



**ROYAL MONETARY AUTHORITY OF BHUTAN
ANNUAL REPORT 2009/10**

JANUARY 2011

Postal Address

Royal Monetary Authority of Bhutan
Chhophel Lam
Kawajangsa
Post Box No.154
Thimphu, Bhutan

Telephone

(975-2) 322540/323110/323111/323112

Fax

(975-2) 322847

E-mail

rsd@rma.org.bt

Website

www.rma.org.bt

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PREFACE

This report reviews developments that have taken place in the Bhutanese economy during the fiscal year 2009/10. Nevertheless, some important events which have occurred in the recent past have also been covered. Commentaries on the economic sectors are based on information provided by government authorities, financial institutions, and private sector sources. Comprehensive background data are available in the statistical section, while the annexure section provides additional detailed and updated information on selected economic sectors. An overview of events in the global economy and future developments for 2010/11 are also presented in this edition of the Annual Report. The annual accounts of the RMA are published in accordance with the requirements stipulated in the Royal Monetary Authority Act of Bhutan 2010. A list of all the articles published by the RMA is outlined at the end of the report.

All views expressed in this report are those of the RMA and do not necessarily represent those of the data sources.

We thank all those who have contributed to the information contained in this report.

BOARD OF DIRECTORS

H.E. Lyonpo Wangdi Norbu
Minister
Ministry of Finance

Chairman

Mr. Lam Dorji
Secretary
Ministry of Finance

Vice-Chairperson

Mr. Sonam Wangchuk
Director General
Cabinet Secretariat

Member

Mr. Kuenga Tshering
Director
National Statistics Bureau

Member

Mr. Daw Tenzin
Managing Director
Royal Monetary Authority of Bhutan

Member Secretary

Mr. Dechen Tshering
Deputy Managing Director I
Operations Department
Royal Monetary Authority of Bhutan

Observer

(As of June 2010)

BOARD OF DIRECTORS

H.E. Mr. Daw Tenzin
Governor
Royal Monetary Authority of Bhutan

Chairman

Dasho Karma Ura
President
Center for Bhutan Studies

Member

Mr. Sonam Wangchuk
Ex-Director General
Cabinet Secretariat

Member

Mr. Nima Wangdi
Director General
Ministry of Finance

Member

Mr. Loknath Chapagai
Chief Industries Officer
Ministry of Economic Affairs

Member

Mr. Dechen Tshering
Deputy Managing Director I
Operations Department
Royal Monetary Authority of Bhutan

Member Secretary

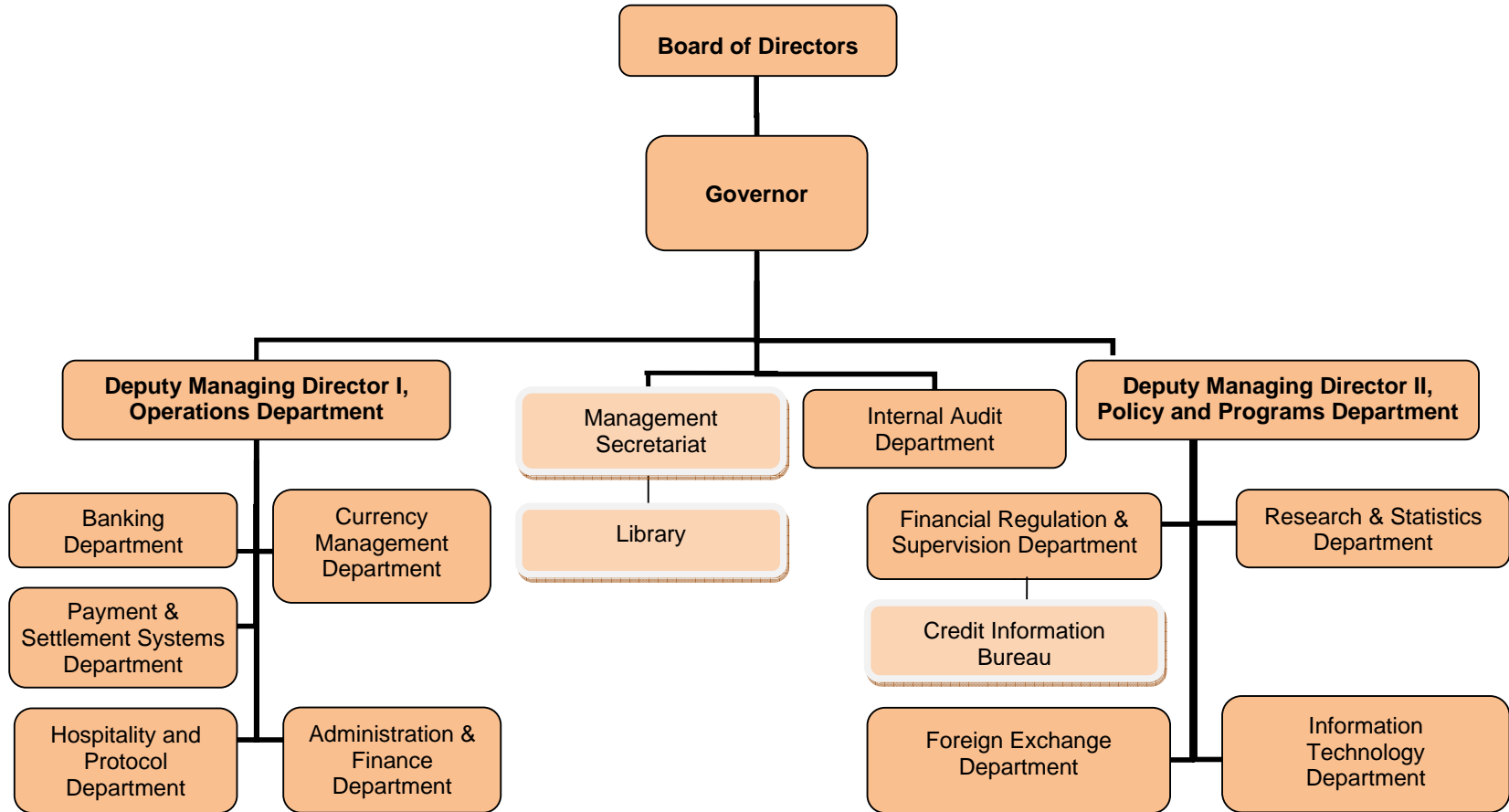
(As of December 2010)

MANAGEMENT

1. Governor	Daw Tenzin
2. Deputy Managing Director	Dechen Tshering
3. Director, Banking Department	Rinzi Lhamu
4. Director, Financial Regulation & Supervision Department	Eden Dema
5. Director, Foreign Exchange Department	Karma Rinzin
6. Director, Protocol & Hospitality Department	Phub Dorji Tangbi
7. Director, Information Technology Department	Sherab Jamtsho
8. Director, Internal Audit Department	Julien Gurung
9. Director, Currency Management Department	Phajo Dorjee
10. Director, Administration & Finance Department	Tshering Yangchen
11. Director, Research & Statistics Department	Pushpa Lal Chhetri
12. Director, Payment and Settlement Systems Department	Jai Narayan Pradhan
13. Director, Management Secretariat	Namgay Tshering
14. Officer-in-Charge, Credit Information Bureau	Ugyen Tshering

(As of June 2010)

ORGANIZATION CHART OF THE RMA



ABBREVIATIONS AND SYMBOLS

Abbreviations

ACU	Asian Clearing Union
ADB	Asian Development Bank
ATM	Automated Teller Machine
AWP	Army Welfare Project
BAIL	Bhutan Agro Industries Limited
BBCL	Bhutan Beverages Company Limited
BBPL	Bhutan Board Products Limited
BCCI	Bhutan Chamber of Commerce and Industry
BCCL	Bhutan Carbide and Chemicals Limited
BDFCL	Bhutan Development Finance Corporation Limited
BDL	Bhutan Dairy Limited
BEVL	Bhutan Eco-Ventures (P) Limited
BFAL	Bhutan Ferro Alloys Limited
BFPL	Bhutan Fruit Products Limited
BHL	Bhutan Hotels Limited
BIMST-EC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIT	Business Income Tax
BNBL	Bhutan National Bank Limited
BOBL	Bank of Bhutan Limited
BOP	Balance of Payments
BPC	Bhutan Power Corporation
BPCL	Bhutan Polythene Company Limited
BRCL	Bhutan Resorts Corporation Limited
BST	Bhutan Sales Tax
BTCL	Bhutan Tourism Corporation Limited
CAR	Capital Adequacy Ratio
CHPCL	Chukha Hydro Power Corporation Limited
CIB	Credit Information Bureau
CIT	Corporate Income Tax
COTI	Countries Other Than India
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
DACL	Druk Air Corporation Limited
DPCL	Druk Petroleum Corporation Limited
DPOP	Druk Plaster of Paris Limited
DPR	Detailed Project Report
DRC	Department of Revenue and Customs
DSCL	Druk Satair Corporation Limited
DSML	Druk Stones and Minerals Export Company Limited
EBCC	S.D Eastern Bhutan Coal Company
EDP	Entrepreneurial Development Program

EFIC	Export Finance and Insurance Corporation
FDI	Foreign Direct Investment
FI	Financial Institution
FISD	Financial Institutions Supervision Division (RMA)
FSA	Financial Services Act
FY	Fiscal Year (July-June)
GDP	Gross Domestic Product
GEPF	Government Employees Provident Fund
GOI	Government of India
IAIS	International Association of Insurance Supervisors
ICBS	Integrated Central Banking System
IDA	International Development Association (World Bank)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFS	International Financial Statistics, IMF
IMF	International Monetary Fund
INGO	International Non Government/Profit Organization
INR	Indian Rupee
IPOs	Initial Public Offers
KFAED	Kuwait Fund for Arab and Economic Development
KHPCL	Kurichhu Hydro Power Corporation Limited
KCL	Kuensel Corporation Limited
M0	Reserve Money
M1	Narrow Money
M2	Broad Money
MOE	Ministry of Economic Affairs (previously the Ministry of Trade and Industry)
MOU	Memorandum of Understanding
NBFI	Non Bank Financial Institution
NFA	Net Foreign Assets
NPA	Non Performing Assets
NPL	Non Performing Loans
NPPF	National Pension and Provident Fund
NRB	Non-Resident Bhutanese
NSB	National Statistical Bureau
OIN	Other Items Net
PCAL	Penden Cement Authority Limited
PIT	Personal Income Tax
PPN	Purchasing Power of Ngultrum
PR 2002	Prudential Regulations 2002
QM	Quasi Money

