

BHUTAN

Key conditions and challenges

Table 1 **2023**

Population, million	0.8
GDP, current US\$ billion	2.9
GDP per capita, current US\$	3717.8
International poverty rate (\$2.15) ^a	0.0
Lower middle-income poverty rate (\$3.65) ^a	0.5
Upper middle-income poverty rate (\$6.85) ^a	8.4
Gini index ^a	28.5
School enrollment, primary (% gross) ^b	103.8
Life expectancy at birth, years ^b	72.2
Total GHG emissions (mtCO2e)	-5.1

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2022), 2017 PPPs.

b/ Most recent WDI value (2022).

Economic growth rose to 5.3 percent in FY23/24 and is projected to increase further in the short to medium term due to the commissioning of new hydropower plants and recovery of the tourism sector. Fiscal performance improved with a series of consolidation measures. The current account deficit (CAD) is expected to improve with increased hydropower, non-hydropower (mining and forestry), and tourism exports and reduced cryptocurrency equipment imports. Despite significant progress, 19 percent of Bhutanese remain vulnerable to falling into poverty.

Bhutan's real GDP growth is driven by the public-led hydropower sector, resulting in growth spikes during the construction and completion of hydropower plants. However, the hydropower sector employs less than one percent of the labor force while the subsistence agriculture sector employs over 40 percent. High youth unemployment rate (19.2 percent in 2024) and limited labor opportunities, especially for skilled workers, increased emigration, with 9 percent of Bhutanese living abroad. Generous provision of public services and low tax revenue have led to persistent fiscal deficits. Major national investment in cryptocurrency mining has further pressured international reserves and worsened CAD since FY21/22, already strained by import reliance. The new government aims to transform its economy through the 13th Five-Year Plan (FYP) launched in July 2024 focusing on private sector development, job creation, infrastructure investments, and public sector reforms.

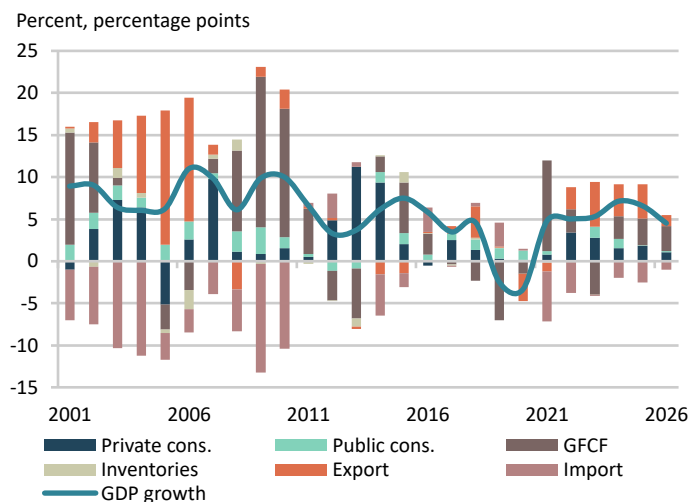
Economic growth contributed to poverty reduction during 2017-2022. Extreme poverty (\$2.15/day) was nearly eliminated, and those living below \$3.65/day and \$6.85/day dropped sharply. Remittances were crucial to improving welfare among recipient households. Without remittances, the poverty rate would be substantially higher with an estimated 24,000 more people (3 percent of Bhutanese) classified as

poor. Poverty reduction was more salient in rural areas. Non-monetary well-being dimensions such as education and sanitation also improved. However, vulnerability to climate shocks and spatial inequalities persist, with the poverty rate ranging from 1.5 percent in Thimphu to 41 percent in Zhemgang. As measured by the Gini index, monetary inequality improved from 37 to 28, yet spatial disparities persist. Downside risks to the economic outlook persist. Domestic risks include delays in hydropower projects, which affect growth, and fiscal and external balances. Delayed fiscal consolidation and materialization of financial sector contingent liabilities could further erode fiscal buffers. External risks include rising and volatile commodity prices due to geopolitical tensions, natural disasters, and climate-related hazards, which could impact livelihoods and infrastructure development. Continued emigration of skilled labor continues to weigh on the economy and is likely to have a negative effect in the medium term.

Recent developments

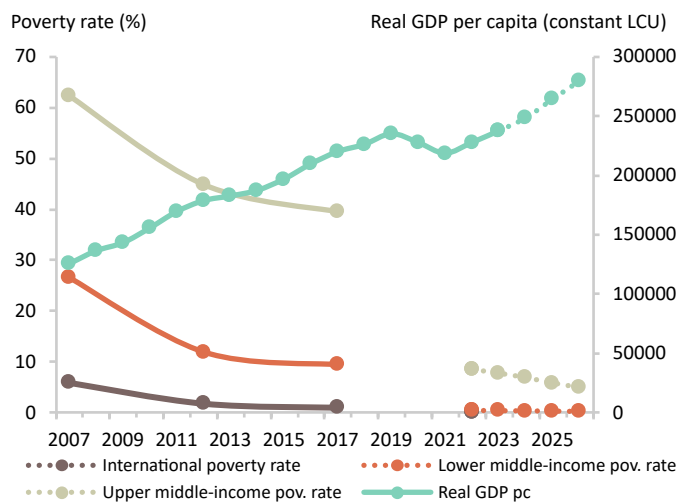
Real GDP grew by 5.3 percent in FY23/24 (July 2023 to June 2024), supported by the recovery of the tourism sector and growth of the non-hydropower industry (base metals and ferro-silicon). The agriculture sector returned to the pre-pandemic growth rate of 3.4 percent after stagnating in previous years. Industry growth stalled at 0.2 percent, due to contraction in the hydropower and construction sectors,

FIGURE 1 Bhutan / Real GDP growth and contributions to real GDP growth



Sources: National Account Statistics and National Statistics Bureau (NSB).

