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Bhutan—Recent Economic Developments

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INTERNATIONAL MONETARY FUND

BHUTAN

Recent Economic Developments

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Approved by the Central Asia Department

September 27, 1994

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Bhutan: Basic Data 1/

Population (1993): 0.65 million 2/
Area ('000 sq. km.): 46.5
GDP (1993): US\$253 million
GDP per capita (1993): US\$390 2/

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
<u>GDP and prices (percent change)</u>					
Real GDP	5.7	5.1	3.6	4.5	5.1
Consumer prices	10.7	11.3	16.0	13.6	9.7
<u>Government budget (in percent of GDP)</u>					
Revenue and grants	31.4	33.4	32.4	36.1	44.0
Domestic revenue	20.2	19.0	19.0	21.9	20.3
Foreign grants	11.2	14.4	13.3	14.2	23.7
Total expenditure	39.7	34.3	37.0	35.0	43.3
Current expenditure	22.8	20.6	19.5	17.8	20.7
Capital expenditure and net lending	16.9	13.6	17.5	17.2	22.6
Current surplus/deficit (-)	-2.6	-1.7	-0.4	4.1	-0.4
Overall surplus/deficit (-)	-8.3	-0.9	-4.6	1.1	0.7
Foreign financing	1.2	1.0	1.9	0.2	1.2
Domestic financing	7.1	-0.1	2.7	-1.3	-1.9
<u>Money and credit (percent change; end of period)</u>					
Net credit to government	66.4	-135.6	83.1	-278.9	-63.0
Net credit to private sector	80.3	8.4	39.2	32.3	-13.6
Broad money	18.1	21.5	14.8	16.2	21.5
Reserve money	120.7	43.5	24.3	-1.2	-3.3
Interest rate on one-year deposits (in percent)	9.0	9.0	9.0	10.0	10.0
<u>Balance of payments (\$ mn.)</u>					
Exports, f.o.b.	66.7	69.8	63.1	66.2	66.8
To India	(58.1)	(60.3)	(56.7)	(54.8)	(58.2)
Imports, c.i.f.	-95.1	-81.4	-83.1	-125.0 3/	-97.6
From India	(-77.7)	(-66.9)	(-70.2)	(-75.1)	(-77.1)
Current account balance	-30.9	-19.8	-26.9	-72.1 3/	-47.3
With India	(-24.5)	(-15.4)	(-21.9)	(-32.7)	(-32.6)
Capital account balance 4/	24.9	34.3	48.8	84.0	59.3
With India	(0.5)	(3.5)	(14.2)	(30.3)	(33.6)
Overall balance	-6.0	14.5	21.8	11.9	12.0
With India	(-24.0)	(-11.8)	(-7.6)	(-2.4)	(1.0)
<u>Balance of payments (in percent of GDP)</u>					
Exports of goods	24.2	25.0	27.5	26.9	27.0
Imports of goods	34.5	29.1	36.2	50.9	39.4
Current account balance	-11.2	-7.1	-11.7	-29.4	-19.1
India	-8.9	-5.5	-9.5	-13.3	-13.2
Third countries	-2.3	-1.6	-2.2	-16.0	-5.9
<u>Reserves and external debt (\$ mn.)</u>					
Gross official reserves (end of period)	89.0	90.5	99.7	94.5	106.5
(In months of imports) 5/	11.2	13.3	14.4	13.0	13.1
Convertible currency debt (end of period)	74.8	76.7	78.8	85.9	86.1
Total debt service ratio (in percent)	7.4	6.7	6.3	17.4	20.6
<u>Use of Fund resources</u>					
Fund holdings of currency (as of July 31, 1994)	Bhutan has not used Fund resources to date				
(Percent of quota)	SDR 3.9 million (87.3)				
<u>Exchange rate</u>					
Exchange rate regime	Single currency peg				
Exchange rate (period average) Nu/US\$	17.0	18.7	25.9	27.8	31.4
Nominal effective exchange rate index (percent change) 6/	-1.7	-14.3	-31.3	-9.1	0.5
Quota (SDR mn.)	4.5				

Sources: Data provided by the Bhutanese authorities; and staff estimates and projections.

1/ Data are for July-June fiscal years, unless otherwise indicated.

2/ Official estimates.

3/ Includes \$23.2 million for purchase of a second aircraft and US\$17 million for imports of ferrosilicon equipment.

4/ Includes errors and omissions.

5/ Excluding purchase of the second aircraft and ferrosilicon equipment in 1992/93.

6/ Excluding India.

I. Introduction

This paper updates recent macroeconomic developments in Bhutan. A detailed discussion of the evolution of the Bhutanese economy, together with its structure and institutions, is contained in the background paper for the 1993 Article IV consultation (SM/93/220, 10/6/93). A comprehensive analysis of economic and financial performance continues to be hampered by the inadequate statistical data base--in terms of both timeliness and coverage. The most serious deficiencies relate to the national accounts and real sector statistics.

Based on preliminary data, economic developments during the past year appear to have remained generally satisfactory. Output is estimated to have risen by more than 5 percent in 1993, reflecting in part the moderation of civil disturbances in the south of the country. Much of the impetus to growth came from expansion in the services and manufacturing sectors. Agriculture and forestry production increased by about 4 percent, notwithstanding disruptions to rice production in certain regions and a poor tree crop harvest. The sluggishness in the housing sector--compounded by tight credit conditions--limited the growth in construction activity to about 3 percent. Inflation declined to around 10 percent, largely reflecting price developments in India. ^{1/} However, price levels remain significantly above those in neighboring countries, owing mainly to high transport costs. The authorities are currently updating the basket underlying the official consumer price index, and expect to complete the process in late 1994.

Domestic financial policies have remained relatively prudent. The more restrained fiscal policy enabled the Government to build further sizable deposits with the banking system, while continued large inflows of concessional aid helped maintain international reserves at a very comfortable level. Section II of the paper discusses the fiscal outcome in 1993/94 (July-June) and the main elements of the authorities' budget proposals for 1994/95. Section III assesses recent monetary and credit developments, as well as the major initiatives recently adopted by the authorities in the area of financial sector reform. Section IV analyzes balance of payments developments in 1993/94 and recent changes in the exchange and trade system. A more detailed discussion of financial sector reform in Bhutan is contained in the Annex to the report.

II. Public Finance

Budgetary developments in 1993/94 underscore the challenges to fiscal policy highlighted in earlier reports: a relatively inelastic revenue base; pressures on expenditure stemming from Bhutan's rugged terrain and extensive development needs; and difficulties in monitoring developments on a timely

^{1/} The Bhutanese ngultrum is pegged to the Indian rupee.

basis to enable appropriate policy adjustments. These elements have again helped to shape the authorities' budget proposals for 1994/95.

1. Developments in 1993/94

The 1993/94 budget envisaged the virtual elimination of the surplus on the Government's current operations, owing to a projected decline in domestic revenue of 2 1/2 percentage points of GDP and a resumption in the growth of current expenditures. Nevertheless, with the massive increase in projected foreign grants, the overall fiscal surplus was budgeted to increase further to over 1 1/2 percent of GDP.

Preliminary data indicate that domestic revenue performance was somewhat better than budgeted in 1993/94, mainly as a result of higher nontax revenue. Improved cost recovery by government departments, together with additional proceeds from dividends and royalties, offset the sizable decline in public enterprise transfers that resulted from the earlier privatization of the most profitable units. The favorable tax revenue performance reflected increased receipts from taxes on income and profits and strengthened customs duty collections. Overall, total domestic revenue remained at about one fifth of GDP, in line with collections in the previous five years.

Current expenditure rose sharply in 1993/94, relative to both the 1992/93 outcome and the authorities' budget target. Debt service payments to India for the Chukha hydroelectric plant accounted for most of the marked rise in interest expenditure. Subsidies to Druk Air Corporation also increased as amortization of the loan for the second airplane began. Increased staffing (by about 300 persons, or 3 percent) contributed to a modest rise in the wage bill. However, average salaries remained significantly lower in real terms than during the late 1980s, when a wage freeze was first implemented. Expenditure on operations and maintenance increased markedly following the sustained compression of earlier years. Capital spending also rose sharply in 1993/94, mainly on account of large additional investments in education, health, and power. There were also modest increases in spending on animal husbandry, forestry and mining.

As a result of these expenditure pressures, the balance on the Government's current operations shifted from a surplus of around 4 percent of GDP in 1992/93 to a small deficit in 1993/94; however, the overall fiscal surplus fell only marginally to about 3/4 percent of GDP. With the higher-than-anticipated foreign financing, the Government was able to further increase its deposits with the banking system, which were kept mainly in the form of a "contingency reserve fund" with the Bank of Bhutan.

2. The budget for 1994/95

The 1994/95 budget seeks to contain pressures on current spending, while undertaking massive new investments in power, telecommunications and human resource development. However, given the continued constraints to

revenue growth, the authorities' goal of covering all current spending through domestic revenue will not be realized during the coming year.

The principal revenue initiative in 1994/95 is a reform of the duty structure applicable to third-country imports. The new tariff schedule, presently under consideration by the authorities, is expected to generate an estimated Nu 100 million in additional revenue (about 1 percent of GDP) on a full-year basis. In addition, the authorities are taking steps to further improve tax administration and compliance, with technical assistance from the Danish Government. Due to the limited absorptive capacity of the private sector--at both the managerial and financial levels--significant further proceeds from sales of shares in public enterprises are unlikely to be realized in the near term. Moreover, the privatization program has not yet contributed to a significant rise in business tax collections, as many firms are highly leveraged.

Considerable efforts over the past several years to strengthen tax enforcement and broaden the revenue base have helped to raise tax receipts by about 2 percentage points of GDP. Nevertheless, the tax-to-GDP ratio (at less than 7 percent) is low in comparison with other countries at similar income levels, and the tax base remains relatively inelastic. To remedy this situation, the authorities are continuing to explore alternative means of taxing personal income, including through presumptive taxes and indirect levies on agricultural income.

The 1994/95 budget envisages a substantial rise in the wage bill (by about Nu 150 million, or 1 3/4 percent of GDP). With this first general increase since 1988, nominal wages of civil service employees will rise by an average of 30 percent. The adjustment will compensate for about half of the erosion of real wages that has occurred during the past six years. To alleviate the impact of the wage increase on the overall fiscal position, the budget seeks to trim other current expenditures by some 10 percent in real terms. However, spending pressures are expected to intensify, given the increasing recurrent costs associated with new public sector investments in health and education, and the provision of about 3 1/2 percent of total current expenditure for subsidies to Druk Air Corporation.

Capital expenditure is budgeted to rise by nearly 70 percent in 1994/95, reflecting substantial new investments in hydroelectric power generation, cement production, and infrastructure for health and education. These investments increasingly are geared toward developing the managerial and technical capacity of Bhutan's private sector, in line with the authorities' ultimate goal of transferring all commercial public enterprises to private ownership. About 5 percent of total capital expenditure will be met through domestic resources provided by the Bhutanese Government, with the rest funded by external assistance. These domestic commitments (amounting to about 1 3/4 percent of GDP), together with the current fiscal deficit, will be financed through a drawdown of the Government's sizable deposits with the banking system.

Monitoring fiscal developments in Bhutan is hampered by the lack of timely and accurate data. Revenues are reported only at the end of the fiscal year, and typically there are major inconsistencies between the figures compiled by the Department of Revenue and Customs (DRC) and the National Budget and Accounts (NBA). Reliable estimates of capital spending are not available until close to the end of the following fiscal year, due mainly to delayed reporting of in-kind assistance by donor agencies. These lags result in large ex-post adjustments to spending figures, as occurred in 1992/93. The presence of extrabudgetary accounts complicates the measurement of the fiscal deficit from the financing side; occasionally, large discrepancies have arisen between the monetary authorities' estimates of bank credit to government and those reported in the budget.