RBI	Reserve Bank of India
RGOB	Royal Government of Bhutan
RICBL	Royal Insurance Corporation of Bhutan Limited
RMA	Royal Monetary Authority of Bhutan
RSEBL	Royal Securities Exchange of Bhutan Limited
SAARC	South Asian Association for Regional Cooperation
SAARCFINANCE	Network of SAARC Central Bank Governors and Finance Secretaries
SAFTA	South Asian Free Trade Agreement
SBI	State Bank of India
SEDF	South Asia Enterprise Development Facility
SME	Small and Medium Scale Enterprise
STCBL	State Trading Corporation of Bhutan Limited
SWIFT	Society for Worldwide Inter-Bank Financial Telecommunications
TA	Technical Assistance
TCB	Tourism Council of Bhutan
THPA	Tala Hydroelectric Project Authority
UNCDF	United Nations Capital Development Fund
UNESCAP	United Nations Economic & Social Commission for Asia & Pacific
UNDP	United Nations Development Programme
WTO	World Trade Organization

Statistical Abbreviations and Symbols

e	estimated
p	provisional
r	revised estimates
-	the figure is zero or less than half the final digit shown or the item does not exist or the figure is not available
.	the figure is unknown or is not meaningful or is not to be published
---	change within a time series, causing a break in continuity
+	fiscal year, July-June

Note: Discrepancies in the totals are due to rounding



STATEMENT BY THE GOVERNOR

FY 2009/10 has been a year of exceptional achievements for Bhutan and its people. The nation hosted the historic 16th SAARC Summit for the first time in Thimphu that showcased the nation's vast socio-economic progress, unique cultural heritage, and legacy under His Majesty's philosophy of Gross National Happiness (GNH). This was followed with the momentous inauguration of the SAARC Development Fund in Thimphu, its location holding great significance in the Fund's efforts towards poverty alleviation and closer regional economic integration. Bhutan has clearly come into its own, gaining greater international recognition for its untiring endeavors to pursue GNH-centric goals. And this is clearly demonstrated by our recent commitment to begin phasing out hydro-chlorofluorocarbon (HCFCs) substances from 2013 by 2020 under the Montreal Protocol.

The momentum of global economy is reflected in the International Monetary Fund's revised projections for global growth, which is expected to remain sluggish in most advanced economies and some emerging economies, but that of the developing and emerging economies to be much stronger. Developing Asia is projected to grow by 9.4 percent during 2010, up from 6.9 percent during 2009, and will continue to grow by 8.4 percent in 2011.

In that connection, real GDP growth in Bhutan remained robust at 6.7 percent during 2009; growth is expected to stay strong for the remainder of the 10th Five Year Plan growing on average by approximately 9 percent per year for the remaining years of the Plan period, propelled by continuing developments in Bhutan's hydropower sector.

The RGOB's new fiscal and economic packages encapsulated in the Economic Development Policy 2010, Fiscal Incentives 2010, and Foreign Direct Investment Policy 2010, hold great promise and potential to support and boost private sector growth and create numerous employment opportunities for national economic self-reliance. This is matched by great expectations from the completion of the Thimphu IT Park, a model public-private partnership venture during 2010/11, as well as works on the hugely anticipated Education City as a destination for innovation and excellence in education and technology by 2020. Further opportunities are presented for local industry and commerce on the bilateral front, with the renewal of the Agreement on Trade between the RGOB and Bangladesh Government in November 2009, and ongoing talks to finalize a Preferential Trade Agreement with the Government of Nepal.

Within the Bhutanese economy, real GDP growth was higher at 6.7 percent in 2009, up from the previous year's growth of 4.7 percent, driven by accelerated performance in the construction and services sectors (including transport, storage and communications etc.). Improved performance in these sectors reflects ongoing pre-construction as well as construction works on the new hydropower projects. Meanwhile, growth performance in the agricultural sector improved during the year, whereas 2009 recorded contraction in the growth of the electricity and the mining and quarrying sectors; negative performance was more pronounced for the hotels and restaurants sector during the year.

Foundation stones were laid for the Punatsangchhu II and Mangdechhu hydropower projects on May 1, 2010 by Bhutan's Prime Minister Lyonchhoen Jigmi Y Thinley and Indian Prime Minister Dr. Manmohan Singh and pre-construction works are currently underway. Meanwhile, construction works on the Punatsangchhu I hydropower project continues on track and is scheduled for completion by the end of 2015, while that for the Dagachhu project commenced October 2009, and targets completion by 2013. The Punatsangchhu II and Mangdechhu projects are due for completion the following year in 2016. Once commissioned, the operation of all four power plants is estimated to augment Bhutan's hydropower generating capacity more than four-fold from the existing 1,480 MW.

While growth prospects appear favorable for Bhutan, FY 2009/10 reiterated Bhutan's susceptibility to contingent circumstances and external vulnerabilities, demonstrated by natural calamities and fluctuating oil and essential food prices on imports that have had considerable fiscal implications and adverse impact on local consumption. Mindful of the vulnerabilities associated with Bhutan's small economy case, these issues must be kept central during planning processes, and at the core of the Royal Monetary Authority's policy actions.

Monetary expansion in Bhutan continued in 2009/10 with broad money expanding by 30.1 percent compared to the previous year driven by growth in net foreign assets and domestic credit. Inflationary conditions worsened during the year due to a considerable increase in both food and non-food prices, and annual inflation rose to 6.1 percent during the second quarter of 2010 in contrast to the low of 3 percent during the same period last year. Meanwhile, credit to the private sector continued its expansion by 38.6 percent for the fiscal year compared to a growth of 31.1 percent during 2008/09. In spite of the tapering impacts of the global economic slowdown, performance of the Bhutanese financial sector was robust during 2009, with the financial institutions well capitalized, and the introduction of 2 new commercial banks and one new insurance company. The combined assets of the financial sector grew by 28.8 percent to Nu.50.5 billion, of which almost 90 percent belonged to the commercial banks and the remaining 10 percent to non-bank financial institutions. Banking sector assets grew by 36.2 percent to Nu.45.4 billion, while that of the non-bank financial institutions declined by 13.5 percent to Nu.5.1 billion, mostly due to the re-categorization of the BDFCL as a banking institution after receiving its license in March 2010. Moreover, the financial system's non-performing loan ratio has also improved, dropping to 10.3 percent from 18.3 percent as of the FY 2008/09.

More importantly, the entry of new banks and non-banking institution has injected much-needed competition into Bhutan's financial system. However, with more players in the market and in light of the rapid credit growth, RMA is aware of the necessity to enhance supervision over banks' risk management practices and financial disclosure to safeguard and maintain desirable asset quality and financial sector stability. Once the RMA's Financial Services Act is formally endorsed in the coming fiscal year, this will empower the RMA to further introduce new avenues and opportunities for innovative financial market providers that will meet the diverse financial needs of private sector and general public.

Developments in Bhutan's external sector as indicated by the balance of payments statistics were characterized by a widening in the current account deficit to Nu.8.8 billion. This has been underpinned by substantial widening of the trade deficit due to rapid growth in merchandise imports, which has resulted in a more than doubling of the trade deficit to Nu.13.9 billion. India remains Bhutan's largest trading partner, accounting for 92 percent of

exports and 72 percent of imports during FY 2009/10. Hydropower exports to India are still the most important export, accounting for 39 percent of total exports during the fiscal year. And combined with the worsening in the services and income accounts, Bhutan's current account deficit expanded from 1.7 percent of GDP to 14.3 percent of GDP in 2009/10. Bhutan's balance of payments flows continue to be dominated by developments in the hydropower sector and flows of official aid in grants and loans.

Net inflows of capital grants (largely associated with the Punatsangchhu I hydropower project) and concessional publicly guaranteed loans to the tune of Nu.5.9 billion were a large factor in building the surplus in the capital and financial account balance which totaled Nu.7 billion at the end of June 2010. These capital and financial flows helped finance Bhutan's current account deficit, with a final overall surplus in the balance of payments of Nu.4.4 billion.

Corresponding to the surplus in the balance of payments, Bhutan's official international reserves grew to USD 868.1 million for the year ending June 2010, sufficient to finance 12.3 months of commodity imports. Entrusted with managing the nation's international reserves, this responsibility has become immensely challenging due to the need to ensure adequate Rupee reserves to safeguard the integrity of the exchange rate peg with India. And with the nation's widening current account deficit with India, the Ngultrum's fixed peg to the Indian Rupee has placed additional pressure to ensure adequate Rupees to meet the economy's requirements. Following last year's plans to design a new strategy to streamline Rupee management and circulation in Bhutan, the Authority has now delegated the exchange of Ngultrum with Indian Rupees to the commercial banks with effect from May 1, 2010. Individuals will be able to access unlimited Rupees above a limit of INR 40,000 based on the submission of supporting documents. Moreover, the Authority has also entered into a special agreement with the State Bank of India, Hashimara, for the daily transfer of Rupee balances to meet the banking sector's requirements.

At the end of the FY 2009/10, Bhutan's external debt outstanding totaled USD 840.7 million, or 63.5 percent of GDP. Indian Rupee denominated debt constitutes 58.1 percent of Bhutan's external debt and Rupee denominated debt expanded substantially during the year on account of borrowings from the Government of India towards the construction of the Punatsangchhu I hydropower project. With the ongoing State Bank of India Overdraft Facility, Bhutan's debt service ratio continues to remain elevated at 29.5 percent from 30.5 percent in the previous year; the principal and interest repayments towards the State Bank of India Overdraft Facility alone amounted to Nu.4.3 billion.

Bhutan's fiscal policy remained progressive during the review year with the national budget deficit increasing to 6.7 percent of GDP in the 2009/10 revised budget from a surplus of 2 percent of GDP in 2008/09. Total expenditure grew from 40.9 percent of GDP in 2008/09 to 49.7 percent of GDP attributed to the incorporation of additional budget allocations for both capital and current expenditures during the financial year. On the other hand, total revenue including grants, increased marginally from 42.9 percent of GDP to 43.1 percent of GDP in 2009/10. Current expenditure was estimated at Nu.13.8 billion, and was completely financed by domestic revenue amounting to Nu.15.9 billion, while capital expenditure estimated at Nu.16.6 billion. Grant support helped finance 34.2 percent of total expenditure. Of the total deficit, 16 percent was financed through external concessional borrowing and the remaining through domestic sources.

FY 2009/10 has been a year of sustained growth and positive institutional transformation, particularly for the nation's Central Bank. Just as the nation and Government have strived to strengthen its footing in the new dynamics of democracy, so also the Royal Monetary Authority has endeavored to consolidate its position and powers through the new Royal Monetary Authority of Bhutan Act of Bhutan 2010, to enhance our capacity to effectively steer financial sector and macroeconomic growth for national socio-economic welfare.

The RMA celebrated the historic inauguration of the Electronic Fund Transfer and Clearing System in June 2010, during which time the Authority also hosted for the very first time, the 39th Meeting of the Asian Clearing Union Board of Directors in Thimphu. Furthermore, the Authority in collaboration with other financial institutions conducted another round of the Financial Literacy Program early 2010 in six key districts. It is our hope that these efforts will go a long way to promote and enhance the general public's understanding of the financial sector to enable them to make sound financial decisions and to avoid predatory lending and credit schemes.

