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Ministry of Finance
Royal Government of Bhutan

Managing Global Shocks: Bhutan’s Economic Outlook Third Quarter Update, FY 2025-26

Growth in 2026 is expected to moderate to 6.31% as a result of global tensions, supply chain disruptions, slow hydropower construction capacity and increased costs. Growth is expected to strengthen in 2027, accelerating to 7.61% as hydropower and investment effects materialize.

Key Drivers of Growth

- *Tourism:* Arrivals in the first quarter of 2026 remain strong, bringing total arrival for FY 2025-26 to 154,956 visitors, an increase of 56.89% as compared to the same period in FY 2024-25. However, near-term growth is expected to soften due to global uncertainties.

- *Electricity:* Power generation stays on course, with higher energy consumption as industries come online.

- *Consumption and investment*: on the demand side the growth is expected to be driven by higher investments and consumption.

- *Employment:* Unemployment remains low at 3.4%, reflecting stable labor market conditions in spite of persistent high youth unemployment.

Government/Fiscal Position

- *Revenue:* The total revenue for FY 2026-27 is estimated to be Nu. 110,280.52 million, as compared to 109,287.80, of which the tax revenue is estimated to be Nu. 42,253 million. The increase in revenue is mainly on account of higher mobilization of grants.

  The income tax revision, particularly for PIT and BIT, is expected to reduce government revenue by about Nu. 3 billion (If CIT is included, then the total revenue forgone due to Income tax revision is about Nu. 9 billion in Total). On the other hand, it will boost household disposable income and consumption, therefore eliminating the income effect caused by GST introduction through increased prices. For example, for a P1-level civil servant, the net take-home pay increased by at least Nu. 42,500 per annum. Similarly, for P4/SS3-level civil servants, the net take-home pay increased by a minimum of Nu. 21,936 per annum. Overall, the increase in net take-home pay caused by the income tax revision is about 5% on average.

- *Deficit:* 2.52% of GDP supported by stronger resource mobilization from institutions such as the ADB and World Bank, reflecting investments in core sectors like agriculture and energy despite sustained spending.

- *Debt:* The public debt is expected to remain elevated at 107.8% of GDP in FY 2025-26, largely driven by expected disbursement from external borrowing for hydropower and infrastructure development. However, at the end of 31 March 2026, the total public debt stock stood at Nu.

306,323.205 million representing approximately 90.6% of the estimated GDP. Total disbursement during the quarter amounted to Nu. 6,213.11 million, while the total repayment during the quarter amounted to Nu. 2,232.07 million.

Monetary & Financial Sector

- *Inflation:* Inflation rose to around 5.6–5.75% in early 2026, following GST implementation and higher food prices. Inflation is expected to remain elevated at 6–7% as a result of increased fuel prices. Fuel prices pressures are being cushioned through the *National Fuel Price Smoothening Framework,* with Nu. 1.22 billion disbursed as of 5th April. (Nu. 1.16 billion for diesel and Nu. 0.06 billion for petrol).
- *Credit:* Credit expanded to Nu. 286.19 billion in Q3, driven by lending to housing, tourism, manufacturing, and trade, signaling continued momentum in domestic economic activity.

External Sector

- *Trade:* The trade deficit (excluding electricity) narrowed in Q3, though the current account deficit widened to 20.09% of GDP due to higher imports and exchange rate pressures.
- *Currency Depreciation:* The Ngultrum, pegged to the Indian Rupee, depreciated by about 8% from around Nu. 88/USD in October 2025 to about Nu. 95/USD by March, 2026 due to external pressures amid global uncertainties.
- *Reserves:* International reserves strengthened to USD 1.15 billion as of February 2026 and are projected to rise to USD 1.50 billion in FY 2026–27, supported by external inflows.

Outlook

Bhutan's economic outlook remains positive despite near-term pressures. Growth is expected to stabilize as hydropower construction accelerates, external conditions ease, industries strengthen and investments deliver returns. However, rising activity will continue to strain the external sector given the economy's reliance on imports. Credit burden is expected to ease for hotels as RMA has announced the 4% Interest Subsidy under the Economic Stimulus Programme.

Policy focus remains on managing inflation, sustaining fiscal discipline, monitoring external conditions and supporting key growth sectors to safeguard macroeconomic stability while maintaining growth momentum.

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