These deficiencies impede the authorities' ability to adjust fiscal policy promptly in light of macroeconomic developments. They also hamper coordination between the government and the RMA for the purposes of public debt and monetary management. The ongoing efforts to improve data reporting and reconciliation, and to strengthen policy coordination, are aimed at facilitating the conduct of open market operations and the development of a market for government securities.

III. Money and Credit

The strong growth of hard currency reserves over the past several years has contributed to a rapid expansion in broad money; this increase in liquidity enabled the banking system to significantly expand credit to the private sector (most of the increase in credit to public enterprises was accounted for by one loan to Druk Air Corporation). However, the number of commercially viable projects is limited by the absorptive capacity of Bhutan's nascent private sector. As a result, the Bank of Bhutan's (BOB) excess reserves with the RMA rose steadily, reaching the equivalent of 100 percent of total deposits in 1992 and 1993. Moreover, the BOB and other financial institutions have experienced increasing difficulties with loan recovery, which has contributed to a decline in profitability. In response, the authorities have taken a number of steps over the past year to improve monetary management and to strengthen the portfolios of financial institutions.

In March 1994, responsibility for the management of Bhutan's foreign exchange reserves was consolidated under the central bank. The transfer of the BOB's rupee liabilities to the RMA resulted in a sharp (but temporary) decline in its excess reserves (to about 20 percent of deposits) and in the stock of reserve money. Roughly two thirds of the outstanding balances under the two rupee lines of credit--from the State Bank of India and the Government of India--was repaid in 1993/94 through the sale of hard currency reserves.

As part of its program to develop indirect instruments of monetary control, the RMA launched in late 1993 the first auction of discounted RMA

bills using a uniform, fixed-price method. The first few auctions--of one-month bills--were designed to help participants become acquainted with auction procedures and allow the RMA to gauge their liquidity needs. In April 1994, 91-day bills were introduced, and by June the one-month bills were phased out. Discount rates on the three-month securities averaged 8 1/2 percent in the first five auctions. The outstanding stock of RMA bills was Nu 450 million at end-August 1994, or about one quarter of the broad money supply. Virtually all of these securities are held by the Bank of Bhutan.

Despite the auctions, monetary aggregates have continued to grow rapidly. Owing to the high cost of the rupee overdraft facilities, the RMA could not fully absorb the monetary overhang through its bills auctions. By end-June 1994, the BOB's excess reserves had again reached the equivalent of half of its deposit base. Since it no longer earns interest on those funds --previously remunerated at 5 percent--the BOB has sought to increase its holdings of RMA bills, thereby helping to drive the discount rate in the August auction down to a low of 7 1/2 percent.

On August 22, 1994, the authorities announced adjustments to deposit and lending rates which helped to lower the overall structure of rates and widen slightly the interest spread. In addition, the RMA has undertaken an assessment of interest rate policies with a view to eliminating administered rates in conjunction with the development of a market for government and RMA securities--the latter with technical assistance from the Fund.

To strengthen financial institutions' portfolios and to ensure that financial intermediation is conducted on a sound and competitive basis, in January 1994 the authorities adopted new income recognition and provisioning norms. Henceforth, interest earnings may be classified as income only when realized; capitalized income from nonperforming assets must be matched by a credit entry in an "interest-suspense" account. Assets are now considered nonperforming when payments are past due by 180 days or more. Provisions against nonperforming assets rise gradually from 5 percent of the outstanding balance after six months to 100 percent after 36 months. The guidelines also specify: a minimum capital adequacy ratio of 6 percent of total assets; new procedures for recognizing and handling overdues; strict conditions for the rescheduling of loans; and revised limits on loan size and concentration.

As a result of the new prudential norms, as well as sluggish conditions in certain parts of industry, credit to the private sector declined by about 14 percent in 1993/94. Credit to public enterprises also fell, reflecting the beginning of repayments by Druk Air Corporation to the Bank of Bhutan. The contraction of credit to public enterprises was reinforced by the rise in government deposits, leading to a decline in total domestic credit of 22 percent in 1993/94. Nevertheless, broad money grew by over 21 percent, reflecting entirely the continued increase in net foreign assets.

The rapid growth of monetary aggregates, in a context of relatively low inflation and a strong balance of payments, suggests that money demand has increased significantly over the past decade (Charts 1 and 2). While econometric estimates are not readily available, the decline in velocity suggests a high income elasticity of money demand, a natural outcome of the process of financial deepening under way in Bhutan. In recent years, quasi-money has grown especially rapidly, probably in response to the increased attractiveness of longer-term savings instruments.

IV. External Sector

Balance of payments developments continue to be dominated by Bhutan's close economic ties with India. However, trade with third countries has been growing in recent years, partly owing to a policy of export diversification by the Government. At the same time, the share of third countries in external aid has risen markedly, while assistance from India has declined, especially since completion of the Chukha hydroelectric project. The overall balance has remained comfortable, enabling the authorities to further build up hard currency reserves.

1. Balance of payments

The balance of payments remained generally favorable in 1993/94, reflecting largely a significant contraction in the merchandise trade deficit. This improvement was due almost entirely to a sharp decline in imports from third countries, following the purchase of a second aircraft in 1992/93. Nevertheless, imports remained above their long-term trend level owing to continued purchases of equipment relating to the telecommunications and ferrosilicon projects. While exports to India benefitted from the sizable adjustment in the price of hydroelectricity, exports to Bangladesh (mainly oranges and apples) were adversely affected by unfavorable weather conditions. The widening of the deficit on the services account reflected the beginning of debt service payments relating to the Chukha project and the high cost of servicing the short-term lines of credit obtained from India. Nevertheless, the external current account deficit declined sharply to 19 percent of GDP (from 29 percent in 1992/93), with the entire improvement resulting from the more favorable trade position vis-a-vis third countries.

Despite the small decline in foreign aid as a share of GDP (to about 25 percent)--reflecting the conclusion of some major projects--the capital account surplus remained comfortable. As a result, the overall balance of payments registered a surplus of US\$12 million (equivalent to 4 1/2 percent of GDP), sufficient to ensure that gross international reserves remain at 13 months of import cover at end-June 1994. The external debt service ratio, however, continued to rise--to more than 20 percent in 1993/94--as obligations became due on the Chukha project and the short-term rupee lines of credit added to the interest burden.

CHART 1
BHUTAN
MONETARY AGGREGATES, 1983-1993 1/
(In percent of GDP)

Source: Data provided by the Bhutanese authorities.

1/ The sharp rise in velocity in 1986-87 can be attributed to the increase in output following the construction of the Chukha Hydroelectric Plant.

CHART 2
BHUTAN
COMPONENTS OF BROAD MONEY, 1983-1993
(In percent of GDP)

Source: Data provided by the Bhutanese authorities.

Bhutan's balance of payments statistics are characterized by large and unevenly distributed errors and omissions; these amounted to over 4 percent of GDP in 1992/93, but declined to negligible amounts in 1993/94. It is not clear whether these reflect inaccuracies in the reporting of current or capital account operations, especially as the open border with India makes it difficult to accurately record trade transactions. Further, with the dismantling of state-owned export houses, the transfer of responsibility for trade to the private sector is expected to lead initially to a further deterioration of trade data. The Government has made an effort to collect information directly from private companies, but the results so far have been mixed. Reconciliation between various sources of information for capital account transactions has also been difficult. Accordingly, the relatively low level of errors and omissions in 1993/94 (0.9 percent of GDP) should not necessarily be interpreted as resulting from an improvement in data reporting, and the monitoring of external developments is likely to remain difficult.

2. Exchange and trade system

The authorities have slowly liberalized the exchange and trade system since Bhutan joined the Fund in 1981. Except for large capital goods, for which clearance by the Ministry of Finance is required (and liberally granted), there are no exchange restrictions on payments or transfers relating to any current account transaction with India. Clearance by the Ministry of Finance is required (and is usually granted) for the importation of capital and intermediate goods from third countries. However, the release of foreign exchange by the RMA is done on a case-by-case basis upon recommendation by the Ministry of Finance. The principal criterion is that foreign exchange can be released for export-oriented businesses only. Other importers of capital and intermediate goods must make their own arrangements to obtain the foreign exchange before an import license is issued. A similar principle applies for imports of consumer goods from third countries. The RMA does not provide foreign exchange and the importer has to make the necessary exchange arrangements. The only requirement is that the importer pay the duties upon entry of the goods. This policy applies mainly to imports of accompanied luggage by Bhutanese nationals travelling by air. Bhutan eliminated all quantitative trade restrictions in 1993, except for the importation of drugs, weapons, and other goods affecting domestic security or cultural integrity.

Similar exchange controls apply to invisible transactions. The RMA does not provide foreign exchange for private study abroad, although the Government does sponsor qualified students for fellowships. Individuals wanting to study abroad at their own expense may do so, provided they can obtain the necessary foreign exchange independently. The cost of medical treatment abroad is met fully by the Government, irrespective of the location, upon recommendation by the appropriate medical authorities.

Financial Sector Reform in Bhutan

1. Introduction

Over the past 30 years, the public sector has played a leading role in the development of the Bhutanese economy. One of the central objectives of the Seventh Five-Year Plan (1992-97) is to elicit a substantial increase in the private sector's contribution to growth and development, combined with a rapid withdrawal by the Government from most commercial activities. To help achieve this objective, the Royal Monetary Authority (RMA) has taken a number of steps to foster greater competition and efficiency in financial intermediation. This task has been complicated by the fact that financial institutions suffer from a shortage of modern technology and skilled personnel, and they vie for a relatively limited pool of attractive investments. Nevertheless, encouraging progress has been made over the past year in developing indirect instruments of monetary control, strengthening prudential norms and supervision, and enhancing competition in the financial system.

With the objective of eventually eliminating interest rate and direct credit controls, the authorities have taken steps to develop a system of open market operations based on RMA and government securities. The first uniform-price, discounted bills auction was held in December 1993 when Nu 600 million worth of 31-day RMA bills were issued at a discount of 11 percent. 1/ Five additional auctions of one-month bills were designed to allow investors to familiarize themselves with auction procedures and to gauge their liquidity needs. In April 1994, three-month bills were introduced and the one-month bills gradually phased out. The level and range of bids have progressively declined, reflecting participants' increasing sophistication and the impact of the continued liquidity overhang. Since August, the auctions have been conducted on the Royal Securities Exchange of Bhutan. The computerization of trading and settlement is expected to facilitate secondary market activity (although there has been only one such trade to date). The critical next phase in the development of the securities market is the creation of government bonds, now expected to be launched in 1994/95. As presently envisaged, these will be coupon bonds with maturities of three to five years.

RMA bills could in principle help to meet the short-term liquidity needs of investors. However, the size of the auctions has been limited (the

1/ Competitive tenders (in multiples of Nu 10,000, with a minimum bid of Nu 20,000) were made open to all bidders without restrictions. The RMA received 20 bids from 8 participants, including from two of the four financial institutions--the UTB and the RICB did not have any surplus cash and therefore did not participate in the auctions. The range of bids was large, with a low discount rate of 5 1/4 percent and a high of 15 percent.

total outstanding at end-June 1994 was Nu 500 million), and most of the issues have been taken up by the BOB.

The central bank has also initiated the process of strengthening prudential norms and supervision (Table I). The supervisory arm of the RMA has been significantly expanded over the past two years. In January 1994, under the provisions of the 1992 Financial Institutions Act, stringent standards were established for income recognition, provisioning, loan rescheduling, credit appraisal, and liquidity. The implementation of these norms will be completed in stages by end-1994/95. In addition to strengthening the portfolios of financial institutions, the RMA has sought to increase autonomy and competition in the financial system by limiting its intervention and by creating a more even playing field among the four financial institutions.

