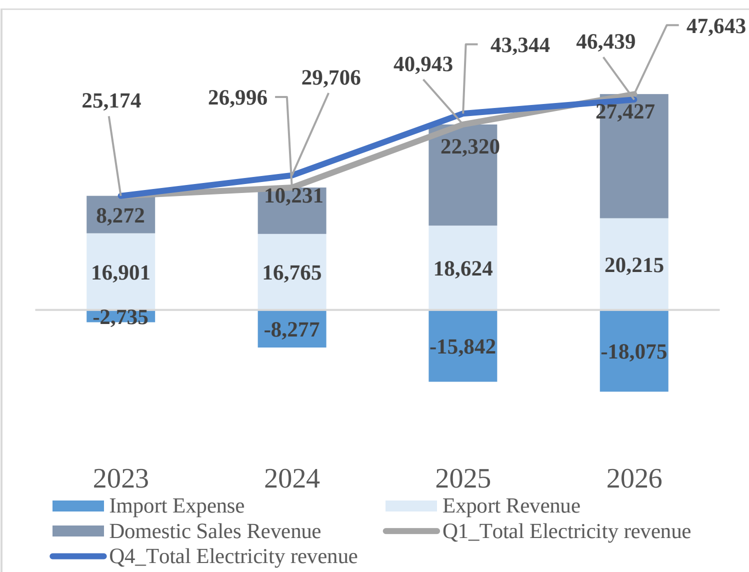
4. KEY SECTOR DEVELOPMENT

4.1. Electricity Sector

The hydropower generation as of 30th September 2024 stands at 8,843.9 MU as compared to the initial target of 8,511.8 MU, which is an increase of 4%. The total generation is anticipated to reach 10,900.7 MU and gradually increase to 14,830.5 MU in 2025 with the anticipated commissioning of PHPA-II by June 2025.

With the delay in the commissioning of the PHPA-II, the export revenue is estimated to decline to Nu. 16,765 million as compared to the earlier estimates of Nu. 19,475 million, bringing the total revenue estimates to Nu. 26,996 million in 2024. Similarly, the export revenue earning in 2025 will also decrease by 11.4% compared to the 4th Quarter update.

Given the surge in the domestic energy demand, the share of the domestic energy consumption from the total generation will increase from 51% in 2023 to 71% in 2025, leaving a mere 29% for the export market. Given such dynamics, the energy import bill is expected increase exponentially despite the commissioning of the PHPA-II in 2025.



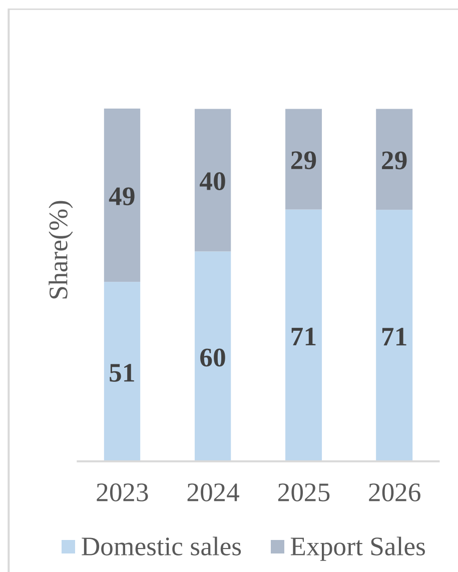


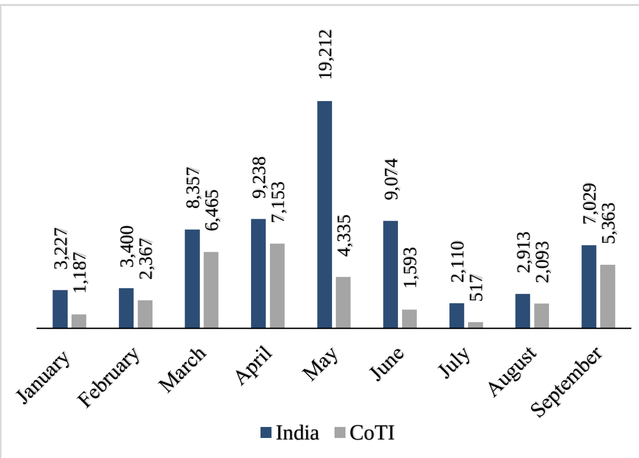
Figure 11: Electricity export earnings and import expenses (Million Nu)