Meanwhile, during the year, the Authority initiated the drafting of several key policies for the financial sector including the Microfinance Regulations, Branchless Banking Regulations, Corporate Governance Regulations, Anti-Money Laundering Regulations, and the Establishment of Re-insurance companies in Bhutan. The Authority has also declared a moratorium on the issue of commercial bank licenses till 2015 in line with economic market survey assessments.

In accordance with the enacted RMA Act of Bhutan 2010, commencing 2011, the Authority shall formulate and publicly present the annual monetary policy statement in Parliament, as the central function of the Authority to initiate appropriate policies with the objective of maintaining price stability, and external and financial sector stability to facilitate sustained economic growth in the country.

At the close of FY 2009/10, the Authority expresses its appreciation to its valued stakeholders in the Royal Government and financial sector for their continued cooperation and support. We reaffirm our commitment to serve the people of Bhutan, in keeping with the vision and legacy that has emanated from the Golden Throne.

A handwritten signature in cursive script, reading "Daw Tenzin". The signature is written in dark ink and features a long, sweeping horizontal line that extends to the right and then loops back under the name.

Daw Tenzin
Governor
January 11, 2011

BHUTAN KEY ECONOMIC INDICATORS

Indicator	2006/07	2007/08	2008/09	2009/10(p)
GDP Growth and Prices (percent change)				
GDP at Constant (2000) Price (a), (b)	6.8	17.9	4.7	6.7
Consumer Prices (c)	5.9	8.8	3.0	6.1
Wholesale Prices (India) (d)	5.4	9.6	0.5	10.6
Government Budget (in millions of Nu.) (e)				
Total Revenue and Grants	16083.1	18316.9	23443.0	26361.1
Of which: Foreign Grants	6000.9	5935.4	6575.1	10423.4
Total Expenditure and Net Lending	15795.4	17913.4	22350.5	30451.6
Current Balance	2390.8	2655.8	5806.5	2100.4
Overall Balance	287.7	403.5	1092.5	-4090.5
Money and Credit (percent change, end of period)				
Broad Money, M2	8.6	2.3	24.6	30.1
Credit to Private Sector	35.5	37.4	31.1	38.6
Interest Rates (end of period)				
One Year Deposits	4.5	4.8	4.8	4.8
Lending Rate	10.0-16.0	10.0-16.0	10.0-16.0	10.0-16.0
91-day RMA Bills/ Treasury Bills	3.5	6.0	6.0	2.0
Balance of Payments (in millions of Nu.)				
Trade Balance	2061.8	-2921.6	-4322.4	-13938.2
With India	4447.6	-27.8	-278.6	-4933.6
Current Account Balance	6417.2	-1080.2	-948.7	-8754.9
(In percent of GDP)	15.8	-2.2	-1.7	-14.3
With India	5882.1	-142.4	-1098.8	-4002.6
(In percent of GDP)	14.5	-0.3	-2.0	-6.5
Foreign Aid (Concessional Loans net)	783.3	1015.0	4193.3	2215.2
Of which: India	-30.3	482.6	3163.1	794.2
Errors and Omissions	-6091.4	-2613.4	1578.3	6139.8
Overall Balance	5421.2	1957.0	5694.8	4401.4
(In percent of GDP)	13.3	4.0	10.4	7.2
External Indicators (end of period)				
Gross Official Reserves in Millions of USD	608.4	655.3	772.7	868.1
(In months of merchandise imports)	12.8	12.4	15.3	12.3
External Debt (percent of GDP)	80.8	67.0	70.1	63.5
Debt-Service Ratio (f)	3.6	18.3	30.5	29.5
Memorandum Items:				
Nominal GDP (in millions of Nu.) (a), (b)	40673.5	49456.5	54713.0	61222.6
Ngultrum per USD (fiscal year period average)	44.2	40.4	47.8	46.7
Money Supply, M2 (end of period)	25208.5	25780.7	32113.5	41778.7
Money Supply, M1 (end of period)	13542.3	14392.4	18373.5	22537.7
Counterparts				
Foreign Assets (Net)	24881.3	26365.6	33074.0	35236.5
Domestic Credit	9345.1	12794.2	15122.7	21811.1
Claims on Private Sector	10111.7	13890.4	18216.0	25246.1

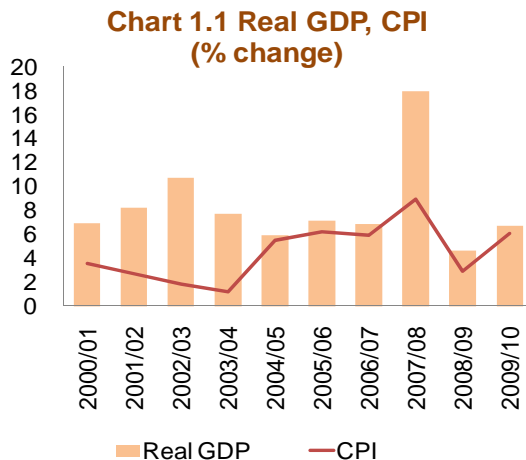
Item	2006/07	2007/08	2008/09	2009/10(p)
Components				
Currency Outside Banks	3166.0	3640.8	4541.8	5386.5
Demand Deposits	10376.3	10751.6	13833.2	17151.2
Quasi-Money	11666.4	11388.3	13739.8	19241.0
Reserve Money , M0, of which	13319.6	12871.0	14696.5	20574.7
Banks' Deposits	9982.3	8685.7	9810.2	14683.9
Money Multiplier (M2/M0)	1.9	2.0	2.2	2.0
Income Velocity (GDP/M2)	1.6	1.9	1.7	1.0
Population Growth Rate (a), (g), (h)	1.3	1.3	1.3	1.3
Unemployment Rate (a), (h)	3.2	3.7	n/a	4.0

a) On a calendar year basis, e.g., the entry under 2006/07 is for 2006. - b) Source: National Accounts Statistics (2009), NSB - c) Data till 2002/03 are based on the old half-yearly average CPI of the NSB (1979 base year). This was replaced by a new quarterly CPI with a revised basket and Q3 of 2003 as the base. Rates of change (year-to-year) for the quarterly CPI are therefore not available prior to Q3, 2004. The CPI reflected in this table is for the last quarter of the fiscal year. - d) Source: Reserve Bank of India. Wholesale Price Index of All Commodities, 1993-94 base; reference period same as for Bhutan CPI - e) Data for 2009/10 are revised estimates. - f) Debt service payments in percent of exports of goods and services.- (g) Data for 2005 is from the Population & Housing Census of Bhutan 2005.- (h) Source: Comparative Socio-Economic Indicators for Bhutan, NSB; Labour Market Information Bulletin (2009), MLHR. The unemployment rate for 2009/10 is as of 2009 (Source: NSB and Labor Force Survey 2009).

I. ECONOMIC REVIEW

1. DOMESTIC ECONOMY

Bhutan's **real GDP** grew by 6.7 percent in 2009. As a percentage of real GDP growth, the **tertiary sector**, (wholesale and retail trade; hotel and restaurant; transport, storage and communication; financing, insurance and real estate; community and social services, and private, social and recreational services) was the main **contributor** during 2009, followed by the **secondary sector** (manufacturing; electricity, and construction) and **primary sector** (agriculture proper, livestock production, forestry and logging; and mining and quarrying).



In 2009, negative growth was recorded in three sectors namely, mining and quarry, electricity, and hotels and restaurants. A substantial decline in growth was also recorded in the manufacturing and private, social and recreational services in 2009.

However, the overall performance of the agriculture, livestock, and forestry sectors improved during 2009. The forestry and logging sub-sector revived from its negative growth of 1.4 percentage points in 2008 to 3.9 percentage points in 2009. A similar improvement was witnessed in the case of the construction sector. In 2009, the growth in the services sector was also recorded significantly higher as compared to 2008. In particular, service-providing sectors, including community and social services, and transport, storage and communication recorded robust growth.

Bhutan's real GDP growth accelerated to 6.7 percent during 2009. Although the performance of the economy was progressive during 2009, 2009's GDP growth rate is below the preceding 5-year average growth rate (7 percent) since 2003.

As of 2009, Bhutan's per capita GDP/income was recorded at USD 1,852, and unemployment has risen to 4 percent (2009) from 3.7 percent last year. Data reveals that approximately 80 percent of those unemployed fall under the age group of 15-24 years.

Unemployment rate (2009)
Male: 2.6 percent
Female: 5.4 percent

In 2009, Bhutan's labor force participation rate grew marginally to 68.5 percent from 67.3 percent

Labor Force Participation Rate (2009)
Male: 72.8 percent
Female: 64.5 percent

Source: Labor Statistics, MOLHR.

Note: Due to a break in continuity from Q3, 2003, and change in the CPI computation methodology (from half-yearly to quarterly index), the two periods data; prior to and after FY 2003/04, cannot be directly compared.

Table 1.1 Real GDP Growth by Sector: 2005-2009

Item	Year-to-year change in %				
	2005	2006	2007	2008	2009
Gross Domestic Product	7.1	6.9	17.9	4.7	6.7
Primary Sector	2.0	3.7	2.5	2.5	1.6
Secondary Sector	3.3	8.4	41.6	5.5	4.1
Tertiary Sector	13.7	7.3	5.9	4.8	12.2

Source: National Statistics Bureau. Discrepancies in the figures are due to rounding.

While reviewing major sector-wise growth for 2009, the **tertiary sector** recorded the highest growth by 12.2 percent followed by the secondary sector and primary sector at 4.1 percent and 1.6 percent, respectively.

Within the tertiary sector, the community and social services sector grew by 28.6 percent from 3.1 percent in 2008, followed by transport, storage and communication at 9.2 percent from 5.3 percent, and finance, insurance, real estate and business services at 6.2 percent from 5.0 percent.

Growth in wholesale and retail trade increased to 6.2 percent from 0.9 percent in 2008. However, hotels and restaurants experienced negative growth of 12.9 percent in 2009 as against 45.4 percent in 2008, while, growth in private, social and recreational services declined to 1.9 percent from 5.2 percent.

Meanwhile, growth in the **secondary sector** was moderately lower at 4.1 percent as compared to 5.5 percent in 2008 (due to negative growth in the electricity sector); while, the **primary sector** witnessed contraction by 1.6 percent, down from 2.5 percent in 2008.

In terms of contribution to overall GDP growth (Refer Table 1.2), the tertiary sector's growth contribution fluctuated over the years. During 2009, this sector's contribution to GDP accounted for 4.7 percentage points as compared to 1.8 percentage points in 2008, 5.2 percentage points in 2004, and 3.8 percentage points in 2002.