2. The Bank of Bhutan (BOB)

The BOB was established in 1968 and is currently the only commercial bank in Bhutan. Although primarily a savings bank, the BOB has also issued currency and performed clearing functions to facilitate international trade for the Government. The BOB has a network of 24 branches throughout Bhutan. However, over 70 percent of total deposits are accounted for by the Thimphu and Phuntsholing branches.

With the application of the new income recognition norms, the share of nonperforming loans in the BOB's total advances rose from 2 percent to 7 percent (or about 12 percent of total accounts). 1/ As a result, efforts have been intensified to strengthen loan recovery, resulting in increased collections of some Nu 7 million (0.5 percent of outstanding loans). Loans are now supervised more closely, and branches with a large number of nonperforming accounts are being monitored at more frequent intervals. Despite increased provisions for bad and doubtful debts, the BOB recorded pre-tax profits of Nu 87 million in 1993, a 17 percent increase over 1992.

Nevertheless, increasing strains on the BOB's profitability have resulted from the liquidity overhang that emerged in the late 1980s. Although the bank's excess reserves declined following a loan of Nu 600 million to Druk Air in 1992, and the transfer of its rupee liabilities to the RMA in early 1994, deposits have continued to grow rapidly. At end-June 1994, the BOB had Nu 830 million in excess reserves with the RMA (nearly half of its total deposits), on which it receives no interest. 2/ The continuing liquidity overhang reflects a shortage of viable investment opportunities, and the fact that the RMA auctions have been too small to fully absorb excess funds. In the view of the monetary authorities, the BOB's monopoly position gave it little incentive (until recently) to spur

1/ Excluding the loan to Druk Air, nonperforming loans are roughly 14 percent of outstanding advances.

2/ The 5 percent interest paid on excess reserves was eliminated in December 1993 with the introduction of RMA bills.

innovation and develop its client base. 1/ The higher opportunity cost of excess reserves, together with increasing competition from other financial institutions, will force the BOB to manage its funds more actively. The gradual liberalization of interest rates is also expected to alleviate liquidity pressures.

3. The Royal Insurance Corporation of Bhutan (RICB)

The RICB was created in 1975 as an insurance company, but has developed into a financial intermediary which operates much like an investment bank. The RICB is the sole investment manager for the Government Employee Provident Fund (GEPP), which accepts deposits from government employees and offers a guaranteed yield of 11 percent. The rate of return is set by the Government and is subject to periodic review. 2/ The RICB provides a wide range of financial services, including commercial loans and funds management. At the end of 1993/94, only a small share of its assets was involved in the insurance business; about 80 percent of the RICB's funds consisted of deposits of the GEPP.

The RICB's performance has been compromised by the conflict between its obligations as manager of the GEPP and its banking practices. The guaranteed rate of return on the Provident Fund has forced the RICB to undertake excessively risky investments (a large proportion of which is in housing and construction), thereby undermining the security of employee pensions. As a result, nearly one quarter of accounts was in default at end-1992, representing some 11 percent of total advances.

Over the past year the RICB has intensified efforts to strengthen loan recovery, with some encouraging results: the share of nonperforming accounts has been reduced to one fifth (equivalent to about 8 1/2 percent of total advances), which helped to generate a Nu 50 million cash surplus. However, further work is needed to identify bad and doubtful debts which may have been rolled over or rescheduled.

4. The Unit Trust of Bhutan (UTB)

The UTB was created in 1980 as a subsidiary of the RICB, with the objective of mobilizing funds for investment. It is now an independent entity involved in promoting, financing and managing enterprises. Since it was created, the UTB has operated more like a bank than a trust, although it cannot issue checks or accept demand deposits. However, the UTB offers several savings schemes, the most popular of which are unit shares and

1/ For example, although the BOB is the largest and most profitable financial institution in Bhutan, it has yet to computerize its operations.

2/ The latest revision was in 1991.

fixed-term units. 1/ The UTB's cost of funds is relatively high. Fixed-term units pay 1 to 3 percentage points more than deposits with the BOB, while unit shares, which are redeemable at any time, earn 11.7 percent (increased penalties were recently imposed on early withdrawals).

In addition to the high cost of funds, the UTB suffers from a mismatch of maturities on its assets and liabilities. While its assets are primarily longer term investments, Unit Shares increasingly are used by large enterprises as a means of managing liquidity fluctuations. Despite efforts to improve recovery, the UTB's loan portfolio remains weak. Like the other financial institutions, the UTB has found it difficult to identify sufficient high-quality investments to absorb the volume of funds mobilized. Moreover, its loans are heavily concentrated among a few borrowers. As a consequence, almost one half of all loan accounts are in default, and the associated provisions wiped out nearly all the UTB's profits in 1993. 2/ Although the deterioration in the UTB's capital-risk asset ratio has been partially corrected by a capital injection of Nu 40 million by the Government, its financial position remains fragile. 3/

5. The Bhutan Development Finance Corporation (BDFC)

The BDFC was established in 1988 to meet the needs of small-scale entrepreneurs in agriculture and industry. It acts as an intermediary between domestic investors and foreign donors, which include the United Nations Capital Development Fund, the Asian Development Bank, the International Fund for Agricultural Development, and the Kuwait Fund. These agencies provide financing on concessional terms (charges average about 2 to 3 percent), which the Government onlends to the BDFC at 7 1/2 percent (to cover the exchange rate risk). The BDFC's operating costs are high, both because it lends mostly small amounts to a large number of geographically scattered borrowers, and because its funds are relatively costly.

The industrial sector accounts for about 60 percent of the BDFC's outstanding loans of Nu 267 million, with the agricultural sector accounting for the remainder. The aggregate loan recovery rate in 1993 was 68 percent (up from 60 percent in 1992), with the recovery rate for industrial loans 82 percent, and that for agricultural loans 51 percent. Consequently, due to the lower incidence of default and higher interest rate, industrial lending has subsidized agricultural lending in recent years. To improve rural loan recovery, the Government has decided to turn over to private collection

1/ In most countries, shareholders bear the losses and enjoy the profits generated by such trusts. However, in Bhutan, both principal and interest on unit shares are guaranteed by the Government, which also sets the rate of return.

2/ Had the RMA not permitted it to phase in the new provisions over two years, the UTB would have sustained a loss of Nu 16 million in 1993.

3/ A Nu 40 million loan from the RMA was capitalized by the Government, which helped raise the UTB's capital base to 6 1/2 percent of total assets.

agents loans that are non-performing for more than 48 months. 1/ The BDFC has also decentralized its operations in order to improve loan recovery. Loan approval and supervision have been shifted from the district to the block level (each block contains 200 to 300 households). If this effort proves successful, the BDFC may experiment with cooperative lending schemes.

Despite these difficulties, the BDFC's earnings have been considerably higher than initially projected. The institution's management plans to expand operations and to launch small savings schemes--through a network of branch offices in all districts--by the end of the current Plan period (1997). The BDFC is already fully computerized and thus has a low staff-to-loan ratio. 2/

6. Enhancing competition in the banking system

The past decade has witnessed substantial financial deepening and rapid expansion of the Bhutanese financial system. The growing monetization of the economy has created a need for greater competition and increased efficiency in financial intermediation. At present, banking transactions involve a considerable loss of time and productivity. As a result, a significant amount of currency is held outside the financial system. A second commercial bank could be created through conversion of an existing financial institution or through establishment of a new bank with foreign participation. However, it seems unlikely that the economy could support another financial institution at the present time. A number of studies have suggested that a more viable alternative would be to convert one or more of the existing financial institutions into commercial banks. The two obvious candidates are the UTB and the BDFC.

The UTB in many respects already functions as a bank, mobilizing a large volume of funds through its mostly urban branches; it currently accounts for 17 percent of total deposits in the financial system. The next step will be the development of a clearing system for checks and inter-bank transfers. In addition, intensive efforts will be needed to identify and provision for loans that may have been rolled over and rescheduled, and to strengthen internal controls. The authorities have requested technical assistance from the AsDB regarding the possible conversion of the UTB into a bank and for the improvement of management and information systems.

The BDFC has already taken several steps toward becoming a full-fledged commercial bank. The development of an extensive branch network and the launching of small savings schemes will help to reduce its reliance on foreign donors and lower its cost of funds. The BDFC could then be integrated into a national clearing and transfer system. The main obstacle to be overcome is its relatively high operating costs. However, if steps to improve loan recovery prove successful, the authorities expect to be able to convert the BDFC into a commercial bank by the end of the decade.

1/ A ceiling will be fixed on the commission in order to prevent intentionally delayed collections.

2/ Currently, 108 staff members handle some 18,000 accounts.

Table I. Bhutan: Revised Prudential Guidelines

Classification

Nonperforming assets:	Installments due but unpaid for 180 days or more; overdrafts and working capital advances in excess of the sanctioned limit for 180 days or more.
Overdue accounts:	Installments due but unpaid for 60 days or more; overdrafts and working capital advances in excess of the sanctioned limit for 60 days or more.

Provisions against nonperforming assets
(in percent of outstanding balance)

	<u>Bank of Bhutan</u>	<u>Other institutions</u>
after: 6 months	10	5
12 months	15	10
18 months	30	20
24 months	50	30
36 months	100	100

	<u>Bank of Bhutan</u>	<u>Other institutions</u>
<u>Capital adequacy requirement:</u> (in percent of total assets)	6	6

Loan size and concentration

Financial institutions may not extend credit to a single borrower in excess of 30 percent of its capital funds. Loans and advances to an institution's ten largest borrowers may not exceed 30 percent of total advances.

Rescheduling of loans

Permitted only if the lending institution is satisfied that the borrower's inability to make repayments under the original terms is due to temporary factors beyond the borrower's control. Rescheduling is permitted only after interest arrears on the loan have been paid from sources other than loans from the same financial institution.

Liquidity requirements

Bank of Bhutan: 20 percent of its liabilities, excluding liabilities to the RMA and its shareholders.

Unit Trust of Bhutan: 20 percent of its liabilities, excluding liabilities to the RMA, BOB, and its shareholders.

RICB and BDFC: 10 percent of their liabilities, excluding liabilities to the RMA, BOB and their shareholders.

Liquidity comprises: cash in hand, balances with the RMA, balances with other banks, RMA discount bills, treasury bills and bonds with maturities not exceeding one year.