Therefore, investment in renewable energy, energy diversification, and energy security becomes crucial. More importantly, domestic energy consumption should result in domestic production and value-addition whose export value shall offset the energy consumed, otherwise meant for export.

4.2. Tourism Sector

As of 30th September 2024, total tourist arrival was around 95,633, which is 46% of the arrival in 2019 during the same period. Of these total arrivals, 68% were Indian nationals while the remaining 32% were tourists of other nationalities. In the 3rd Quarter of 2024, the total tourist arrival was 20,025, of which Indian arrival was 12,052.

Based on the government's tourist arrival target of 150,000 in 2024, about 64% has been achieved as of 30th September. However, with government interventions aimed at promoting and attracting tourists through marketing, access to regional gateways, and skilling programs in the hospitality sector, it is anticipated that the tourist arrival will reach the pre-pandemic level by 2027.



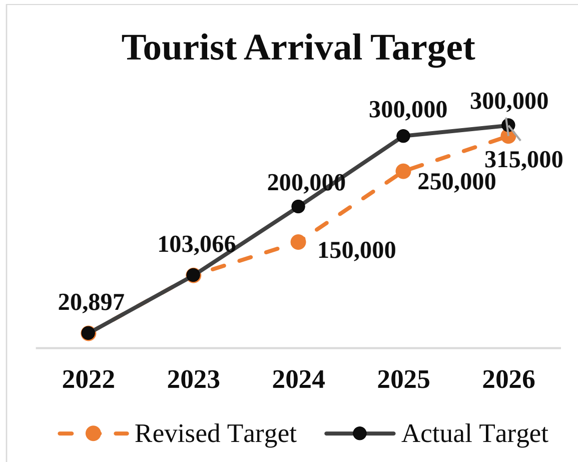


Figure 12: Tourists arrival and target

Tourism is an important sector for Bhutan's economy as it has significant upstream and downstream linkages. Given the low diversity of current economy, it is important for the tourism sector to expedite the recovery to bolster economic growth and generate employment opportunities. However, since the market is anticipated to recover only in 2027, it may hinder the ambitious growth target set under 13th FYP for the overall economy.

4.3. Labor Market

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. The remaining decline in employment of 4,980 jobs is attributed to sectors other than the manufacturing sector. Short-term fluctuations in employment may also be influenced by seasonal factors.

In the previous quarter, the total employment by sectors projection was 361,732 based on the average of the first two quarters. The projection for this quarter has increased to 367,495 reflecting the average of the three quarters. Total employment has increased from 355,416 in the last quarter to 379,022 in the current quarter. This growth is primarily driven by significant gains in the agriculture and forestry, construction, wholesale and retail trade, and transport and communications sectors. Although some sectors experienced a decline in employment, these decreases were outweighed by the substantial growth in the key sectors mentioned, resulting in an overall rise in employment.