Chart 1.2 Sectoral Composition of Nominal GDP

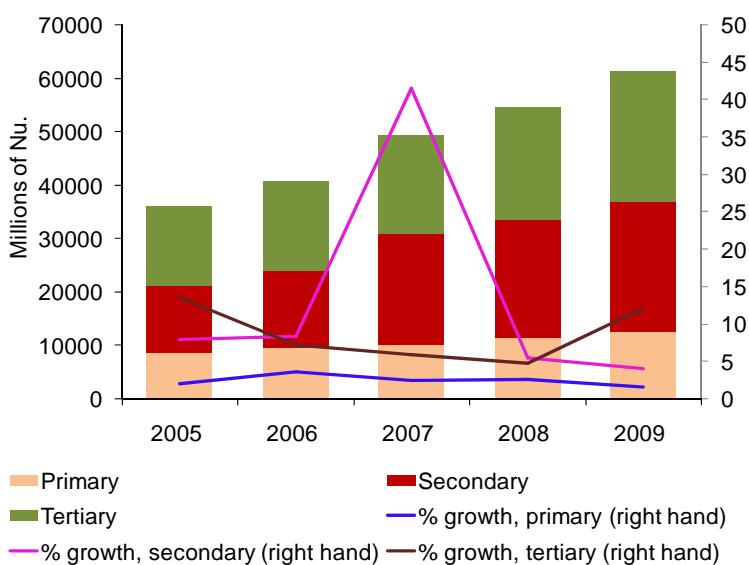


Table 1.2 Real GDP Growth by Sectoral Contribution: 2002-2009

	Real Contribution to GDP growth (%)							
	2002	2003	2004	2005	2006	2007	2008	2009
I. Primary Sector	0.9	0.5	0.4	0.5	0.8	0.5	0.5	0.3
1. Agriculture, livestock, & forestry	0.7	0.5	0.5	0.2	0.5	0.2	0.1	0.4
1.1 Agriculture proper	0.3	0.3	0.2	0.1	0.1	0.1	0.2	0.2
1.2 Livestock production	0.1	0.0	0.0	0.3	0.1	0.2	0.0	0.1
1.3 Forestry & logging	0.3	0.2	0.3	-0.2	0.3	-0.1	-0.1	0.1
2. Mining & quarrying	0.2	0.0	-0.1	0.2	0.3	0.4	0.4	-0.1
II. Secondary Sector	6.0	0.0	2.8	2.8	3.0	14.9	2.4	1.8
3. Manufacturing	0.2	0.5	0.4	0.6	0.9	2.0	0.7	0.6
4. Electricity	1.8	-1.0	0.9	2.7	3.6	12.1	2.9	-0.6
5. Construction	4.1	0.5	1.5	-0.4	-1.6	0.7	-1.3	1.7
III. Tertiary Sector	3.8	3.5	5.2	5.5	3.1	2.5	1.8	4.7
6. Wholesale & retail trade	1.0	0.6	1.0	0.9	0.1	0.24	0.0	0.3
7. Hotels & restaurants	0.0	0.1	0.1	0.1	0.2	0.1	0.3	-0.1
8. Transport, storage, & communications	0.7	0.0	1.8	0.8	0.7	0.7	0.5	0.8
9. Financing, insurance, real estate & business services	-0.2	1.5	0.9	2.1	1.6	0.9	0.5	0.6
9.1 Finance	0.0	0.9	0.9	2.1	1.5	0.7	0.4	0.5
9.2 Real estate	-0.2	0.6	0.0	0.0	0.0	0.2	0.0	0.1
9.3. Business services							0.0	0.0
10. Community and social services	1.0	1.0	0.4	1.4	0.6	0.4	0.3	3.1
10.1. Public Administration	1.1	0.7	-1.0	1.1	-0.2	0.0	0.2	1.4
10.2. Education & health	-0.1	0.3	1.3	0.3	0.7	0.4	0.1	1.7
11. Private social & recreational services	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
12. Plus: taxes net of subsidies	1.3	0.3	0.9	0.1	-0.1	0.1	0.2	0.0

Source: National Statistics Bureau.

The share of tertiary sector to nominal GDP has remained relatively consistent over the years. In 2009, the tertiary sector constituted 39.8 percent of GDP compared to 38.4 percent in 2008, 40.4 percent in 2004 and 37.2 percent in 2002. Looking at the primary and secondary sectors, they recorded shares of 20.5 percent and 39.7 percent in 2009, as compared to 20.7 percent and 40.9 percent in 2008 respectively.

The sectoral trend and composition of nominal GDP reveals a much faster growth in the secondary and tertiary sectors, and a structural shift in the case of 2009 was largely driven by developments in community and social services (general government), construction, and transport, storage and communication, manufacturing, and financial services sectors.

1.1 Primary Sector

In 2009, the primary sector contracted by 1.6 percent down from 2.5 percent in the previous year. Correspondingly, the sector's contribution to real GDP growth declined marginally from 0.5 percentage points in 2008 to 0.3 percentage points in 2009. This sector's share to

nominal GDP also declined slightly from 20.7 percent in 2008 to 20.5 percent in 2009. This is mainly attributed to the negative growth performance of the mining and quarry sector (20.1 percent in 2008 to negative 6.9 percent in 2009). However, the growth in other primary sub-sectors, including agriculture proper (*principal crops, namely maize, rice, wheat, and major cash crops, namely apples, oranges, potatoes, ginger, and cardamom*), and livestock recorded improved growth of 2.2 and 2.4 percent in 2009 from 1.9 and 0.5 percent in 2008, respectively. Similarly, the performance of the forestry and logging sub-sector improved from a negative growth of 1.4 percentage points in 2008 to 3.9 percentage points in 2009. Overall, the primary sector's share to nominal GDP was recorded at 20.5 percent in 2009, down from 20.7 percent during the previous year.

1.2 Secondary Sector

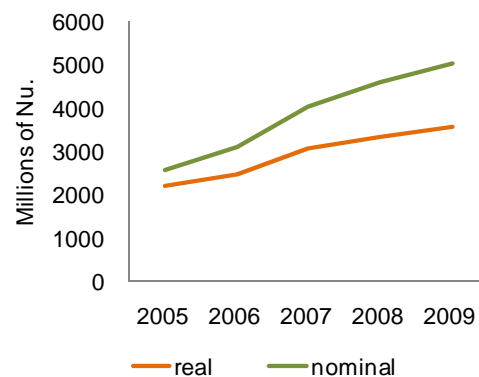
Real growth of the secondary (industry) sector declined in 2009 to 4.1 percent from 5.5 percent in the previous year, with a corresponding fall in its contribution to overall real GDP growth.

Of Bhutan's 6.7 percent real GDP growth in 2009, 1.8 percentage points was contributed by the secondary sector, down from its 2.4 percentage point contribution in 2008. In 2009, this sector's share to nominal GDP stood at 39.7 percent as compared to 40.9 percent in 2008. A sharp fall in the growth of the manufacturing sector and negative growth in the electricity sector are the main factors for its decline. However, the construction sector witnessed a positive growth of 16.5 percent in 2009 from negative 10.2 percent in 2008. Accelerated growth in the construction sector is driven largely by hydro-power and related infrastructural development activities.

1.2.1 Manufacturing

Real growth in the manufacturing sector dropped to 6.9 percent from 8.5 percent in 2008. This sector constituted 8.2 percent of nominal GDP in 2009, down from 8.4 percent in 2008. In real terms, its contribution to overall GDP growth fell slightly from 0.7 percentage points to 0.6 percentage points in 2009. Major industries which fall under this sector includes cement, ferro-alloys, calcium carbide, coal, liquor, agro-based edible commodities, particle board products, and polythene pipes. It also covers small unregistered activities such as weaving, *thangka* (wall hanging) painting and clay work. In 2009, of Bhutan's top 11 major industries, Penden Cement Authority Limited (PCAL) was ranked as the largest seller of manufactured items (in both domestic and export sales). Of the total turnover of the manufacturing industries, 27.6 percent of total sales belonged to PCAL, followed by Bhutan Ferro Alloys Limited and Bhutan Carbide and Chemicals Limited at 26.5 percent and 17.9 percent, respectively.

Chart 1.3 Gross Value Addition, Manufacturing



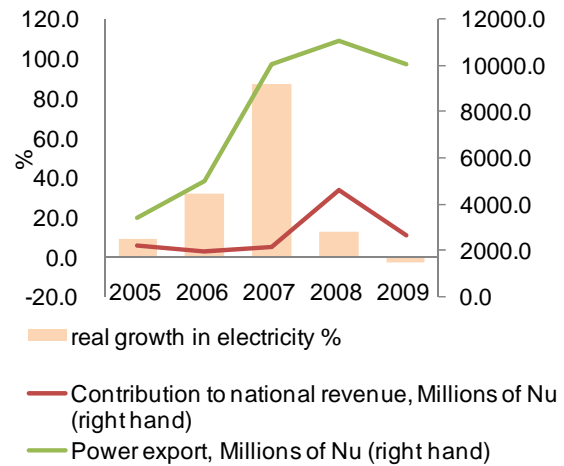
Looking at Chart 1.3, gross value addition (GVA) from the manufacturing sector over the past 5 years continued to grow steadily. The GVA is a measure of the contribution to GDP made by this sector (*value of output less the value of intermediate consumption*). The positive

trend in GVA revealed that the Bhutan's manufacturing sector continued to remain progressive despite several structural constraints.

1.2.2 Electricity and Water

Electricity in Bhutan generated from hydropower is heavily dependent on the availability of rainfall during the monsoon and the winter snowfall periods. This is clearly revealed in the electricity and water sectors. In 2009, the real growth of the electricity and water sectors witnessed a significant decline from 13 percent in 2008 to negative 2.4 percent in 2009. As a result, the real value of electricity and water contracted to Nu.8.9 billion from Nu.9.1 billion in 2008. It has nonetheless improved by a huge margin compared to the pre-Tala hydropower plant establishment in 2007. The share this sector to nominal GDP was recorded at 19.3 percent in 2009 compared to 21.1 percent in 2008. Its sectoral contribution to national revenue (through the transfer of corporate income tax, dividend payments, and power exports) has also expanded from Nu.2.8 billion in 2008 to Nu.3.5 billion in 2009.

Chart 1.4 Electricity Sector



Meanwhile, the gross value added contribution from water services under the electricity and water sector also grew during 2009. Corresponding to the increased coverage of the municipal water facilities in various urban areas, the contribution of water services to GDP expanded. Overall, the water and sewerage sub-sector contributed Nu.27 million in 2009 compared to Nu.26 million in 2008. However, in real terms, the water sub-sector (excluding electricity) has grown by 4.5 percent during 2009.