Table 1. Bhutan: Gross Domestic Product by Origin
at 1980 Prices, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.
<u>(In millions of ngultrum)</u>					
Agriculture	962.9	984.5	988.2	1,006.4	1,061.8
Crops	514.7	530.9	544.8	555.6	563.9
Livestock	201.7	212.2	237.2	201.6	227.6
Forestry	246.5	252.8	250.4	249.2	270.3
Nonagriculture	1,171.7	1,233.6	1,263.7	1,410.4	1,481.6
Mining	21.7	19.3	27.4	23.5	21.3
Manufacturing	128.2	158.1	186.7	208.8	229.8
Electricity	231.5	204.1	200.4	201.6	212.3
Construction	133.8	136.8	116.2	156.6	159.7
Trade and services	133.6	134.7	145.1	160.7	170.4
Transport, storage, and communication	142.4	172.1	182.0	192.3	200.1
Finance and insurance	70.1	89.3	102.9	107.2	114.2
Real estate	93.4	109.9	105.7	108.5	111.8
Government services	217.0	223.3	233.2	251.2	262.0
Less: Imputed bank service charges	41.1	28.8	21.0	28.1	30.2
GDP at 1980 factor cost	2,093.5	2,224.6	2,303.4	2,388.8	2,513.2
Change in percent	(4.7)	(6.3)	(3.5)	(3.7)	(5.2)
<u>(In percent of GDP)</u>					
Agriculture	46.0	45.0	44.3	42.1	42.2
Crops	24.6	24.2	23.5	23.3	22.4
Livestock	9.6	9.3	9.6	8.4	9.1
Forestry	11.8	11.4	11.2	10.4	10.8
Nonagriculture	54.0	55.0	55.7	57.8	57.8
Mining	1.0	0.9	1.2	1.0	0.8
Manufacturing	6.1	6.8	7.6	8.7	9.1
Electricity	11.1	9.3	9.2	8.4	8.4
Other	35.8	38.0	37.7	39.7	39.3

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 2. Bhutan: Gross Domestic Product by Origin at Current Prices, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.
<u>(In millions of ngultrum)</u>					
Agriculture	1,924.3	2,094.9	2,305.1	2,460.5	2,827.4
Crops	937.7	1,057.6	1,180.8	1,363.0	1,499.3
Livestock	441.2	474.0	528.6	478.7	598.7
Forestry	545.4	562.5	595.7	610.1	729.4
Nonagriculture	2,450.6	2,797.4	3,093.4	3,808.8	4,209.9
Mining	41.8	44.8	90.1	98.8	88.3
Manufacturing	302.5	396.7	499.5	647.4	793.9
Electricity	391.0	384.7	384.4	445.5	543.0
Construction	365.4	398.7	359.7	595.1	630.0
Trade and services	282.3	321.6	382.9	479.7	535.0
Transport, storage, and communication	235.6	346.7	398.5	471.2	526.4
Finance and insurance	169.6	216.2	249.0	270.0	276.4
Real estate	137.3	154.3	165.0	192.6	183.0
Government services	525.1	540.5	564.4	608.9	633.9
Less: Imputed bank service charges	67.0	58.4	51.8	68.0	68.0
GDP at current factor cost	4,307.9	4,848.2	5,342.1	6,177.9	6,969.4
<u>(In percent of GDP)</u>					
Agriculture	44.6	43.2	43.1	40.0	40.6
Crops	21.8	21.8	22.1	22.1	21.5
Livestock	10.2	9.8	9.9	7.7	8.6
Forestry	12.7	11.6	11.2	9.8	10.5
Nonagriculture	55.3	56.7	56.9	60.6	59.4
Mining	0.9	0.9	1.7	1.6	1.3
Manufacturing	7.0	8.2	9.4	10.5	11.4
Electricity	9.1	8.0	7.2	7.2	7.8
Other	38.3	39.6	44.3	41.3	39.0
Memorandum item:					
GDP deflator (1980=100)	205.8	217.9	231.9	258.6	277.3
(percent change)	(6.4)	(5.8)	(6.4)	(11.5)	(7.2)

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 3. Bhutan: Gross Domestic Product by Expenditure
at Current Market Prices, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.
<u>(In millions of ngultrum)</u>					
Consumption	4,045.0	4,532.4	5,141.4	5,877.7	6,653.6
Private	3,166.0	3,456.9	4,023.9	4,693.7	5,243.1
Public	879.0	1,075.5	1,117.5	1,184.0	1,410.5
Investment	1,095.0	1,012.0	1,297.0	2,755.0	2,058.0
Private	365.0	260.0	421.0	550.0	592.0
Public	730.0	752.0	876.0	2,205.0	1,466.0
Domestic demand	5,140.0	5,544.4	6,438.4	8,632.7	8,711.6
Net exports of goods and nonfactor services	-758.4	-562.0	-936.9	-2,278.8	-1,425.7
Exports of goods and nonfactor services	1,384.8	1,618.9	2,078.9	2,279.3	2,577.0
Imports of goods and nonfactor services	2,143.2	2,180.9	3,015.8	4,558.1	4,002.7
Gross domestic product at market prices	4,381.6	4,982.4	5,501.5	6,353.9	7,285.9
Net factor income from abroad	110.1	94.2	31.4	38.3	-164.2
Factor income	150.7	129.5	82.9	127.5	132.0
Factor payment	40.6	35.2	51.5	89.2	296.2
Gross national product	4,491.7	5,076.6	5,532.9	6,392.2	7,121.7
Net current transfers from abroad	68.5	84.3	114.6	162.8	198.9
<u>(In percent of GDP)</u>					
Consumption	92.3	91.0	93.5	92.5	91.3
Gross investment	25.0	20.3	23.6	43.4	28.2
Gross national saving	11.8	12.6	9.2	10.7	9.2
Gross domestic saving	7.7	9.0	6.5	7.5	8.7
Net exports of goods and nonfactor services	-17.3	-11.3	-17.0	-35.9	-19.6
Exports of goods and nonfactor services	31.6	32.5	37.8	35.9	35.4
Imports of goods and nonfactor services	48.9	43.8	54.8	71.7	54.9
Net factor income from abroad	2.5	1.9	0.6	0.6	-2.3
Net current transfers from abroad	1.6	1.7	2.1	2.6	2.7

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 4. Bhutan: Crop Production Estimates, 1989-93

	1989	1990 ^{1/}	1991	1992 Prov.	1993 Est.
Area ('000 hectares)					
Paddy	26.3	26.2	26.8	27.0	27.5
Wheat/barley	10.0	10.2	10.5	10.1	11.4
Maize	71.0	74.0	76.0	77.0	76.0
Buckwheat/millet	13.1	13.2	13.0	14.1	13.7
Subtotal: Foodgrains	<u>120.4</u>	<u>123.6</u>	<u>126.3</u>	<u>128.2</u>	<u>128.3</u>
Potatoes	4.0	4.2	4.3	4.3	4.4
Chillies	1.1	1.0	1.2	1.1	1.2
Mustard	6.5	7.0	6.9	7.2	7.1
Beans and pulses	3.1	3.0	3.2	3.1	3.0
Subtotal: Four perennial crops	<u>14.7</u>	<u>11.2</u>	<u>15.6</u>	<u>15.7</u>	<u>15.7</u>
Oranges	6.0	6.6	7.0	7.5	7.1
Apples	1.7	1.8	2.1	2.0	2.2
Cardamom	5.5	5.7	5.8	6.0	6.3
Subtotal: Three perennial crops	<u>13.2</u>	<u>14.1</u>	<u>14.9</u>	<u>15.5</u>	<u>15.6</u>
Yield (metric tons/ha.)					
Paddy	2.1	2.3	2.4	2.5	2.3
Wheat/barley	1.1	1.1	1.1	1.2	1.1
Maize	1.4	1.4	1.4	1.4	1.5
Buckwheat/millet	0.7	0.8	0.9	0.8	0.9
Potatoes	7.6	7.4	7.2	7.6	7.9
Chillies	4.2	5.1	4.3	5.0	4.7
Mustard	0.7	0.7	0.8	0.8	0.8
Beans and pulses	0.7	0.7	0.7	0.7	0.7
Oranges	5.5	5.5	5.5	5.4	5.0
Apples	2.6	2.5	2.5	2.6	1.5
Cardamom	0.4	0.4	0.5	0.5	0.6
Production ('000 metric tons)					
Paddy ^{2/}	56.0	59.5	65.0	67.0	69.5
Wheat/barley	10.8	11.0	11.2	12.0	18.4
Maize	97.3	100.0	104.7	110.0	115.1
Buckwheat/millet	9.5	10.7	11.2	11.8	12.3
Subtotal: Foodgrains ^{2/}	<u>173.6</u>	<u>181.2</u>	<u>192.1</u>	<u>200.8</u>	<u>209.3</u>
Potatoes	30.5	31.1	30.8	32.6	34.6
Chillies	4.6	5.1	5.2	5.5	5.6
Mustard	4.7	5.2	5.6	5.5	5.6
Beans and pulses	2.1	2.0	2.1	2.2	2.1
Oranges	33.2	36.4	38.3	40.5	35.3
Apples	4.5	4.7	5.3	5.2	3.4
Cardamom	2.4	2.6	2.8	2.8	4.0

Sources: Data provided by the Bhutanese authorities; and staff estimates.

^{1/} A survey conducted by the FAO in 1990 in collaboration with the CSO showed that data for 1987-89 had been overestimated for several crops.

^{2/} Official estimates total the production of paddy (rather than rice) with that of other grains. To convert paddy production into rice, these estimates are multiplied by a milling ratio of 60-70 percent.

Table 5. Bhutan: Livestock and Poultry Production, 1989-93

(In thousands)

	1989	1990	1991	1992 Prov.	1993 Est.
Cattle	412	359	335	335	350
Yaks	37	33	32	30	35
Sheep/goats	81	80	63	47	57
Pigs	63	59	53	47	59
Poultry	218	218	180	140	170

Source: Ministry of Agriculture.

Table 6. Bhutan: Logging Volume, 1989/90-1993/94 ^{1/}
(In cubic meters)

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
Commercial logging	64,455	63,388	69,043	47,498	50,000
Logging for housing construction and public works plus other uses	5,946 ^{2/}	9,491	9,870	10,000	10,000
Total	70,401	75,879	78,913	57,498	60,000

Sources: Bhutan Logging Corporation; and Department of Forestry.

^{1/} Excludes logging resulting from concessions to various public enterprises. Data for 1992/93 and 1993/94 are very preliminary.

^{2/} Figure refers only to production in Thimphu, Sarbhang, Paro, and Haa divisions.

Table 7. Bhutan: Imports of Essential Food Items by the Food Corporation of Bhutan, 1989/90-1993/94

(In metric tons)

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
Rice	9,900	8,776	10,301	10,088	4,334
Wheat/wheat products	2,833	1,450	1,470	1,912	1,448
Sugar	3,040	3,447	2,540	3,856	1,492
Salt	4,318	4,483	3,521	4,887	5,000
Edible oils	340	270	560	493	493

Source: Food Corporation of Bhutan.

Table 8. Bhutan: Gross Sales and Output of Selected Industries, 1989-93

(In millions of ngultrum)

	1989	1990	1991	1992	1993 Est.
Penden Cement Authority	151.2	140.9	180.5	196.6	113.8
Gedu Wood Manufacturing Company	29.8	17.7	51.5	...	...
Bhutan Fruit Products	43.4	43.2	58.9	69.0	92.3
Army Welfare Project 1/	83.7	93.3	94.9	118.3	150.4
Bhutan Carbide and Chemicals	220.1	178.2	275.2	352.7	356.8
Bhutan Board Products	57.2	71.0	142.6	164.5	165.9

Source: Department of Trade and Industry.

1/ Manufacturer of alcoholic beverages.

Table 9. Bhutan: Domestic Electricity Generation and Trade with India, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93	1993/94 Est.
<u>(In millions of kilowatt hours)</u>					
Domestic generation	1,556.9	1,542.2	1,554.4	1,650.1	1,680.6
Hydroelectric power	1,556.5	1,542.1	1,554.3	1,650.0	1,680.5
Diesel	0.5	0.1	0.1	0.1	0.1
Purchases from India	3.3	4.4	5.0	0.5	0.5
Total supply of electricity	1,560.2	1,546.6	1,559.4	1,650.6	1,681.1
<u>(In millions of ngultrum)</u>					
Exports to India	280.2	374.4	397.3	355.1	537.3

Source: Department of Power.

Table 10. Bhutan: Tourism Statistics, 1989-93 1/

	1989	1990	1991	1992 Prov.	1993 Est.
Hotel rooms available (number) 2/	184	184	184	414	414
Average length of stay (nights)	7	7	7	7	7
Total tourism receipts (millions of ngultrum)	32	48	52	77	99
Tourist arrivals (in number)	1,480	1,538	2,106	2,763	2,985
Tourist arrivals by country					
Total Europe	454	614	807	1,286	1,362
Germany	285	161	269	281	368
France	54	27	109	115	129
Italy	10	9	113	135	127
Other Europe	105	417	316	755	738
United States	479	377	509	571	709
Japan	317	445	631	646	645
Australia	4	14	91	12	63
Other	226	88	68	248	206
Tourist arrivals by purpose					
Touring	1,227	1,288	1,527	2,175	2,264
Trekking	253	250	579	588	721

Source: Bhutan Tourism Corporation.