FIGURE 2 Bhutan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2

accounting for 72 percent of the industry sector, despite strong growth in mining and quarrying. The services sector grew by a robust 8.7 percent, led by tourism-related services. Demand side growth was driven by non-hydropower exports and consumption. Headline inflation decelerated from 4.6 to 4.3 percent, due to lower food and non-food inflation.

The fiscal deficit narrowed by 3.9 percentage points in FY23/24 to 0.8 percent of GDP, driven by improved domestic revenue and reduced capital expenditures despite major increase in public sector wages. Current expenditures increased due to a major salary hike for public servants ranging from 55 to 74 percent, aimed at curbing the high attrition rate of public servants. Capital expenditure remained low in FY23/24, as most of the capital spending of the 12th FYP was frontloaded in FY20/21 to support pandemic recovery.

The CAD remains elevated at 22.7 percent of GDP in FY23/24, albeit significantly narrowed from a peak of 34 percent in the previous year despite lower hydropower exports, due to a reduction in cryptocurrency mining related IT imports and continued recovery of the tourism sector. Hydropower exports declined, despite the commissioning of the Nikachhu hydropower plant, due to increased domestic consumption, reflecting the higher electricity needs

for energy-intensive cryptocurrency mining operations. Gross international reserves increased modestly to US\$624 million in June 2024 (4.7 months of imports).

Outlook

Real GDP growth is projected to rise to 7.2 percent in FY24/25, led by commissioning of Puna-II hydropower plant and growth in the non-hydropower industry and tourism sectors. On the demand side, growth is supported by non-hydropower exports and 13th FYP-related public investments. Medium-term growth will be driven by robust electricity production, construction, and services sectors on the supply side and growth of exports and public investment on the demand side. The lifting of housing construction loans moratorium and launching of the collateral-free concessional credit line in FY24/25 is expected to boost investments and growth.

Poverty reduction is expected to continue, with the \$6.85/day poverty rate falling to 5.9 percent in FY24/25 and 5.0 percent in FY25/26. However, a substantial share of the population (19 percent of the total population or 200,000) remains vulnerable to poverty due to climate change hazards, with nearly half of the poor exposed to

landslides (forthcoming Bhutan Poverty and Equity Assessment, 2024).

The fiscal deficit is expected to widen before improving in the medium term with consolidation and rising revenues. The fiscal deficit is projected to increase to 4.4 percent in FY24/25, driven by increase in capital expenditure for the 13th FYP. Goods and Services Tax implementation and one-off profit transfers from commissioning of Puna II in FY25/26, along with BTN 100 billion (US\$1.2 billion) grant from the Indian government will boost revenue. Primary non-wage recurrent expenditure is expected to moderate. Public debt will remain elevated, rising to 122 percent of GDP in FY25/26 but considered sustainable as most of it is linked to hydropower loans. However, rising debt service may limit the fiscal space for social spending.

The CAD is projected to decline to 17.5 and 9.3 percent of GDP in FY24/25 and FY25/26, before moderating further in the medium term. This is driven by continued reduction of cryptocurrency and hydropower plants construction related imports. Export is projected to grow with higher hydropower exports from the commissioning of Puna-II, increased non-hydropower (mining and timber), and tourism exports. As a result, international reserves are projected to increase to US\$717 million in FY24/25 (5.1 months of import coverage).

TABLE 2 Bhutan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	-3.3	4.8	5.0	5.3	7.2	6.6
Private consumption	0.3	1.5	6.9	5.6	3.1	3.7
Government consumption	5.4	1.9	-0.5	6.4	5.2	0.3
Gross fixed capital investment	-3.4	25.4	5.6	-7.6	5.9	7.3
Exports, goods and services	-10.4	-3.6	9.8	19.1	12.0	12.3
Imports, goods and services	-0.5	13.2	7.5	0.2	4.0	5.5
Real GDP growth, at constant factor prices	-2.3	4.9	4.8	5.2	7.2	6.6
Agriculture	2.7	0.1	0.1	3.4	5.3	5.0
Industry	-5.9	4.8	2.7	0.2	10.1	12.9
Services	-1.2	6.3	7.4	8.7	6.1	3.3
Inflation (consumer price index)	8.2	5.9	4.6	4.3	1.1	4.0
Current account balance (% of GDP)	-11.1	-28.1	-34.0	-22.7	-17.5	-9.3
Fiscal balance (% of GDP)	-5.8	-7.0	-4.7	-0.8	-4.4	-2.5
Revenues (% of GDP)	30.9	25.1	25.3	26.4	26.5	29.6
Debt (% of GDP)	123.3	118.8	116.1	110.7	104.8	121.6
Primary balance (% of GDP)	-4.8	-5.6	-3.0	1.1	-2.4	0.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	..	0.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	..	0.5	0.4	0.3	0.3	0.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	..	8.4	7.7	6.9	5.9	5.0
GHG emissions growth (mtCO₂e)	0.1	-1.7	-1.8	-1.6	-1.6	-1.5
Energy related GHG emissions (% of total)	-14.3	-15.6	-17.0	-18.3	-19.5	-20.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.