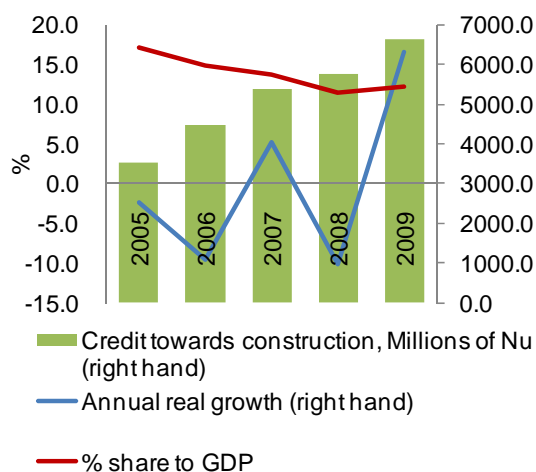
Total energy sales from the four major power plants (Tala Hydroelectric Project Authority, Chhukha Hydropower Corporation Limited, Kurichhu Hydropower Corporation Limited and Basochhu Hydropower Corporation Limited) during 2009 recorded negative growth of 7.5 percent over the previous year. Of the total electricity sales by the above hydropower projects, the Tala Hydroelectric Project Authority (THPA) contributed 58.1 percent (2008: 60.1 percent), followed by the Chhukha Hydropower Corporation Limited (CHPCL) at 34.1 percent (2008: 31.9 percent), Kurichhu at 4.3 percent (2008: 4.4 percent) and Basochhu at 3.5 percent (2008: 3.3 percent). In 2009, the total exports of electricity to India registered a negative growth of 8.7 percent, declining from Nu.11 billion in 2008 to Nu.10 billion in 2009. However, during the same period, overall domestic sales grew by 7.8 percent, owing to increased sales from CHPCL and THPA.

Details of the production and sales of all four plants are available in Table 4 while a detailed description of developments in Bhutan's power sector is presented in Annex V.

1.2.3 Construction

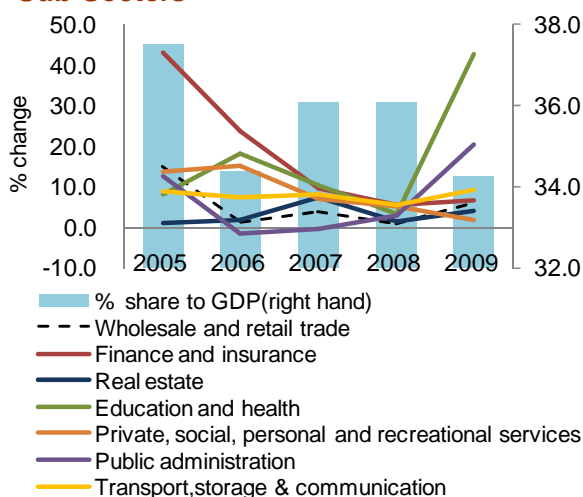
With the commencement of construction works on both the Punatsangchhu I hydropower project in Wangduephodrang and the Dungsam Cement Project in Nganglam, the construction sector recorded impressive real growth of 16.5 percent in 2009 against negative 10.2 percent growth in the previous year. Sector-wise credit by financial institutions also revealed an increase in the growth rate of credit allocated towards the building and construction at 14.7 percent (Chart 1.5) during 2009 against 7.2 percent in 2008. The share of this sector to nominal GDP was recorded at 12.2 percent as of 2009. It is projected that construction activities within this sector will gain momentum with the RGOB's plans to achieve 10,000 MW by 2020.

Chart 1.5 Construction Sector



1.3 Tertiary Sector

Chart 1.6 Other Emerging Tertiary Sub-Sectors



Bhutan's tertiary sector's performance improved in 2009 with 12.2 percent growth compared to 4.8 percent in 2008. Correspondingly, this sector's share to nominal GDP expanded to 39.8 percent in 2009 from 38.4 percent in 2008. A significant expansion in the growth of the community and social services, and transport, storage and communication sectors, primarily contributed for the increase. On the other hand, wholesale and retail trade and financing, insurance and real estate also registered improvement in their real growth during the review period. Meanwhile, the private, social, and recreational services sector witnessed a significant decline in its

growth during 2009. Similarly, the hotels and restaurants sector experienced negative growth of 12.9 percent compared to 45.4 percent in 2008 (Chart 1.6).

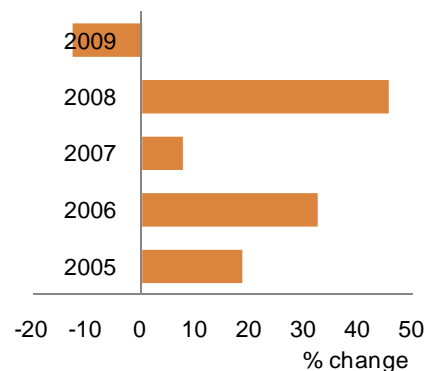
1.3.1 Wholesale and Retail Trade

Real growth in wholesale and retail trade increased from 0.9 percent in 2008 to 6.2 percent in 2009. Its contribution to overall real GDP growth increased from 0.05 percentage points in 2008 to 0.3 percentage points in 2009. Meanwhile, its share to nominal GDP stands at 4.8 percent during 2009, down from 4.9 percent as of 2009.

1.3.2 Hotels and Restaurants

The performance of this sector is directly associated with developments in Bhutan's tourism industry. As evidenced with the recent fall in the inflow of tourists, this sector experienced lower growth during the review period, largely on account of the backlash of recent global recession and avian flu outbreak. However, with the RGOB's efforts and plan to attract 100,000 tourists by the end of 2013, this sector has tremendous potential for future expansion. Decreasing annual tourist arrivals have driven corresponding growth developments in the hotel and restaurant sector. Growth in the latter was registered at negative 12.9 percent during 2009, a drastic decline from its 45.4 percent growth in 2008 (Chart 1.7). In tandem, its contribution to nominal GDP declined to negative 0.1 percentage points in 2009 from 0.3 percentage points in 2008. This sector constitutes 0.9 percent of nominal GDP. For an overview of sectoral developments in the Bhutanese tourism industry, please refer to Section 1.4 and Annex IV of this report.

Chart 1.7 Real Growth in Hotels and Restaurants



1.3.3 Transport, Storage, and Communication

On account of increased construction and transportation activities associated with the new hydropower projects and due to an increase in the number of mobile services and users in the country, real growth in this sector increased from 5.3 percent in 2008 to 9.2 percent in 2009.

However, during 2009, its share to nominal GDP decreased slightly from 9.8 percent in 2008 to 9.7 percent. Of the gross value added of Nu.5.9 billion to overall GDP in 2009, 66 percent is constituted by land transport, followed by telecommunications with 17 percent, and air and other transport at 16 percent.

1.3.4 Financing, Insurance, Real Estate, and Business Services

Finance, insurance and real estate recorded a growth of 6.2 percent in 2009 compared to 5 percent in the previous year. However, there was a marginal decline in this sector's share to nominal GDP to 8.1 percent in 2009 from 8.4 percent in 2008. Similarly, its contribution to real GDP growth expanded slightly from 0.5 percentage points in 2008 to 0.6 percentage points during 2009. Within this sector, financial institutions' real performance remained robust, growing by 6.8 percentage points in 2009 (2008: 5.6 percentage points), while growth in real estate rose to 3.9 percent in 2009 (2008: 1.4 percent), and business services grew by 20.9 percentage points in 2009.

1.3.5 Community and Social Services (General Government)

Community and social services (general government) recorded strong growth of 28.6 percent in 2009 compared to 3.1 percent in 2008, attributed to the increase in civil service salary and the introduction of other allowances in the civil service. Within this sector, growth in education and health was recorded highest with 42.8 percentage points, followed by public administration services at 20.4 percentage points. Correspondingly, the share of community

and social services sector to nominal GDP grew to 13 percent compared to 10.8 percent in 2008.

1.3.6 Private, Social, and Recreational Services

Private social, personal and recreational services constitute a marginal portion of overall GDP. In 2009, this sector recorded a growth of 1.9 percent, which was significantly lower from 5.2 percent in the previous year. However, this sector's contribution to real GDP growth remains negligible.

1.4 Tourism

Bhutan experienced a 15 percent decline in tourist numbers (to 23,480) in 2009 from arrivals of 27,636 in 2008, with a corresponding decrease in the foreign exchange revenue collection by 17.9 percent (to USD 31.9 million) in 2009. The USA remains the single largest source market for Bhutan, constituting 20.4 of total arrivals during 2008, followed by Japan at 13.4 percent, and the United Kingdom at 8.4 percent. Notably, there was a considerable increase in Israeli tourists by 103.8 percent in 2009 (to 159 tourists), as well as a 55.5 percent increase in Thai tourists (to 975 tourists), making Thailand the top 4th source of tourists arrivals for Bhutan during 2009.

Time series data on tourist arrivals and revenues is presented in Table 5 with a detailed description of developments in the Bhutanese tourism sector presented in Annex IV.

Table 1.3 Selected Tourism Indicators: 2005-2009

Item	2005	2006	2007	2008	2009
Tourist Arrivals	13,626	17,344	21,094	27,636	23,480
Of which: Cultural	13,013	14,855	18,507	23,437	21,076
Trekking *	613	2,489	2,587	4,199	2,404
% Change in arrivals	47.3	27.3	21.6	31.0	(1.5)
Gross receipts ¹	18.5	24.0	29.8	38.8	31.9
% Change in receipts	48.3	29.3	24.4	30.1	(17.9)
Contribution to Government revenue ¹	6.5	7.3	10.6	13.8	11.1
% Change in contribution	47.5	11.7	46.5	29.9	(19.8)

* Includes both trekking only and trek-cultural combination. 1) in millions of USD; Government revenue includes royalty and 2% tax.

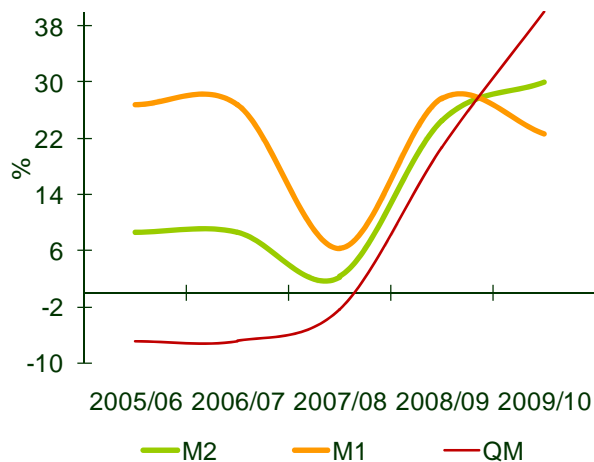
Sources: Tourism Council of Bhutan.

2. MONETARY AND FINANCIAL DEVELOPMENTS

2.1. Monetary Developments

Bhutan's monetary sector during FY 2009/10 exhibited further expansion. The sector was driven mainly by significant growth in net foreign assets (NFA) on the assets side, and currency outside banks, demand deposits and time deposits on the liability side. Totalling Nu.41.8 billion at the end of the review year, broad money supply (M2) grew at a much higher rate of 30.1 percent during 2009/10 (2008/09: 24.6 percent). This reflected a considerable increase in demand deposits, currency in circulation and quasi money on the component side, and NFA on the counterpart side.