1/ Data relate to convertible-currency-paying tourists.

2/ Includes only government hotels.

Table 11. Bhutan: Consumer Price Index, 1989-93

(1979 = 100)

	(Weight)	Food Items (72.3)	Nonfood Items (27.7)	All Items (100.0)	<u>Annual Percentage Change in</u>			Indian CPI (Annual Percentage Change)
					Food	Nonfood	Total	
1989								
June		208.4	258.4	222.3	8.7	9.7	9.1	7.0
December		218.3	273.4	233.6	8.1	9.1	8.5	4.0
1990								
June		225.6	299.2	246.0	8.2	15.8	10.7	8.0
December		236.1	306.5	255.6	8.1	12.1	9.4	12.0
1991								
June		251.6	331.6	273.7	11.5	10.8	11.3	12.5
December		271.6	336.2	289.5	15.1	9.7	13.3	13.7
1992								
June		301.2	360.1	317.5	19.7	8.6	16.0	13.9
December		316.0	387.2	335.7	16.3	15.2	16.0	8.6
1993								
June		335.4	426.6	360.6	11.4	18.5	13.6	5.7
December		339.4	443.3	368.2	7.4	14.5	9.7	8.2

Source: Central Statistical Organization.

Table 12. Bhutan: Government Budget Summary, 1989/90-1994/95 1/

	1989/90 Actual	1990/91 Actual	1991/92 Actual	1992/93		1993/94		1994/95 Budget
				Budget	Actual	Budget	Est.	
(In millions of ngultrum)								
Revenue and grants	1,469	1,748	1,918	2,955	2,461	3,422	3,422	4,396
Domestic revenue	946	995	1,128	1,416	1,494	1,508	1,578	1,633
Tax revenue	232	281	328	447	448	519	534	612
Nontax revenue	714	714	800	969	1,046	989	1,044	1,022
Of which:								
Chukha	(277)	(398)	(256)	(445)	(248)	(415)	(...)	(...)
Asset sales	(53)	(23)	(47)	(6)	(131)	(20)	(--)	(--)
Grants	523	753	791	1,539	967	1,927	1,844	2,763
From India	290	453	232	573	363	709	642	934
Other	233	300	559	966	604	1,218	1,202	1,829
Expenditure	1,859	1,796	2,191	2,813	2,387	3,307	3,366	4,708
Current expenditure	1,069	1,082	1,153	1,259	1,215	1,485	1,606	1,720
Capital expenditure and net lending	790	714	1,038	1,554	1,172	1,822	1,760	2,988
Current balance (excluding grants)	-123	-87	-25	157	279	23	-28	-87
Overall balance (including grants)	-390	-48	-273	142	74	128	56	-312
Foreign financing	57	53	113	54	14	22	90	72
Domestic financing	333	-6	159	-196	-88	-150	-146	240
(In percent of GDP)								
Revenue and grants	31.4	33.4	32.4	43.3	36.1	44.2	44.0	49.6
Domestic revenue	20.2	19.0	19.0	20.8	21.9	19.4	20.3	18.4
Of which: Tax revenue	(5.0)	(5.4)	(5.5)	(6.6)	(6.6)	(6.7)	(6.9)	(6.9)
Foreign grants	11.2	14.4	13.3	22.6	14.2	24.8	23.7	31.2
Expenditure	39.7	34.3	37.0	41.2	35.0	42.5	43.3	53.1
Current expenditure	22.8	20.6	19.5	18.5	17.8	19.1	20.7	19.4
Capital expenditure and net lending	16.9	13.6	17.5	22.8	17.2	23.4	22.6	33.7
Current balance (excluding grants)	-2.6	-1.7	-0.4	2.3	4.1	0.3	-0.4	-1.0
Overall balance (excluding grants)	-19.5	-15.3	-17.9	-20.5	-13.1	-23.1	-23.0	-34.7
Overall balance (including grants)	-8.3	-0.9	-4.6	2.1	1.1	1.6	0.7	-3.5
Foreign financing	1.2	1.0	1.9	0.8	0.2	0.3	1.2	0.8
Domestic financing	7.1	-0.1	2.7	-2.9	-1.3	-1.9	-1.9	2.7
Memorandum item:								
GDP at current market prices (in millions of ngultrum)	4,682	5,241	5,927	6,820	6,820	7,744	7,744	8,860

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Bhutan's fiscal year runs from July to June.

Table 13. Bhutan: Government Domestic Revenue, 1989/90-1994/95

(In millions of ngultrum)

	1989/90	1990/91	1991/92	1992/93	1993/94		1994/95
					Budget	Est.	Budget
Total tax revenue	<u>232</u>	<u>281</u>	<u>328</u>	<u>448</u>	<u>519</u>	<u>534</u>	<u>612</u>
Tax on income and profits	71	73	82	145	144	160	169
Taxes on property	4	7	8	6	4	5	5
Taxes on domestic goods	118	149	177	193	210	209	223
Taxes on international trade	38	50	57	100	152	154	209
Other	1	2	4	4	9	6	6
Nontax revenue	<u>714</u>	<u>714</u>	<u>800</u>	<u>1,046</u>	<u>989</u>	<u>1,044</u>	<u>1,022</u>
Entrepreneurial and property							
income from public enterprises	423	495	358	556	575	493	529
Of which: Chukha revenue	(277)	(398)	(256)	(248)	(415)	(...)	(...)
Royalties	29	28	31	60	74	110	81
Administrative fees and dividends	159	122	176	298	246	344	330
Sales of shares	53	23	47	131	20	--	--
Other	50	46	188	1	74	30	6
Total domestic revenue	<u>946</u>	<u>995</u>	<u>1,128</u>	<u>1,494</u>	<u>1,508</u>	<u>1,578</u>	<u>1,633</u>

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 14. Bhutan: Functional Classification of Government Current Expenditure,
1989/90-1993/94

(In millions of ngultrum)

	1989/90	1990/91	1991/92	1992/93	<u>1993/94</u>	
					Budget	Est.
General public services	<u>376</u>	<u>434</u>	<u>471</u>	<u>551</u>	<u>738</u>	<u>819</u>
Information and broadcasting	9	11	11	10	10	13
Nondevelopment sectors	367	423	460	541	728	806
Economic services	<u>399</u>	<u>371</u>	<u>368</u>	<u>358</u>	<u>386</u>	<u>405</u>
Agriculture and irrigation	58	58	63	67	81	69
Food Corporation of Bhutan	12	13	--	--	--	--
Animal husbandry	43	45	45	56	51	70
Forestry	41	27	27	32	35	38
Industries, mining, trade, and commerce	59	49	35	42	16	19
Public works, roads, and housing	63	62	70	70	83	98
Transport and communication	56	49	80	31	59	47
Power	67	68	48	60	61	64
Social services	<u>294</u>	<u>277</u>	<u>314</u>	<u>306</u>	<u>361</u>	<u>382</u>
Education	197	180	193	189	205	217
Health	90	89	112	108	146	155
Urban development and municipal corporation	7	8	9	9	10	10
<u>Current expenditure</u>	1,069	1,082	1,153	1,215	1,485	1,606

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 15. Bhutan: Economic Classification of Government Current Expenditure,
1989/90-1993/94 1/

(In millions of ngultrum)

	1989/90	1990/91	1991/92	1992/93 Budget	<u>1993/94</u>	
					Budget	Est.
Wages and salaries	489	513	491	516	499	533
Goods and services	411	410	509	537	607	685
Subsidies and transfers	<u>128</u>	<u>126</u>	<u>93</u>	<u>90</u>	<u>153</u>	<u>162</u>
Druk Air Corporation	15	10	--	5	57	57
Exports	47	35	18	17	--	--
Gratuity and retirement benefits	11	13	18	17	18	22
Contribution to Provident Fund	26	27	29	30	31	31
Bhutan Logging Corporation	--	--	--	--	5	--
Other	29	41	28	21	42	52
Interest payments	41	33	59	116	226	226
Total current expenditure	1,069	1,082	1,153	1,259	1,485	1,606

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ The data for 1992/93 reflect the original budget projections. The estimated outcome is not yet available.

**Table 16. Bhutan: Functional Classification of Government Capital Expenditure,
1989/90-1993/94**

(In millions of ngultrum)

	1989/90	1990/91	1991/92	1992/93	1993/94	
					Budget	Est.
General public services	<u>69</u>	<u>120</u>	<u>176</u>	<u>152</u>	<u>366</u>	<u>254</u>
Information and broadcasting	4	1	1	1	3	4
Nondevelopment sectors	65	119	175	151	363	250
Economic services	<u>594</u>	<u>508</u>	<u>641</u>	<u>889</u>	<u>1,318</u>	<u>1,255</u>
Agriculture and irrigation	76	159	223	239	305	203
Food Corporation of Bhutan	3	9	--	--	--	--
Animal husbandry	25	16	13	25	32	113
Forestry	32	32	26	13	30	62
Industries, mining, trade, and commerce	53	13	22	19	62	64
Public works, roads, and housing	275	176	317	228	223	221
Transport and communication	57	41	28	335	440	339
Power	73	62	12	30	226	253
Social services	<u>48</u>	<u>42</u>	<u>103</u>	<u>55</u>	<u>303</u>	<u>251</u>
Education	33	24	73	46	205	112
Health	13	17	28	7	90	129
Urban development and municipal corporation	2	1	2	2	8	10
Net lending	<u>79</u>	<u>44</u>	<u>118</u>	<u>120</u>	<u>-15</u>	<u>150</u>
Of which: Reserve account	--	--	--	44	150	150
Capital expenditure and net lending 1/	<u>790</u>	<u>714</u>	<u>1,038</u>	<u>1,172</u>	<u>1,822</u>	<u>1,760</u>

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Less outlays to reserve account.

Table 17. Bhutan: Total Government Expenditure, 1989/90-1993/94

(In millions of ngultrum)

	1989/90	1990/91	1991/92	1992/93	1993/94	
					Budget	Est.
General public services	<u>445</u>	<u>554</u>	<u>647</u>	<u>703</u>	<u>1.104</u>	<u>1.073</u>
Information and broadcasting	13	12	12	11	13	17
Nondevelopment sectors	538	542	635	692	1,091	1,056
Economic services	<u>993</u>	<u>879</u>	<u>1,009</u>	<u>1,247</u>	<u>1.704</u>	<u>1.660</u>
Agriculture and irrigation	134	217	286	306	386	272
Food Corporation of Bhutan	15	22	--	--	--	--
Animal husbandry	68	61	58	81	83	183
Forestry	73	59	53	45	65	100
Industries, mining, trade, and commerce	112	62	57	61	78	83
Public works, roads, and housing	338	238	387	298	306	319
Transport and communication	113	90	108	366	499	386
Power	140	130	60	90	287	317
Social services	<u>342</u>	<u>319</u>	<u>417</u>	<u>361</u>	<u>664</u>	<u>633</u>
Education	230	204	266	235	410	329
Health	103	106	140	115	236	284
Urban development and municipal corporation	9	9	11	11	18	20
Net lending 1/	<u>79</u>	<u>44</u>	<u>118</u>	<u>76</u>	<u>-165</u>	<u>--</u>
<u>Total expenditure and net lending</u>	<u>1.859</u>	<u>1.796</u>	<u>2.191</u>	<u>2.387</u>	<u>3.307</u>	<u>3.366</u>

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Less outlays to reserve account.