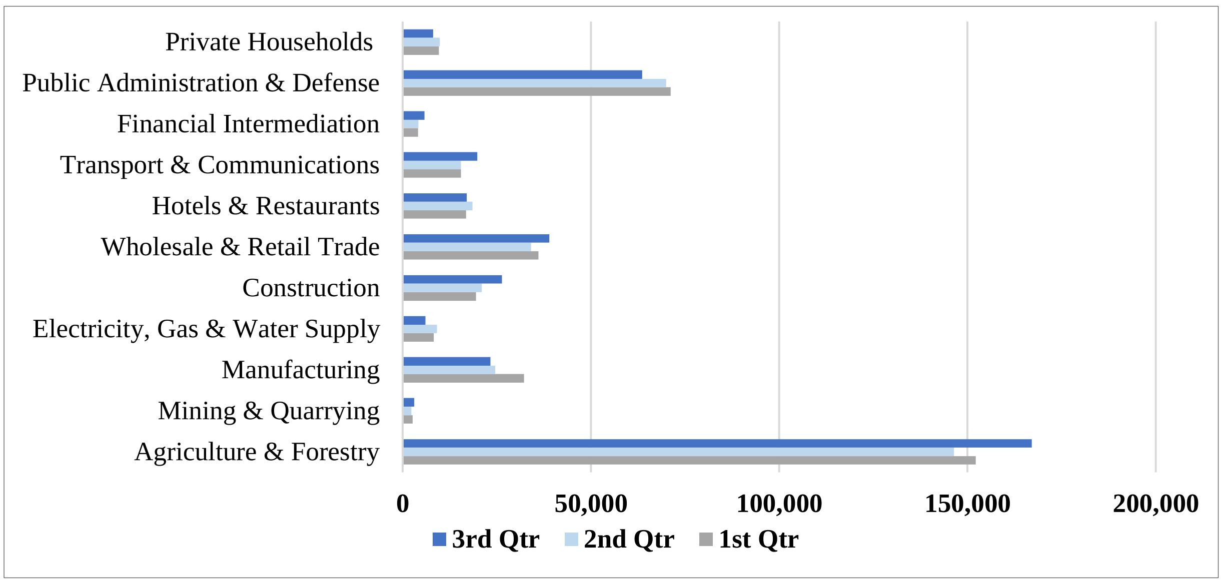


Figure 13: Quarterly Employment by Sector

In the last quarter update, the unemployment rate for 2024 was projected at 3.9% based on the average of the first two quarters. However, with the inclusion of data from the third quarter, the projection has been revised to 3.6% for the year. The unemployment rate for the current quarter stands at 3.1% bringing the overall unemployment rate at 3.6%. The unemployment rate has decreased by 0.6 percentage points from 3.7% to 3.1%. Unemployment is higher among females (4.2%) than males (2.4%) and is more prevalent in urban areas (5.1%) compared to rural areas (2.1%).

According to the 1st quarter update of FY 2024-25, the overall unemployment rate for 2024 is estimated at around 3.6%. With the start of plan period and significant government investment, unemployment is expected to decrease over the years.