Chart 2.1 Money Growth (annual change)



Looking at Table 2.1, of the two major elements of M2¹ on the **component side**, M1 had a lower contribution at 22.7 percent against 27.7 percent in 2008/09, indicative of decreased growth in its constituents, demand

Bhutan's financial system continued to exhibit strong growth during the FY 2009/10. Broad money expanded by 30.1 percent largely as a result of expansion in quasi money while credit to the private sector grew by 38.6 percent during the review period.

Notably, during the 2nd quarter of 2010, inflation was registered at 6.1 percent as compared to 2.9 percent during the same period last year. Higher inflation during the year is attributed to a rise in the prices of both food and non-food commodities included in the CPI basket.

In order to maintain sustained external and financial sector growth and stability in the economy, the RMA continued to implement several policy measures during the year (Please refer to the subsequent discussions in this section of the report for details).

For monetary analysis, the balance sheet data of financial institutions are classified within the framework of Monetary and Financial Statistics Manual 2008 (MFS 2008) published by the International Monetary Fund.

Please note that the data classification and computation done by the Research and Statistics Department of the RMA is not directly comparable to those compiled and produced by the Financial Regulation and Supervision Department of the RMA.

¹ Narrow money (M1) = (1) currency outside the RGOB treasury, the RMA, and the vaults of depository institutions; (2) demand deposits; and (3) other checkable deposits, consisting primarily of negotiable order of withdrawal accounts at commercial banks. Bank reserves are not included in M1.

M2 = M1 + Quasi Money (QM). M2 represents money and close substitutes for money. M2 is a broader classification of money and can be measured identically from the asset (*Counterpart*) and liability perspectives (*Component*) of the monetary sector. On the counterpart side, M2 = Net Foreign Assets (NFA) plus Net Domestic Credit (NDC) plus the Other Items Net (OINs), and from the component side, M2 = M1 plus QM.

deposits and currency in circulation. Constituents demand deposits grew at an annual growth of 24 percent compared to 28.7 percent, while that of currency in circulation grew at an annual growth of 18.6 percent compared to 24.7 percent in the previous year. The other element of quasi money, which includes time deposits of the public and foreign currency deposits of non-government entities, also witnessed a significant increase in its growth from 20.6 percent to 40 percent during the review year.

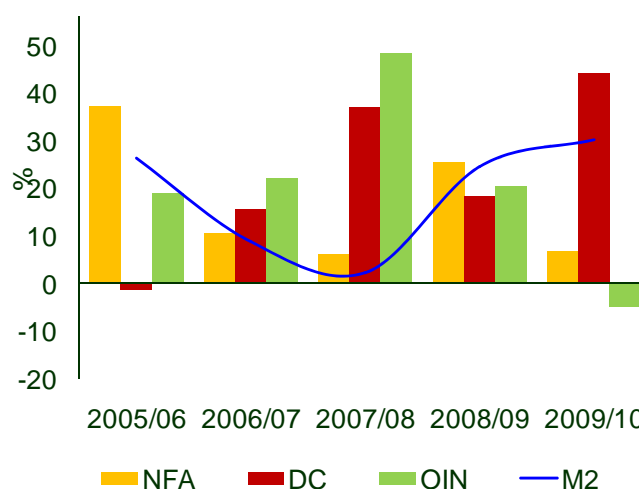
Table 2.1 Selected Monetary Aggregates

	<i>Millions of Nu., End of period</i>				
	2005/06	2006/07	2007/08	2008/09	2009/10
MONEY SUPPLY, M2	23,208.7	25,208.5	25,780.7	32,113.5	41,778.7
% change	26.3	8.6	2.3	24.6	30.1
MONEY SUPPLY, M1	10,678.1	13,542.3	14,392.4	18,375.0	22,537.7
% change	14.4	26.8	6.3	27.7	22.7
Counterparts					
1. Foreign Assets (Net)	22505.0	24881.3	26365.6	33074.0	35236.5
% change	37.2	10.6	6.0	25.4	6.5
2. Domestic Credit	8092.5	9345.1	12794.2	15122.7	21811.1
% change	-5.0	15.5	36.9	18.2	44.2
Claims on Govt. (Net)	-648.4	-2009.6	-2264.5	-4490.1	-4047.2
% change	-151.0	209.9	12.7	98.3	3.7
Claims on Private Sector	7462.5	10111.7	13890.4	18216.0	25246.1
% change	32.2	35.5	37.4	31.1	38.6
Others ¹⁾	1837.8	1961.2	1736.3	1721.2	1937.7
% change	14.9	6.7	-11.5	-0.9	12.6
3. Other Items (Net) ²⁾	7388.8	9017.8	13379.1	16083.2	15269.0
% change	12.2	22.0	48.4	20.2	-5.1
Components³⁾					
4. Currency Outside Banks	2614.9	3166.0	3640.8	4541.8	5386.5
% change	13.5	21.1	15.0	24.7	18.6
5. Demand Deposits ³⁾	8063.1	10376.3	10751.6	13833.2	17151.2
% change	14.7	28.7	3.6	28.7	24.0
6. Quasi-Money ⁴⁾	12530.6	11666.4	11388.3	13739.8	19241.0
% change	38.5	-6.9	-2.4	20.6	40.0

*) M2=1 plus 2 minus 3. -+) M2=4 plus 5 plus 6 and M1= 4 plus 5. -1) Claims on Government Corporations, Claims on Joint Corporations, and Claims on Non Monetary Financial Institutions. -2) Including Money Market Instruments (Treasury Bills). -3) Including Saving Deposits. -4) Time Deposits and Foreign Currency Deposits.

Meanwhile, on the **counterpart side**, NFA, which includes the net convertible currency plus net Rupee position of the monetary sector, recorded slower growth in 2009/10, increasing by 6.5 percent compared to 25.4 percent as of 2008/09. The monetary sector's negative Rupee asset balance improved from INR (3.3) billion in 2008/09 to INR (3.1) billion in 2009/10, recording a decrease of (5.8) percent in 2009/10. On the other hand, the net

Chart 2.2 Growth in M2 and its Counterparts (annual change)



convertible currency assets increased by 5.4 percent (2008/09: 33.6 percent) to Nu.38.3 billion for the year ending 2009/10. Moreover, domestic credit, including credit to the RGOB, government corporations, individuals, private companies, and NBFIs, registered higher growth of 44.2 percent from 18.2 percent in the previous year. Similarly, credit to the private sector expanded by 38.6 percent as compared to 31.1 percent in the last fiscal year.

2.2. Review of Developments in Commercial Banking

Performance in the banking sector remained progressive during 2009/10. Total assets of the commercial banks increased from Nu.33.4 billion in 2008/09 to Nu.45.4 billion in 2009/10, expanding by 36.2 percent in 2009/10 compared to 22.3 percent in the previous year. Much of the improvement can be attributed to growth in the banking sector’s liquid funds on the uses side and growth in deposits on the sources side.

On the **uses side**, commercial banks’ reserves increased from Nu.11.7 billion in 2008/09 to Nu.15.5 billion during 2009/10, representing roughly 34 percent of their total assets. Of their total reserves, 42 percent were held as CRR, 3 percent as cash in hand, 6 percent as Government Treasury Bills, while the remaining 49 percent were held as other deposits. In addition to these reserves (excluding cash in hand), the banks held Nu.2.7 billion worth of foreign assets, denominated in Indian Rupees and convertible foreign currency.

Chart 2.3 Composition of Commercial Banks' Reserves (June 2010)

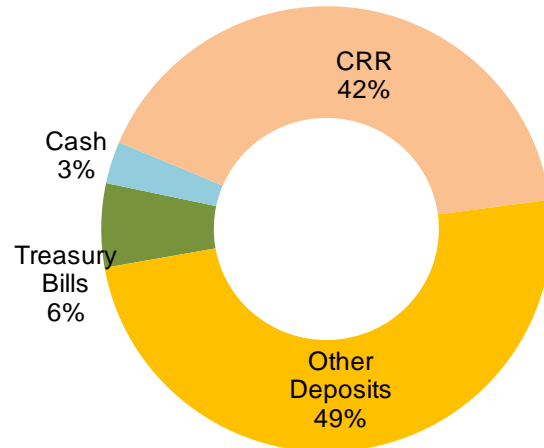


Chart 2.4 Growth in Deposit Liabilities of Commercial Banks

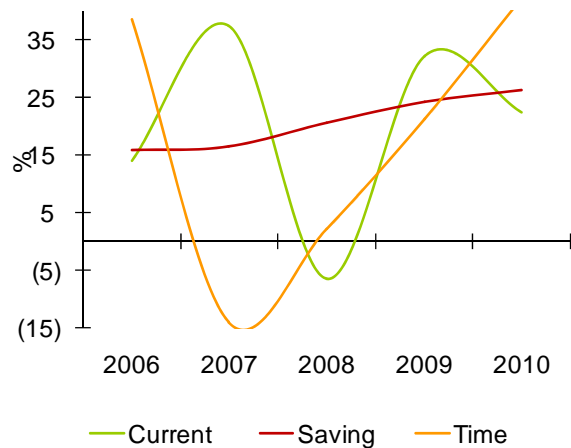
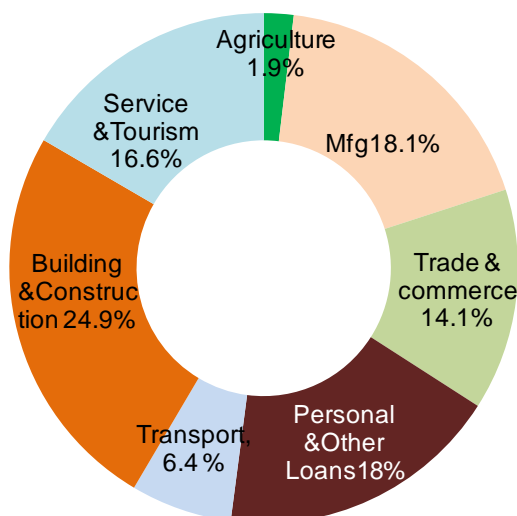


Chart 2.5 Sector-wise Investment of Commercial Banks (June 2010)



Moreover, in line with growing domestic demand and economic activity in the country, credit to the private sector expanded to Nu.25.2 billion as of 2009/10 from Nu.18.2 billion in the last fiscal year.

Meanwhile, on the **liability side**, growth in total deposits (including foreign currency deposits) recorded higher growth at 32 percent in 2009/10, as compared to 25 percent in 2008/09. The growth in total deposits was mainly driven by the increase in current deposits (by 22.3 percent against 32.1 percent in 2007/08), saving deposits (by 26.3 percent against 24.1 percent in 2007/08), time deposits (by 42 percent against 21.2 percent in 2008/09), and foreign currency deposits (by 17.2 percent against 15 percent in 2008/09).

