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Ministry of Finance
Royal Government of Bhutan

Strong Momentum in 2025, Moderation Ahead: Bhutan's Economic Outlook Second Quarter Update, FY 2025-26

Reflecting on Bhutan's economic performance in 2025, growth is estimated at 8.7% reflecting the strong momentum supported by key sectors, alongside renewed community engagements as a result of major events such as the Global Peace Prayer Festival and GMC Volunteer Engagements. Growth is expected to moderate to around 6.9% in 2026, reflecting a return to a more sustainable pace.

Key Drivers of Growth

- *Tourism*: Bhutan welcomed 181,516 tourists in 2025, a 25.4% increase from 2024. International arrivals out performed pre-pandemic levels, while Indian tourists arrivals are expected to rebound steadily.
- *Electricity*: Power generation increased by 36.2% as a result of Punatsangchu-II, improving electricity earnings by more than 24.4%, alongside better hydrology.
- *Construction*: Major hydropower projects and government investment in key infrastructure supported strong growth (13.3%), alongside increased private sector construction.
- *Employment*: Unemployment improved marginally in 2025; though youth unemployment remains a challenge due to mismatches between job openings and youth employment preferences.

Government/Fiscal Position

- *Revenue*: Nu. 78.9 billion expected in FY 2025-26, supported by higher profit transfers from the PHPA-II, Royal Monetary Authority, and the receipt of deferred dividends from SOEs.
- *Expenditure*: Nu. 122.1 billion projected due to higher education stipends, increased transfers to local governments, and heavy capital investment.
- *Deficit*: 3.23% of GDP as a result of improved revenue mobilization despite increases in the expenditure outlay.
- *Debt*: Projected at 110.5% of GDP, owing to hydropower projects which are self-liquidating.

Monetary & Financial Sector

- *Inflation*: Inflation for the year remained stable at 3.5%.
- *Credit*: Bhutan's monetary sector marked 15% credit growth in 2025 as a result of easing in administrative restrictions, supporting economic activity.

External Sector



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- *Trade*: Continued momentum in investment and construction widened the trade deficit by 19.5%, with benefits expected to materialize in the long-term.
- *Currency Depreciation*: The Bhutanese Ngultrum, pegged to the Indian Rupee, experienced sharp currency depreciation against the U.S, driving the import cost higher. Pressures are expected to ease as the US-India negotiations make progress.
- *Reserves*: Foreign reserves to reach USD 1.32 billion, covering 34 months of essential imports. Therefore, growth in exports remains critical for resilience.

Outlook

Growth will moderate to 6.8% in 2026 after the spike in 2025, as electricity growth normalizes and major government investment, including hydropower, are absorbed at a steady pace. Tourist arrivals are projected to grow by 28%, supported by rising investment in tourism. Strong overall demand is projected, but improving supply-side capacity and productivity key sectors will be essential in order to achieve the diamond strategy.

The new Income Tax Regime is expected to increase take-home pay, helping to ease the impact on households as prices face pressures with the introduction of GST, which will be monitored closely.

For detailed information, please visit www.mof.gov.bt for the [Macroeconomic Situation Report | Ministry of Finance, Royal Government of Bhutan](#)