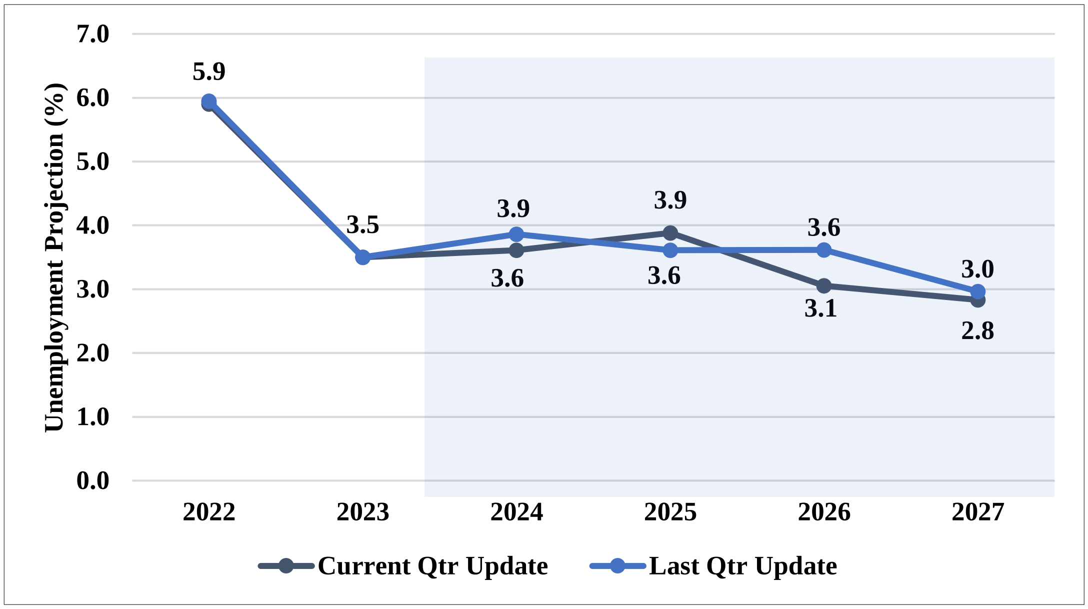


Figure 14: Unemployment rate and projection

The total youth unemployment rate has dropped by 2.7 percentage-points from the previous quarter from 19.2% to 16.5%. The youth unemployment rate is higher for females (21.8%) than males (11.9%). Additionally, youth unemployment is primarily an urban issue, with a rate of 20.1% in urban areas versus 13.8% in rural areas.

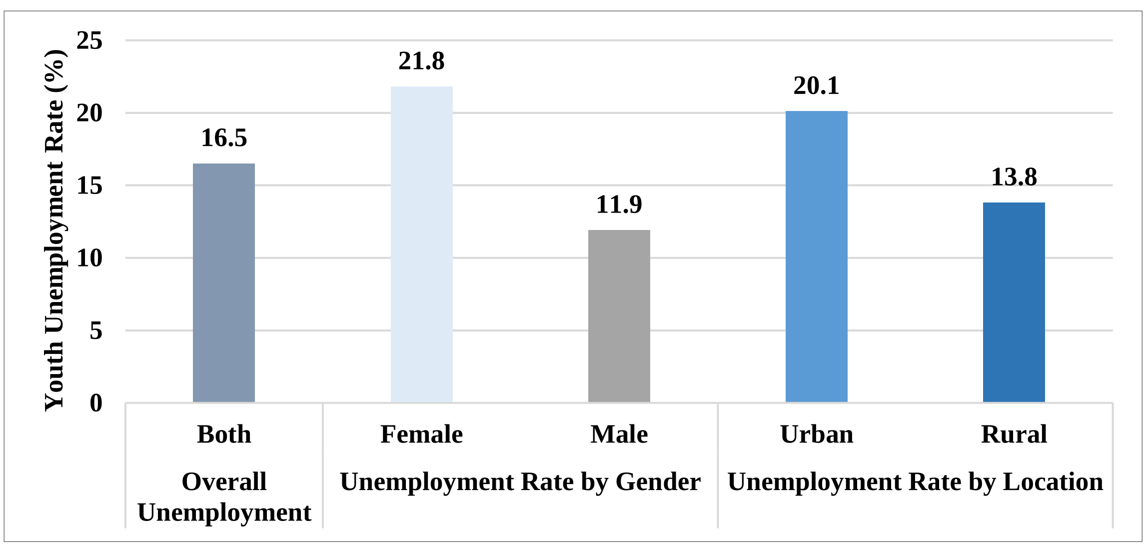


Figure 15: Youth unemployment rate

5. CONCLUSION

The 1st quarter of FY 2024-25 presents a mixed economic situation and outlook for Bhutan, characterized by both challenges and opportunities. The GDP growth projection has been revised downward to 4.97%, primarily due to delays in the commissioning of the PHPA-II hydropower project and lower-than-expected tourist arrivals. Despite these setbacks, the economy is gradually returning to a stable growth path, albite lower than the long-term average growth rate for Bhutan.

Inflation is projected to remain modest at 3.1% in 2024, reducing the pressure on the external balance as a result of pegged exchange rate regime. However, the current account deficit remains a concern, standing at 19.9% of GDP. This deficit reflects Bhutan's continued reliance on imports for essential commodities as well as capital goods, while exports are limited to hydropower. As a result, the international reserves accumulation is driven mainly by budgetary operation rather than the strength of economic activity.