Furthermore, the **total loan portfolio** of the commercial banks expanded by 20.4 percent to Nu.26.1 billion during 2009/10. Sector-wise distribution of credit indicated that the largest share of the credit portfolio continued to be allotted to the building and construction sector (24.9 percent), followed by manufacturing (18.1 percent), personal and other loans (18 percent), and service and tourism (16.6 percent), with the remainder allocated to other sectors.

In overall, the growth of **credit to the private sector** of both banking and NBFIs sectors remained strong during the review fiscal year. Chart 2.6 presents the growth trend in selected loan sectors since 2005, revealing substantial expansion in recent years towards personal loans and manufacturing. In terms of FIs exposure to various loan portfolios (Table 2.2), NPLs ratio declined to 10.3 percent in June 2010 from 18.3 percent in the same period last year. As a percentage of total NPL, the overdraft/working capital of FIs witnessed the highest NPL of 26.5 percent in June 2010, followed by the housing sector at 24 percent, and service and tourism sector at 14 percent.

Chart 2.6 Growth in credit to the private sector & selected sub-sectors (June-end)

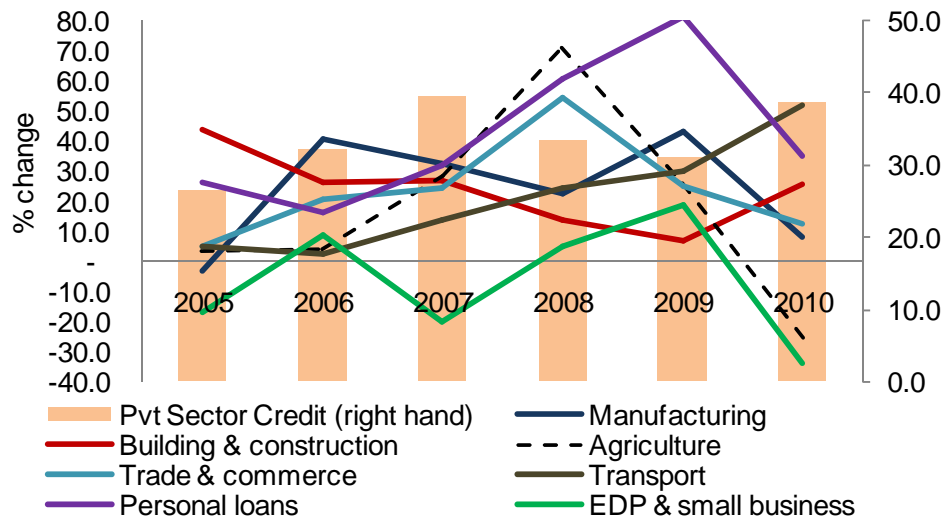


Table 2.2 Non-Performing Loans of FIs by Sector of Investment

Sector	Millions of Ngultrum					% of total
	2006	2007	2008	2009	2010	
Agriculture/Animal Husbandry	88.7	125.6	193.8	205.3	110.0	3.6
Manufacturing/Industry	166.5	273.5	369.1	1,099.0	244.5	8.1
Trade & Commerce	94.2	138.1	184.2	382.9	216.0	7.2
Service & Tourism	93.5	153.4	289.3	774.2	424.4	14.1
Housing	411.9	453.9	552.1	763.2	726.0	24.0
Transport (Heavy)	46.2	54.3	69.0	105.3	121.4	4.0
Transport (Light Vehicle)	31.2	28.5	29.8	45.9	57.0	1.9
Loan Against Shares	3.6	2.2	6.5	41.7	1.2	0.0
Personal	114.6	107.6	136.9	316.0	303.9	10.1
Staff	0.4	1.1	2.1	5.7	13.2	0.4
EDP (Entrepreneurship Loan)	1.3	1.3	4.6	2.4	1.6	0.1
Small Business & Artisan Scheme	2.5	2.0	1.8	0.9	0.5	0.0
Overdraft/Working Capital	235.8	450.2	687.2	696.1	799.3	26.5
Total NPL	1,290.5	1,791.7	2,526.3	4,438.4	3,018.9	100.0
Total Loans of FI	11,298.0	14,487.0	18,923.6	24,256.7	29,775.8	
Total NPL Ratio	11.4	12.4	13.4	18.3	10.1	

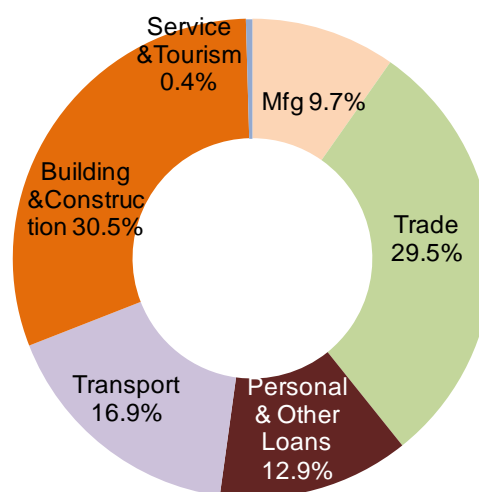
Source: Financial institutions excluding NPPF.

2.3. Review of Developments in NBFIs

During FY 2009/10, the **combined assets** of the two NBFIs declined by 13.5 percent to Nu.5.1 billion in June 2010, from Nu.2.7 billion for the same period last year. This decline is attributed mainly due to the re-categorization of BDFCL as a commercial bank in 2010. Meanwhile, as of June 2010, the NBFIs overall credit portfolio accounted for 75 percent of their total assets.

As for the overall reserves of the NBFIs, it increased to Nu.758.3 million in the review period, as compared to Nu.104 million last year. Total reserves represented roughly 15 percent of their total assets. Of these reserves, 99.2 percent (Nu.752.1 million) were in the form of bank balances and the remaining 0.8 percent (Nu.6.2 million) was held in the form of cash in hand. On the **liability side**, the growth in domestic borrowings from the financial institutions grew substantially from Nu.757 million during 2008/09 to Nu.2.1 billion in 2009/10.

Chart 2.7 Sector-wise Investment of Non-Bank FIS (June 2010)



During the year, the total loan portfolio of the NBFIs expanded by almost 43 percent to Nu.3.7 billion. A sector-wise break-down of the loan portfolio indicated that the building and construction sector constituted the highest share (30.5 percent), followed by trade and commerce (29.5 percent), transport (16.9 percent), personal and other loans (12.9 percent), with the rest allocated to other sectors.

Further details and information on developments in the financial sector, including the NPPF and RSEBL are presented in Annex II. Similarly, a review of the performance of the Bhutanese financial sector for the year ending June 2010 is also presented in Annex VIII.

2.4. Monetary Policy Instruments

To ensure the sustainability of the exchange rate arrangement and to cushion the external sector, the RMA continued to play an important role in monetary and credit management. With the elimination of quantitative credit controls over the years, the RMA developed and increasingly relied on indirect instruments of monetary management, aimed primarily at liquidity management. In particular, the RMA resorted to variations in reserve requirements, regular sale of Treasury Bills, and the sale of foreign exchange to meet banks' convertible currency requirements. Through the issuance of the 91 days Treasury Bills, the RMA aimed to establish and promote a modest securities market to help and establish benchmark interest rates for FIs lending and borrowing.

At the end of June 2010 (Table 2.3), the use of the CRR instrument alone helped sterilize Nu.8.1 billion (84.3 percent of total liquidity). Besides, with the support from the Royal Government, the RMA continued to mop up the excess liquidity of the banking sector through the issuance of 91 days Treasury Bills.

Table 2.3 Excess Liquidity and Sterilization by Instrument

	<i>Millions of Nu.</i>				
	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10
Excess Liquidity	7604.6	7371.8	5180.8	5342.7	8121.3
CRR	2862.3	2889.3	3734.6	5256	6846.9
<i>% of total</i>	37.6	39.2	72.1	98.4	84.3
RMA Bills/Govt.T.Bills*	165.2	121.1	414.2	745.8	1000.0
<i>% of total</i>	2.2	1.6	8.0	14.0	12.3133
Cash in Hand	156.8	170.9	543.6	344.6	504
<i>% of total</i>	2.1	2.3	10.5	6.4	6.2

Source: RMA and commercial banks. Excess liquidity is defined as the commercial banks' balances (reserves) maintained with the RMA in excess of their cash in hand, the mandatory cash reserve requirement (CRR), and holdings of interest bearing market instruments such as RMA Bills/ Government Treasury Bills.

NB:(*) The issue of RMA Bill has been discontinued w.e.f December 14,2009 and has been replaced by Government Treasury Bills (Govt.T.Bills) thereafter.

Moreover, in light of global financial developments, the RMA resorted to several measures during the FY 2009/10 to safeguard the soundness of the financial sector. The RMA continued to tighten monetary conditions by maintaining the CRR at 17 percent (the CRR was revised from 15 percent to 17 percent in August 2008). Under prudential measures, provisioning requirements of sub-standard and doubtful loans of financial institutions were maintained at 30 percent and 60 percent respectively, for the highest exposed sectors.

Similarly, the capital base of banks and NBFIs were maintained at Nu.300 million and Nu.100 million respectively.

Box 2.1 Monetary Policy Framework

The Preamble of the RMA Act of Bhutan 2010 states that “Whereas, it is expedient to establish Royal Monetary Authority of Bhutan to function as the Central Bank to formulate and implement necessary monetary policy with a view to achieving and maintaining price stability; developing , regulating and supervising banking and financial systems, including payments system, to support macro-economic objectives of the Royal Government, bring in international best practices and to protect it against systemic risks and thereby enhance its credibility at the national and international levels”.

Thus, in pursuant to the RMA Act of Bhutan 2010 (under Chapter II, Section 10), commencing 2011 onwards, the RMA shall formulate and publicly announce the annual Monetary Policy Statement for Bhutan in Parliament with the objective of maintaining price stability; and external and financial sector stability to facilitate sustained economic growth in the country.

Generally, in most central banks, price stability is quantified, e.g., in the case of the European Central Bank, price stability is equivalent to a (year-to- year) rate of change of the CPI below or close to 2 percent, to be maintained over the medium term. The intermediate target for achieving and maintaining price stability in Bhutan is the one-to-one peg between the Indian Rupee and the Ngultrum. In light of the pegged exchange rate regime adopted by Bhutan, however the scope of Bhutan’s monetary policy is limited and confined to the support of the peg, including the following basic measures:

- a) Ensuring the sustainability of the exchange rate arrangement, i.e. always making available sufficient Rupee on demand for exchange with the Ngultrum for the payments in India and provision of at least 100 percent Ngultrum for the payments in India and provision of at least 100 percent reserve backing for all Ngultrum issued (elements of a Currency Board).
- b) Confidence-building measures for the Ngultrum (e.g., credible RMA and Government policies).
- c) Sterilizing any persistent growth in liquidity to forestall a possible build-up of inflationary pressures, a weakening of the balance of payments, and a contingent effect on the financial market.