Table 18. Bhutan: Monetary Survey, 1990-94 1/

	1990	1991	1992	1993	1994 Est.
<u>(In millions of ngultrum)</u>					
Foreign assets (net)	1,404.6	1,748.2	1,992.9	2,175.0	2,823.7
Rupee	270.2	100.3	-491.4	-707.3	-404.9
Other	1,134.4	1,647.9	2,484.3	2,882.3	3,228.6
Net domestic assets	-425.4	-558.4	-626.6	-586.9	-893.7
Domestic credit	129.5	-47.0	400.2	1,059.8	825.1
Government (net) 2/	-153.6	-362.0	-61.2	-231.9	-378.0
Public enterprises	41.7	53.4	97.3	810.1	787.1
Private sector	241.4	261.6	364.1	481.6	415.9
Other items (net)	-554.8	-511.4	-1,026.8	-1,646.7	-1,718.8
Broad money (M2)	979.2	1,189.8	1,366.3	1,588.1	1,930.0
Narrow money (M1)	518.1	632.6	727.6	733.6	770.6
Currency	176.1	238.5	303.2	278.8	311.7
Demand deposits 3/	342.0	394.1	424.4	454.8	458.9
Quasi-money 4/	461.1	557.2	638.7	854.5	1,159.4
<u>(Annual percentage change)</u>					
Broad money (M2)	18.1	21.5	14.8	16.2	21.5
Narrow money (M1)	10.9	22.1	15.0	0.8	5.0
Currency	11.8	35.4	27.1	-8.0	11.8
Demand deposits	10.5	15.2	7.7	7.2	0.9
Quasi-money	27.4	20.8	14.6	33.8	35.7
Credit to private sector	80.3	8.4	39.2	32.3	-13.6
Memorandum item:					
(in millions of ngultrum)					
Valuation adjustment	232.8	277.6	688.9	1,007.1	1,050.6

Source: Data provided by the Bhutanese authorities.

1/ End-June figures.

2/ Includes some deposits of public enterprises.

3/ Includes savings deposits.

4/ Fixed-term deposits (time deposits and foreign currency deposits).

Table 19. Bhutan: Assets and Liabilities of
the Royal Monetary Authority, 1989-94

(In millions of ngultrum: end-June)

	1989	1990	1991	1992	1993	1994 Est.
Foreign assets	867.5	1,105.1	1,650.3	2,426.8	2,775.1	3,114.0
Rupee	81.1	14.9	25.8	10.9	30.1	18.0
Other	782.4	1,086.2	1,620.5	2,415.9	2,745.1	3,096.0
Gold	4.0	4.0	4.0	--	--	--
Claims on Government	--	78.4	85.5	217.9	--	60.2
Claims on other financial institutions	24.7	32.3	41.5	43.1	12.0	10.8
Claims on private sector 1/	--	--	6.0	4.0	5.1	-20.7
Assets - liabilities	<u>892.2</u>	<u>1,215.8</u>	<u>1,783.4</u>	<u>2,691.8</u>	<u>2,792.2</u>	<u>3,164.3</u>
Foreign liabilities 2/	--	--	--	286.0	95.0	514.7
Reserve money	431.2	951.5	1,365.5	1,696.9	1,675.8	1,619.8
Currency issued	164.5	185.8	248.1	337.4	304.9	344.6
Currency outside banks	157.6	176.1	238.5	303.2	278.8	311.7
Cash in vault	7.0	9.7	9.6	34.2	26.1	32.9
Deposits of banks	266.7	765.7	1,117.4	1,359.4	1,370.9	1,275.2
Government deposits	280.9	23.0	73.8	23.8	15.6	25.5
Other items (net)	180.1	241.3	344.0	685.2	1,005.8	1,004.3
Memorandum items:						
Reserve money (percent change)	39.3	120.7	43.5	24.3	-1.2	-3.3
Valuation adjustment account	140.0	232.8	277.6	688.9	1,007.1	1,050.6

Source: Data provided by the Bhutanese authorities.

1/ Includes advances to RMA staff and RMA bills in hands of private sector.

2/ Rupee overdraft facilities. Increase in 1994 reflects transfer of these liabilities from the Bank of Bhutan to RMA.

Table 20. Bhutan: Assets and Liabilities
of the Bank of Bhutan, 1989-94

(In millions of ngultrum; end June)

	1989	1990	1991	1992	1993	1994 Est.
Reserves	292.0	707.9	1,181.5	1,295.7	1,375.4	1,309.7
Of which: RMA bills	--	--	--	--	--	479.3
Foreign assets	737.0	447.8	264.9	155.3	186.9	224.4
Rupee	695.8	403.6	220.2	86.9	49.7	91.8
Other	41.2	44.2	44.7	68.4	137.2	132.6
Claims on Government	2.7	2.4	2.5	2.4	2.3	4.6
Claims on public enterprises	26.0	41.7	53.4	97.3	810.1	787.1
Claims on private sector	133.9	241.4	255.6	360.1	476.5	436.6
Assets - liabilities	<u>1,191.5</u>	<u>1,441.2</u>	<u>1,757.9</u>	<u>1,910.8</u>	<u>2,851.3</u>	<u>2,762.4</u>
Demand deposits	309.4	342.0	394.1	424.4	454.8	458.9
Current account	177.9	196.7	233.2	257.9	276.2	278.9
Savings	131.5	145.3	160.9	166.5	178.5	180.0
Time deposits	361.9	461.1	557.2	638.7	854.5	1,159.4
Convertible currency	13.4	15.6	25.9	39.0	71.3	69.4
Government deposits ^{1/}	178.3	211.5	376.2	257.7	218.6	417.2
Foreign liabilities	71.9	148.3	167.0	303.2	692.1	--
Rupee	71.9	148.3	145.7	303.2	692.1	--
Other	--	--	21.3	--	--	--
Capital account	195.1	205.0	211.0	222.9	272.6	301.5
Other items (net)	74.9	73.3	52.4	63.9	358.7	425.4

Source: Data provided by the Bhutanese authorities.

^{1/} Includes some deposits of public enterprises.

**Table 21. Bhutan: Assets and Liabilities of the
Royal Insurance Corporation of Bhutan, 1989-94**

(In millions of ngultrum: end-June)

	1989	1990	1991	1992	1993	1994 Est. ^{1/}
Reserves	7.2	5.4	-5.2	-20.4	0.3	1.1
Claims on public enterprises	27.7	21.1	16.7	19.8	33.1	21.8
Claims on private sector	337.8	459.3	543.4	463.2	562.7	648.7
Claims on deposit money banks	134.3	165.8	219.0	114.3	101.0	94.6
Claims on other financial institutions	8.8	2.5	2.5	--	--	--
Real estate	31.6	35.4	34.0	33.2	43.6	43.8
Assets - Liabilities	<u>547.4</u>	<u>689.5</u>	<u>810.5</u>	<u>610.0</u>	<u>740.6</u>	<u>810.0</u>
Insurance reserve funds	15.9	21.7	33.2	61.2	51.6	73.6
Life Insurance Fund	13.5	16.9	19.1	20.9	64.5	71.0
Provident Fund	264.2	328.0	395.2	444.4	511.3	609.1
Unit Trust of Bhutan	233.1	288.2	349.5	-3.6	--	--
Capital accounts	12.0	12.0	12.0	12.0	12.0	12.0
Other items (net)	8.7	22.7	1.5	75.1	101.2	44.4

Source: Data provided by the Bhutanese authorities.

^{1/} End-March.

Table 22. Bhutan: Assets and Liabilities of the Unit Trust of Bhutan, 1989-94
(In millions of ngultrum: end-June)

	1989	1990	1991	1992	1993	1994 Est. 1/
Reserves	47.7	5.6	19.2	0.1	0.4	0.6
Investments	274.7	331.3	421.9	634.0	696.1	659.8
Through RICB	228.8	280.3	351.0	--	--	--
Direct	45.9	51.0	70.8	634.0	696.1	659.8
Assets - Liabilities	<u>322.4</u>	<u>336.9</u>	<u>441.0</u>	<u>634.1</u>	<u>696.5</u>	<u>660.46</u>
Deposits	246.7	293.3	345.5	514.4	557.4	470.0
Other	75.7	43.6	95.5	119.7	139.1	190.4

Source: Data provided by the Bhutanese authorities.

1/ End-March.

**Table 23. Bhutan: Loans and Deposits of Bank and Nonbank
Financial Institutions, June 1989-March 1994 ^{1/}**

(In millions of ngultrum; end-June, unless otherwise specified)

	1989	1990	1991	1992	1993	1994 ^{2/}
(Loans by sector)						
Agriculture	18.7	32.9	51.9	83.5	92.2	80.9
Mining and manufacturing	121.6	241.8	246.5	475.5	585.0	663.0
Housing and construction	264.1	283.7	294.6	268.6	518.4	540.1
Trade and commerce	80.5	145.4	200.6	239.1	356.8	406.8
Transport	43.8	88.1	103.2	140.9	736.0	693.5
Personal and other	137.8	132.5	189.3	234.2	252.5	316.1
Total	666.5	924.4	1,086.1	1,441.8	2,540.9	2,700.4
(Distribution of deposits by institution)						
Bank of Bhutan	498.7	586.6	925.4	1,023.4	1,308.8	1,721.4
RICB and UTB	510.9	621.3	740.7	958.8	1,068.7	1,079.1
RICB (GEPP)	264.2	328.0	395.2	444.4	511.3	609.1
UTB	246.7	293.3	345.5	514.4	557.4	470.0
Total	1,009.6	1,207.9	1,666.1	1,982.2	2,377.5	2,800.5

Source: Data provided by the Bhutanese authorities.

^{1/} Includes the Bank of Bhutan (BOB), the Royal Insurance Corporation of Bhutan (RICB), the Unit Trust of Bhutan (UTB), and the Bhutan Development Finance Corporation (BDFC).

^{2/} End-March.

Table 24. Bhutan: Structure of Interest Rates, 1989-94

(In percent per annum)

End of June	1989	1990	1991	1992	1993	1994
Deposit rates						
Bank of Bhutan						
Savings	5.0	5.0	5.0	5.0	5.0	5.0
Fixed						
3-6 months	6.5	6.5	6.5	8.0	8.0	8.0
6-9 months	8.0	8.0	8.0	9.0	9.0	9.0
9-12 months	8.0	8.0	8.0	9.0	9.0	9.0
1-2 years	9.0	9.0	9.0	10.0	10.0	10.0
2-3 years	10.0	10.0	10.0	11.0	11.0	11.0
3-5 years	11.0	11.0	11.0	13.0	13.0	13.0
Over 5 years	11.0	11.0	11.0	13.0	13.0	13.0
Unit Trust of Bhutan						
Fixed-term units						
1-year	9.0	9.0	9.0	9.0	9.0	9.0
10-year	11.5	11.5	11.5	11.5	11.5	11.5
Unit shares						
(12 months or more)	11.7	11.7	11.7	11.7	11.7	11.7
Growth units						
First year	12.0	12.0	12.0	12.0	12.0	12.0
Sixth year	12.5	12.5	12.5	12.5	12.5	12.5
Loan rates 1/						
Commerce	12-15.0	12-15.0	12-15.0	13-17.0	13-17.0	13-17.0
Transport	15.0	15.0	15.0	15.0	15.0	15.0
Agriculture	10-13.0	10-13.0	10-13.0	14.0	14.0	14.0
Industry	10-14.0	10-14.0	10-14.0	13-15.0	13-15.0	13-15.0
Tourism	13.0	13.0	13.0	15.0	15.0	15.0
Housing	14.0	14.0	14.0	15.0	15.0	15.0
Loans to government employees	13.0	13.0	13.0	15.0	15.0	15.0
Miscellaneous	15.0	15.0	15.0	17.0	17.0	17.0

Source: Data provided by the Bhutanese authorities.

1/ Applicable to loans made by the Bank of Bhutan and the Royal Insurance Corporation of Bhutan.