The labor market shows signs of improvement, with the overall unemployment rate falling to 3.6%, yet youth unemployment remains still high at 16.5%. This indicates that the structural challenges still plague the economy which yearns for targeted interventions and improved efficiency of resources within the economy including government spending. The implementation of various programs under the 13th FYP and the economic stimulus program is expected to address these issues, though their effectiveness will depend on proper execution.

Against such economic realities, fiscal development reveals a challenging landscape. The fiscal deficit is projected to deteriorate to 5.43% of GDP, resulting in increase in public debt. Despite the adoption of expansionary fiscal policies, the agriculture, manufacturing and tourism sector, which are the bed rock of Bhutanese economy remains unproductive. Tourism sector, which has the ability to address most issues faced in the economy in the short-term, is unable to attract tourists at a desired level due to which the target has been revised downwards. With delay in commissioning of PHPA-II and slow recovery of tourism sector, the fiscal position is likely to worsen if such events continue at current rate. Further, with decline in real wage growth for public administration, there can be further pressure to increase it resulting in further deterioration of fiscal position.

Overall, Bhutan's economy is expected to grow at an average annual rate of 7.0% in the medium term, slightly below the 8% target for the 13th FYP. Achieving the vision of a high-income economy will require improving the efficacy of fiscal spending, boosting productivity in agriculture, and diversifying the economy beyond hydropower and tourism. The recovery of tourism industry to pre-pandemic level is particularly critical, as it will stimulate consumption demand for goods and services produced within the economy, especially by agriculture and manufacturing sector. This recovery is essential for aligning economic growth with desired targets and ensuring that households are not left behind in reaping the benefits of growth. In conclusion, the current quarter update highlights significant economic challenges. Addressing these challenges will require effective policy implementation, strategic investments, and prudent fiscal management to achieve long-term stability and prosperity.

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Annexures:

Annexure 1: Quarterly Fiscal Framework for FY 2023-24 (Nu in million)

Sl. No.	Particulars	FY 2023-24				Total
		Q1	Q2	Q3	Q4	
A	**Total Resources**	**17,358.10**	**12,162.99**	**14,630.86**	**26,043.24**	**70,195.19**
1	**Internal Resources**	**15,802.60**	**10,213.85**	**13,014.92**	**20,548.25**	**59,579.62**
i	**Domestic Revenue**	**14,848.42**	**9,495.05**	**12,338.99**	**19,331.99**	**56,014.46**
a	Tax	7,482.13	6,818.52	9,653.60	11,083.48	35,037.73
b	Non-tax	7,366.29	2,676.53	2,685.39	8,248.51	20,976.73
	o/w interest receipts	*1,240.23*	*301.19*	*1,164.17*	*314.98*	*3,020.57*
ii	***Other receipts (including internal grants)***	***954.17***	***718.80***	***675.93***	***1,216.26***	***3,565.17***
2	**External Grants**	**1,555.50**	**1,949.14**	**1,615.93**	**5,494.99**	**10,615.57**
i	GoI	789.01	1,012.85	764.87	4,206.52	6,773.26
ii	Others	766.50	936.28	851.06	1,288.47	3,842.31
B	**Total Expenditure/ Outlay**	12,505.76	14,794.15	18,319.78	24,603.31	**70,223.00**
1	Current	9,576.90	10,153.62	11,464.88	12,229.21	43,424.60
i	Primary Current (Regular)	7,983.16	9,298.69	9,932.46	11,087.42	38,301.73
ii	Interest payments	1,593.74	854.93	1,532.42	1,141.79	5,122.88
2	Capital	2,928.86	4,640.53	6,854.90	12,374.10	26,798.40
3	Advance/Suspense (Net)		201.70	201.70		403.40
C	**Fiscal Balance**	**4,852.34**	**(2,832.86)**	**(3,890.62)**	**1,439.94**	**(431.20)**