**Table 25. Bhutan: Royal Monetary Authority (RMA)
Bills Auctions, 1993-94**

Auction Date	Maturity (Number of days)	Bids Received (Nu million)	Bids Accepted (Nu million)	Discount Rate (in percent)
12/9/93	31	1006.6	603.1	11.0
1/7/94	31	1565.4	1002.3	9.0
2/9/94	29	1004.6	1000.0	8.0
3/10/94	28	1001.5	700.0	7.75
4/7/94	91	205.0	200.0	8.0
4/8/94	31	702.0	500.0	7.5
5/11/94	91	200.0	200.0	8.0
5/13/94	31	550.6	100.0	7.5
6/15/94	91	112.0	100.0	9.5
7/7/94	91	759.4	150.0	9.5
8/10/94	91	776.6	200.0	7.5

Source: Data provided by the Bhutanese authorities.

Table 26. Bhutan: Balance of Payments Summary, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
(In millions of U.S. dollars)					
Exports, f.o.b.	66.7	69.8	63.1	66.2	66.8
India	58.1	60.3	56.7	54.8	58.2
Third countries	8.6	9.5	6.5	11.4	8.7
Imports, c.i.f.	95.1	81.4	83.1	125.0	97.6
India	77.7	66.9	70.2	75.1	77.1
Third countries	17.4	14.4	12.9	49.9 1/	20.5
Trade balance	-28.4	-11.6	-20.0	-58.8	-30.8
India	-19.6	-6.7	-13.5	-20.3	-18.9
Third countries	-8.8	-4.9	-6.5	-38.5	-11.8
Services and private transfers (net)	2.5	-8.2	-7.0	-13.3	-16.6
India	-4.9	-8.7	-8.4	-12.4	-13.7
Third countries	2.3	0.5	1.4	-0.9	-2.8
Current account balance	-30.9	-19.8	-26.9	-72.1	-47.3
India	-24.5	-15.4	-21.9	-32.7	-32.6
Third countries	-6.4	-4.4	-5.1	-39.4	-14.7
Capital account balance	42.5	51.2	45.7	73.9	61.5
India	32.3	39.0	32.5	37.7	30.6
Third countries	10.2	12.3	13.2	36.2	30.9
Errors and omissions 2/	-17.5	-16.9	3.1	10.1	-2.1
India	-31.8	-35.4	-18.3	-7.5	3.0
Third countries	14.3	18.5	21.3	17.6	-5.1
Overall balance	-6.0	14.5	21.8	11.9	12.0
India	-24.0	-11.8	-7.6	-2.4	1.0
Third countries	18.1	26.4	29.5	14.3	11.0
Financing	6.0	-14.5	-21.8	-11.9	-12.0
Change in reserves	3.1	-19.3	-25.8	-13.7	-12.0
Debt relief	2.9	4.8	3.9	1.8	--
(In percent)					
Memorandum items:					
Exports/GDP	24.2	25.0	27.5	26.9	27.0
India	21.1	21.5	24.7	22.3	23.5
Third countries	3.1	3.4	2.8	4.6	3.5
Imports/GDP	34.5	29.1	36.2	50.9	39.4
India	28.2	23.9	30.6	30.6	31.1
Third countries	6.3	5.2	5.6	20.3	8.3
Current account/GDP	-11.2	-7.1	-11.7	-29.4	-19.1
India	-8.9	-5.5	-9.5	-13.3	-13.2
Third countries	-2.3	-1.6	-2.2	-16.0	-5.9
Foreign aid/GDP 3/	16.3	19.2	15.9	26.1	24.6
India	11.7	13.9	9.4	13.1	11.2
Third countries	4.6	5.2	6.6	13.0	13.4
Debt service ratio (in percent of exports of goods and services)	7.4	6.7	6.3	17.4	20.6
Gross international reserves In millions of US\$ (end of period)	89.0	90.5	99.7	94.5	106.5
In months of imports, c.i.f.	11.2	13.3	14.4	13.0 4/	13.1
Exchange rate (Nu/US\$, period average)	17.0	18.7	25.9	27.8	31.4

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Including the purchase of an aircraft for \$23.2 million and equipment for a ferrosilicon plant for US\$17 million.

2/ The large negative errors and omissions are partly attributable to an underestimation of border trade with India, especially in the period until 1991/92.

3/ Including official transfers and soft loans.

4/ Excluding purchase of aircraft and equipment for ferrosilicon plant.

Table 27. Bhutan: Balance of Payments with India, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
(In millions of ngultrum)					
Trade balance	-332.9	-125.3	-349.0	-564.1	-594.3
Exports, f.o.b. 1/	985.9	1,129.6	1,465.1	1,522.2	1,825.8
Chukha	280.2	374.4	397.3	355.1	537.3
Other	705.7	755.2	1,067.8	1,167.1	1,888.5
Imports, c.i.f. 1/	-1,318.8	-1,254.9	-1,814.1	-2,086.3	-2,420.1
Services and transfers (net)	-82.7	-162.7	-216.6	-343.7	-430.3
Receipts	231.6	228.7	235.1	201.4	200.3
Travel	34.2	37.4	41.9	46.1	46.1
Interest	67.6	40.9	22.8	0.7	2.0
Excise duty refund	55.5	86.8	86.8	86.8	86.8
Other	74.3	64.0	83.6	67.7	65.4
Payments	-314.3	-391.4	-451.7	-545.1	-630.5
Travel	-34.2	-37.4	-41.9	-46.1	-46.1
Scheduled interest	-49.8	-49.7	-56.4	-83.7	-229.6
Other	-230.3	-304.3	-353.4	-415.3	-354.9
Current account balance	-415.5	-288.0	-565.6	-907.8	-1,024.6
Loans and grants (net)	548.1	730.4	840.6	1,047.9	960.6
Loans (net)	-2.1	97.9	283.9	154.7	86.5
Receipts	--	--	286.0	347.8	183.7
Payments	-2.1	-2.1	-2.1	-193.1	-97.1
Grants	550.2	732.6	556.8	893.2	874.1
Budgetary	290.2	452.6	256.8	573.2	554.1
Nonbudgetary	260.0	280.0	300.0	320.0	320.0
Errors and omissions	-540.2	-664.1	-472.4	-207.3	94.0
Overall balance	-358.4	-172.5	-148.2	-18.0	30.0
Financing	407.6	221.7	197.4	67.2	-30.0
Change in reserves	358.4	172.5	148.2	18.0	-30.0
Debt relief	49.2	49.2	49.2	49.2	--
(In percent)					
Memorandum items:					
Exports of goods and services/GDP	21.1	21.5	24.7	22.3	23.5
Imports of goods and services/GDP	28.2	23.9	30.6	30.6	31.1
Current account/GDP	-8.9	-5.5	-9.5	-13.3	-13.2

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Exports and imports are given on a calendar year basis.

Table 28. Bhutan: Balance of Payments with Third Countries, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
(In millions of U.S. dollars)					
Trade balance	-8.8	-4.9	-6.5	-38.5	-11.8
Exports, f.o.b. 1/	8.6	9.6	6.5	11.3	8.7
Imports, c.i.f. 1/	17.4	14.4	12.9	49.9 3/	20.5
Aid-related 2/	5.4	6.2	6.5	12.9	13.3
Other	12.0	8.3	6.4	37.0	7.2
Services balance	-2.3	-4.3	-4.0	-7.6	-9.6
Receipts	9.9	7.8	8.1	11.4	11.1
Interest	4.9	4.7	2.3	4.6	4.1
Tourism	2.1	2.0	2.8	3.4	3.4
Druk Air 4/	2.6	0.6	2.6	2.7	2.7
Other	0.3	0.4	0.4	0.8	0.8
Payments	12.2	12.1	12.1	19.1	20.7
Scheduled interest	2.4	2.3	2.0	2.0	2.1
Official travel	1.6	1.0	0.9	1.2	1.2
Druk Air	0.2	0.1	0.2	0.4	0.4
Aid-related 2/	5.4	6.2	6.5	12.9	13.3
Other	2.6	2.9	2.7	2.6	3.6
Private transfers	4.6	4.8	5.4	6.7	6.7
Current account balance	-6.4	-4.4	-5.1	-39.4	-14.7
Loans and grants (net)	12.7	16.4	16.8	31.9	33.1
Loans (net)	3.6	4.8	4.0	3.9	1.1
Receipts	5.3	4.9	4.5	6.3	3.6
Scheduled payments	1.7	1.8	2.3	2.4	2.5
Grants	9.1	11.6	12.9	28.1	32.0
Commercial loans (net)	-2.5	-2.8	-2.8	4.2	-2.3
Receipts	--	--	--	7.0	--
Payments	2.5	2.8	2.8	2.7	2.3
Errors and omissions	14.3	18.5	21.3	17.6	-5.1
Overall balance	18.1	26.4	29.5	14.3	11.03
Financing	-18.1	-26.4	-29.5	-14.3	-11.0
Change in reserves	-18.1	-28.5	-31.5	-14.3	-11.0
Debt relief	--	2.2	2.0	--	--
(In percent)					
Memorandum items:					
Exports of goods and services/GDP	3.1	3.4	2.8	4.6	3.5
Imports of goods and services/GDP	6.3	5.2	5.6	20.3	8.3
Current account/GDP	-2.3	-1.6	-2.2	-16.0	-5.9
Exchange rate (period average) (Nu/\$)	17.0	18.7	25.9	27.8	31.4

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ Exports and imports are given on a calendar year basis.

2/ It is assumed that 75 percent of gross loans and grants is tied to imports, divided equally between merchandise and services.

3/ Including the purchase of a second aircraft and equipment for a ferrosilicon plant in 1992/93 for \$23.2 million and \$17 million, respectively.

4/ Including insurance receipts of \$2.4 million in 1989/90.

Table 29. Bhutan: Exports to India, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.	1989	1990	1991	1992 Prov.	1993 Est.
	(In millions of ngultrum)					(Share in percent)				
Agricultural products	112.2	91.7	172.3	162.2	202.1	11.4	8.1	11.8	10.7	11.1
Cardamom	34.2	22.8	53.9	43.7	47.2	3.5	2.0	3.7	2.3	2.6
Fruit products	33.5	37.5	50.8	58.9	81.1	3.4	3.3	3.5	3.9	4.4
Apples	1.2	0.9	3.0	9.1	11.2	0.1	0.1	0.2	0.6	0.6
Oranges	13.1	11.1	20.2	13.9	20.5	1.3	0.9	1.4	0.9	1.1
Potatoes	23.6	16.6	41.3	33.0	38.1	2.4	1.5	2.8	22.2	2.1
Rosin	6.6	2.8	3.1	3.6	4.0	0.7	0.2	0.2	0.2	0.2
Wood and wood products	153.5	179.8	292.9	304.1	310.0	15.5	15.9	20.0	20.0	17.0
Timber	96.9	107.2	120.4	139.6	134.7	9.8	9.5	8.2	9.2	7.4
Block boards	56.6	72.6	172.5	164.5	175.3	5.7	6.4	11.8	10.8	9.6
Cement	135.5	137.0	164.3	164.1	190.0	13.7	12.1	11.2	10.8	10.4
Electricity	280.2	374.4	397.3	355.1	537.3	28.4	33.1	27.1	23.3	29.4
Other	304.5	346.7	438.3	536.7	586.4	30.9	30.7	29.9	35.3	32.1
<u>Total</u>	<u>985.9</u>	<u>1,129.6</u>	<u>1,465.1</u>	<u>1,522.2</u>	<u>1,825.8</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 30. Bhutan: Imports from India, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.	1989	1990	1991	1992 Prov.	1993 Est.
	(In millions of ngultrum)					(Share in percent)				
Rice	69.9	72.9	93.0	98.0	85.0	5.3	5.8	5.1	4.7	3.5
Hydrocarbons	102.9	102.9	119.0	131.0	142.0	7.8	8.2	6.6	6.3	5.9
Diesel oil	49.1	65.0	80.0	89.0	97.0	3.7	5.2	4.4	4.3	4.0
Gasoline	26.7	32.6	35.0	37.0	39.0	8.0	2.6	1.9	1.8	1.6
Bitumen	27.1	5.3	4.0	5.0	6.0	2.1	0.4	0.3	0.2	0.2
Transport equipment	69.0	112.7	115.0	117.0	120.0	5.2	9.0	6.3	5.6	5.0
Tires and tubes	35.4	31.7	30.0	31.0	32.0	2.7	2.6	1.7	1.5	1.3
Truck chassis	16.6	54.4	60.0	59.0	62.0	1.3	4.3	3.3	2.8	2.6
Passenger cars	17.0	26.6	25.0	27.0	26.0	1.3	2.1	1.3	1.3	1.1
Other manufactured goods	98.7	78.8	83.0	88.0	95.0	7.5	6.3	4.6	4.2	3.9
Iron rods	16.3	16.9	17.0	19.0	20.0	1.3	1.3	0.9	0.9	0.8
Structures and parts	14.6	19.0	20.0	21.0	23.0	1.1	1.1	1.5	1.0	1.0
Machinery parts	35.3	10.0	10.0	10.0	12.0	2.7	0.8	0.6	0.5	0.5
Hardware	4.3	6.3	6.0	6.0	7.0	0.3	0.5	0.3	0.3	0.3
Fabrics	28.2	26.6	30.0	32.0	33.0	2.1	2.2	1.7	1.5	1.4
Electricity	3.2	4.4	4.5	0.5	0.6	0.2	0.4	0.3	--	--
Miscellaneous	975.1	883.2	1,399.5	1,651.8	1,977.5	73.9	70.4	77.2	79.2	81.7
Total	1,318.8	1,254.9	1,814.1	2,086.3	2,420.1	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 31. Bhutan: Exports to Third Countries, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.	1989	1990	1991	1992 Prov.	1993 Est.
	<u>(In thousands of U.S. dollars)</u>					<u>(Share in percent)</u>				
Agricultural products	6,482	5,827	4,334	9,208	6,735	75.1	61.1	67.2	81.1	77.4
Cardamom	414	613	662	503	530	4.8	6.4	10.2	4.4	6.1
Fruits	6,068	5,213	3,672	8,705	6,205	70.3	54.6	57.0	76.7	71.3
Wood and wood products	198	178	65	327	315	2.3	1.9	1.0	2.9	3.6
Timber	44	62	37	307	290	0.5	0.7	0.6	2.7	3.3
Processed wood	154	116	28	20	25	1.8	1.2	0.4	0.2	0.3
Mining and quarrying	232	309	381	302	312	2.7	3.2	5.9	2.7	3.6
Cement	69	223	182	128	132	0.8	2.3	2.8	1.1	1.5
Dolomite	164	35	199	174	180	1.9	0.9	3.1	1.5	2.1
Other	1,643	3,216	1,670	1,510	1,338	19.9	33.7	25.9	13.3	15.4
<u>Total</u>	<u>8.626</u>	<u>9.544</u>	<u>6.450</u>	<u>11.346</u>	<u>8.700</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 32. Bhutan: Direction of Trade, 1989-93

	1989	1990	1991	1992 Prov.	1993 Est.	1989	1990	1991	1992 Prov.	1993 Est.
	(In millions of U.S. dollars)					(Share in percent)				
Exports										
India	58.1	60.3	56.7	54.8	58.2	87.1	86.4	89.9	82.8	87.1
Bangladesh	7.9	7.3	4.5	9.3	6.3	11.8	10.5	7.1	14.0	9.4
Other	0.7	2.2	2.0	2.1	2.3	1.1	3.1	3.0	3.2	3.4
Total	66.7	69.8	63.1	66.2	66.8	100.0	100.0	100.0	100.0	100.0
Imports										
India	77.7	67.0	70.2	75.1	77.1	81.7	82.3	84.5	60.1	79.0
Japan	4.2	4.2	4.0	21.0	1/ 4.2	4.4	5.2	4.8	16.8	4.3
Germany	0.2	1.3	1.0	1.0	1.0	0.2	1.6	1.2	0.8	1.0
United States	0.7	1.0	1.0	1.0	1.0	0.8	1.3	1.2	0.8	1.0
United Kingdom	1.0	0.5	1.0	23.2	2/ 1.0	1.0	0.7	1.2	18.6	1.0
Singapore	0.4	0.8	--	--	--	0.4	1.0	--	--	--
Other	10.9	6.6	5.9	3.7	13.3	11.5	8.1	7.1	3.0	13.6
Total	95.1	81.4	83.1	125.0	97.6	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ The increase in 1992 reflects imports of equipment for ferrosilicon production.

2/ The increase in 1993 reflects the purchase of a second aircraft.

Table 33. Bhutan: Public External Debt and Debt Service, 1989/90-1993/94 1/

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
(In millions of U.S. dollars: end of period)					
Total public sector debt	<u>131.0</u>	<u>123.1</u>	<u>127.5</u>	<u>131.0</u>	<u>134.0</u>
Convertible currency debt	74.8	76.7	78.8	85.9	86.1
Concessional debt	54.3	59.0	63.9	66.7	69.2
AsDB	14.9	18.3	22.1	24.3	24.8
IDA	13.8	15.5	16.0	16.7	18.3
IFAD	5.9	6.3	6.9	8.6	8.8
Kuwait Fund	19.8	18.9	18.9	16.4	14.1
Other 2/	--	--	--	0.8	0.8
Commercial debt	20.4	17.7	14.9	19.1	16.9
Nonconvertible currency debt	56.2	46.4	48.7	45.1	47.9
Debt service payments	<u>6.7</u>	<u>6.1</u>	<u>5.0</u>	<u>14.7</u>	<u>17.3</u>
Convertible currency	6.6	5.9	4.7	7.5	6.9
Principal	4.3	3.8	2.9	5.5	4.8
Interest	2.3	2.2	1.8	2.0	2.1
Nonconvertible currency	0.2	0.1	0.4	7.2	10.4
Principal	0.1	0.1	0.1	6.1	3.1
Interest	--	--	0.3	1.1	7.3
(In percent of GDP)					
Memorandum items:					
External debt	47.5	44.0	55.6	53.3	54.1
Convertible currency	27.1	27.4	34.4	35.0	34.7
Concessional	19.7	21.1	27.9	27.2	27.9
Commercial	7.4	6.3	6.5	7.8	6.8
Nonconvertible currency	20.4	16.6	21.3	18.4	19.3
Debt service ratio 3/	7.4	6.7	6.3	17.4	20.6

Sources: Data provided by the Bhutanese authorities; and staff estimates.

1/ End-June figures.

2/ Data on convertible currency debt to bilateral creditors are incomplete.

3/ In percent of exports of goods and services.

Table 34. Bhutan: Concessional Loan Commitments, Disbursements, Debt Structure and Terms, June 1994

Lender/Project	Loan Commitment (US\$ mn.)	Amount Disbursed June 1994 (US\$ mn.)	Date of Negotiation	Scheduled Date of Final Disbursement	Grace Period (in years)	Original Maturity (in years)	Interest Rate (percent per annum)
AsDB	44.5	26.0					
Multiproject I	5.0	4.31	8/5/83	12/31/89	10	40	1
Multiproject II	7.4	8.42	11/3/84	12/31/89	10	40	1
Agriculture/Chirang Hill irrigation	3.5	1.09	8/9/85	12/31/91	10	40	1
Road mechanization	4.5	4.99	8/22/86	12/31/92	10	40	1
Animal husbandry/highland livestock	4.8	3.94	10/30/86	9/30/92	10	40	1
Urban centers sewerage	3.3	--	1/29/87	6/30/91	10	40	1
Industrial estate project	1.2	0.62	7/30/88	6/30/92	10	40	1
Bhutan Development Finance Corporation	2.5	2.32	11/16/88	5/3/93	10	40	1
Technical and vocational education and training	7.1	0.33	8/31/90	6/30/98	10	40	1
East-West Highway Maintenance	5.2	--	10/15/93	12/31/97	10	40	1
Kuwait Fund	32.7	23.7					
Gedu Wood	9.6	5.98	5/16/83	12/31/89	5	15	1.5
Tala Particle Board I	7.1	10.44	3/7/84	12/31/87	5	15	1.5
Tala Particle Board II	4.1	--	3/7/84	12/31/89	5	15	1.5
Calcium Carbide	7.0	6.66	5/22/85	12/31/89	5	15	2
Bhutan Development Finance Corporation	4.9	0.69	6/18/92	12/31/97	5	15	3
IFAD	19.7	9.4					
Small farm development	7.2	4.3	12/10/80	6/30/89	10	40	1
Tashigang-Mongar development	5.9	3.5	3/17/86	3/31/93	10	40	1
Punakha-Wangdi development	2.6	1.1	11/18/88	5/3/92	10	40	1
First Eastern Zone Agricultural Project	4.0	0.6	6/16/92	6/30/98	10	40	1
IDA	28.2	18.2					
Technical assistance	3.0	3.3	2/29/84	12/31/89	10	30	0.75
Calcium Carbide	9.0	7.2	5/23/84	6/30/91	10	30	0.75
Forestry I	5.5	5.3	6/25/84	9/30/90	10	30	0.75
Forestry II	1.1	0.8	9/5/86	5/9/88	10	30	0.75
Primary education	4.2	1.2	9/5/88	12/31/95	10	30	0.75
Third forestry development	5.4	0.4	6/6/93	6/30/01	10	30	0.75
Total	125.1	77.2					

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Table 35. Bhutan: External Debt and Debt Service
by Creditor, 1989/90-1993/94

(In millions of U.S. dollars: end-June)

	1989/90	1990/91	1991/92	1992/93 Prov.	1993/94 Est.
<u>Concessional debt</u>					
AsDB					
Amount disbursed	14.9	18.3	22.1	24.3	26.0
Interest payment	0.1	0.1	0.3	0.2	0.3
Principal repayment	--	--	--	--	0.1
IDA					
Amount disbursed	13.8	15.5	16.0	16.7	18.2
Interest payment	0.1	0.1	0.1	0.1	0.2
Principal repayment	--	--	--	--	--
IFAD					
Amount disbursed	5.9	6.3	6.9	8.6	10.0
Interest payment	0.1	0.1	0.1	0.1	0.1
Principal repayment	--	0.1	0.1	0.1	0.1
Kuwait Fund					
Amount disbursed	19.8	18.9	18.9	16.4	14.1
Interest payment	0.4	0.3	--	0.5	0.6
Principal repayment	1.8	0.9	--	2.6	2.3
Others					
Amount disbursed	--	--	--	0.8	0.8
Interest payment	--	--	--	--	--
Principal repayment	--	--	--	--	--
Total concessional debt					
Amount disbursed	54.3	59.0	63.9	66.7	69.2
Interest payment	0.7	0.7	0.5	1.0	1.3
Principal repayment	1.8	1.0	0.1	2.7	2.5
<u>Commercial debt</u>					
Amount disbursed	20.4	17.7	14.9	19.1	16.9
Interest payment	1.6	1.4	1.2	1.1	0.9
Principal repayment	2.5	2.8	2.8	2.8	2.3
<u>Non-convertible debt</u>					
Amount disbursed	56.2	46.4	48.7	45.1	47.9
Interest payment	--	--	--	1.1	7.3
Principal	0.1	0.1	0.1	7.0	3.1
<u>Total debt</u>					
Amount disbursed	131.0	123.1	127.5	131.0	134.0
Interest payment	2.3	2.2	2.1	3.1	9.5
Principal repayment	4.4	3.9	3.0	12.4	7.9

Sources: Data provided by the Bhutanese authorities; and staff estimates.

Note: Amount disbursed refers to stock of outstanding disbursed debt at the end of each period.