The following are the main supporting factors for the existing system:

- a) Close economic and financial relationships exist between India and Bhutan.
- b) There is a dual currency system, with the Ngultrum and the Rupee circulating freely side by side in Bhutan. The system can be described as an informal monetary (currency) union with India
- c) Inflation and interest rates in the two countries are closely related.
- d) The arrangement maintains confidence and ties Bhutan to the relatively stable monetary conditions in India.
- e) The peg has also clear benefits for trade with India, since there is no uncertainty about exchange rate developments between the two trading partners.

On the basis of the above factors, the monetary policy decisions made in Bhutan are viewed as prudent and appropriate.

Source: RMA.

Box 2.2 Overview of Monetary Policy Instruments

Overview of the Cash Reserve Ratio (CRR)

- The CRR, introduced in 1984, was set at 3 percent for all deposits with the BOBL.
- It was revised in 1994 to 15 percent for all deposit liabilities; cash in vaults being counted towards the CRR after the introduction of RMA discount bills and government bonds.
- With the conversion of the Unit Trust of Bhutan into Bhutan's second commercial bank, BNBL, the CRR was adjusted in July 1997 to 15 percent for demand deposits only; cash in vaults being counted towards the CRR.
- In January 2000, the CRR was further adjusted to 10 percent for all deposits; cash in vaults not being counted towards the CRR.
- On July 1, 2002, in a move to sterilize additional excess liquidity from the banking system, the CRR was further revised to 20 percent on total deposit liabilities, while interest payable on the balance was also revised from 2 percent to 3 percent per annum.
- In order to provide adequate liquidity to meet credit growth and support investment and export demand in the economy, RMA revised the volume of CRR downward from 20 percent to 13 percent of total deposit liabilities with effect from March 1, 2004. The rate of interest payable on CRR balances has been revised from 3 percent to 1.5 percent per annum.
- With effect from September 2007, RMA tightened monetary conditions by raising the CRR from 13 percent to 15 percent and then to 17 percent in 2008, and discontinued the payment of interest on it.

RMA Discount Bills and Treasury Bills

- The RMA discount bills (maturity of 31 days) were introduced in December 1993 at the discount rate of 11 percent. From April 1994, the maturity period of the bills were extended to 91 days. Till October 29, 2001, the selling procedure was based on auctions and after that it was discontinued and tap sales were introduced.
- As a measure to absorb excess liquidity from the banking system and to stimulate the market interest rates, beginning August 2008, the RMA increased the discount rate on RMA Bills from 5.0 percent to 6.0 percent per annum.
- From December 2009, the Royal Government issued 91 days Treasury Bills (T-Bills) replacing the RMA bills. Further information on the T-Bills is included in Section 4 of the Economic Review.

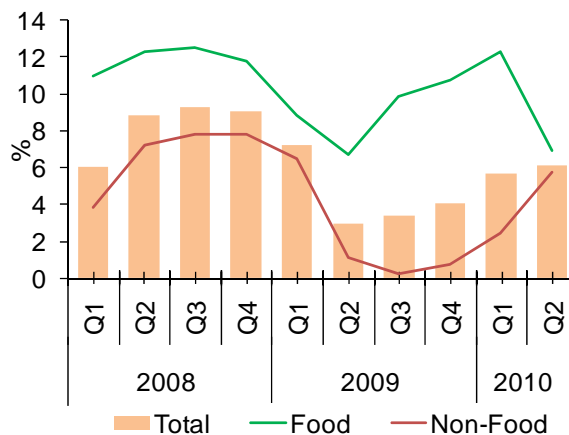
Source: RMA.

2.5. Prices

According to the NSB's quarterly consumer price index, annual inflation in Bhutan accelerated to 6.1 percent during the second quarter of 2010 as compared to 2.9 percent during the same period last year. Consequently, the purchasing power of the Ngultrum decreased to 68 Chetrum from 73 Chetrum during the second quarter of 2009.

As indicated in Chart 2.8 and Tables 2.4 and 2.5, higher inflation is attributed to a rise in the prices of both food and non-food items. Growth in the prices of **food commodities** was recorded slightly higher at 6.9 percent June 2010, against 6.7 percent during second quarter last year. However, growth in the prices of non-food items rose to 5.7 percent during the review period as compared to 1.1 percent during the same period last year.

**Chart 2.8 Consumer Price Index
year-on-year percentage change)**



Under **food items**, which constitute 31.7 percent of the overall weights assigned in the commodity basket, the highest growth was recorded for bottled sugar, jam, etc., at 51.6 percent, followed by the price of fish at 16.9 percent and fruits at 14.2 percent. Meanwhile, the prices of meat decreased considerably to almost zero percent from 24.6 percent last year, and that of oils and fats rose to 7.6 percent and milk, cheese and eggs decreased to 3.3 percent during the second quarter of 2010. On the other hand, the prices of vegetables accelerated significantly to 13.2 percent for the quarter ending June 2010, from a negative growth of 1.6 percent during the same quarter last year.

On the other hand, in the case of **non-food items**, the highest growth in prices was recorded for house rent with 15.1 percent, followed by clothing with 7.3 percent during the review period. However, narcotics and tobacco recorded negative growths of 0.6 percent and 1.5 percent, respectively as of the second quarter of 2010. The prices of electricity, gas and other fuels declined to 2.5 percent, that of restaurants and hotels grew by 4.7 percent (Q2 2009: 0.6 percent), and the prices of furnishings, household equipment and routine household maintenance grew by 6.6 percent against a negative growth of 1.2 percent during the same period in 2009. As for other non-food items, the price of recreation and culture was registered considerable low at almost zero percent against 1.7 percent last year, followed by health at negative 2.6 percent (Q2 2009: 3.9 percent), and communication at negative 3.7 percent against a negative growth of 1.2 percent last year.

Table 2.4 CPI Major Component Indicators

	Weight %	Q2 2009	Q2 2010
Consumer Price Index (Q3 2003=100)	100.0	3.0	6.1
<i>Of which</i>			
Food & non-alcoholic beverages	29.4	6.7	7.5
Alcoholic beverages,tobacco & narcotics	2.2	7.0	-0.3
Clothing & footwear	10.5	0.4	2.7
Housing,water,electricity,gas & other fuels	25.7	1.5	11.7
Furnishing,household equipment & routine household maintenance	5.7	-1.2	6.6
Health	2.9	3.9	-2.6
Transport	7.1	3.0	2.7
Communications	4.1	-1.2	-3.7
Recreation & culture	2.6	1.7	0.0
Education	4.0	0.0	0.0
Restaurants & hotels	3.0	0.6	4.7
Miscellaneous goods & services	2.7	1.1	-0.2

Source: National Statistics Bureau.

Table 2.5 Selected CPI Sub-Component Indicators

	Weight %	Q2 2009	Q2 2010
Consumer Price Index (Q3 2003=100)	71.3	3.0	6.1
Food	27.7	6.7	7.8
Bread & cereals	7.9	7.0	7.7
Meat	3.3	24.6	0.0
Fish	1.0	8.0	16.9
Milk,cheese & eggs	5.2	8.5	3.3
Oils & fats	3.4	0.2	7.6
Fruits	1.4	2.3	14.2
Vegetables	4.1	-1.6	13.2
Sugar,jam etc.	0.6	-3.7	51.6
Other food products	0.9	5.0	1.3
Non-alcoholic beverages	1.7	5.3	0.3
Alcoholic beverages	1.2	1.0	0.5
Tobacco	0.3	12.5	-1.5
Narcotics,ND (<i>not defined</i>)	0.7	12.7	-0.6
Clothing	7.9	-1.2	7.3
House rent	18.8	0.2	15.1
Electricity, gas & other fuels	6.0	5.4	2.5
Fuels & lubricants for personal transport equipment	3.2	-1.4	5.8
Education	4.0	0.0	0.0
Personal care	2.7	1.1	-0.2

Source: National Statistics Bureau.

3. EXTERNAL SECTOR

3.1 Overall Balance of Payments

Bhutan's external position continued to improve during the FY 2009/10. The nation's **overall balance of payments** though lower than the previous year, was positive on account of adjusting current transfer receipts and substantial net inflows in the capital and financial account. A sustained and large trade deficit was underpinned this year by a significant growth in merchandise imports both from India and from other countries. Despite substantial current transfer receipts, deterioration in both the services and income accounts contributed to a larger current account deficit. In particular, Bhutan recorded a huge trade deficit that grew to 22.8 percent of GDP, driven by a tremendous growth in merchandise import levels from both India and other countries. A study of commodity-wise imports reveals elevated growth for the import of machinery, mechanical equipment and appliances, as well as base metal and base metal products.

In the financial account, capital transfers recorded a substantial increase during the year due to larger inflows associated with capital grants received from the Government of India. Steady investor sentiments continue to ensure modest growth in FDI-related flows and considerable lending inflows for Bhutan. This is to some extent offset by large debt service obligations related to existing loan portfolios, both convertible currency, and Rupee, particularly the State Bank of India overdraft facility from India.

During the year, Bhutan's international reserves grew by Nu.4.4 billion to an equivalent of USD 868.1 million as at the end of June 2010, which is adequate to finance 12.3 months of imports and covers 103.3 percent of total debt outstanding as of the same period.

In exchange rate developments, the Ngultrum averaged Nu.46.65 per US Dollar and in tandem with the Indian Rupee, appreciated by 2.6 percent against the US Dollar as of June 2010 from the June 2009 average.

Bhutan's balance of payments (BOP) statistics are compiled and published on an annual, fiscal year (July-June) basis. Given the special geo-political ties as well as the volume of trade with India, BOP statistics are compiled separately for India and countries other than India (COTI).

Aggregated merchandise trade data is sourced from the Department of Revenue and Customs (DRC) on a half-yearly basis which is supplemented by detailed composition of trade on a calendar year basis. This data is adjusted on the basis of other surveys.

As of the FY 2008/09, several methodological revisions were implemented towards the compilation and estimation of BOP statistics in line with international best practices. Among other efforts to increase the scope and quality of BOP data, this includes a revision of estimates made to capture data on informal trade with India, and travel-related expenditures on education and private travel incurred by Bhutanese in India.

For all purposes, BOP data published in this report will be treated as final BOP statistics of Bhutan up till the fiscal year 2008/09. As is practice, latest year data (2009/10) are provisional (p) and will be revised in subsequent issues of RMA's publications.

Table 3.1 Balance of Payments

Item	2008/09			2009/10 (p)		
	+	-	Net	+	-	Net
<i>(Millions of Ngultrum)</i>						
Goods	24,657.5	28,980.0	(4,322.4)	25,401.8	39,340.0	(13,938.2)
Services	2,700.0	3,603.4	(903.4)	3,205.3	4,220.5	(1,015.2)
Balance on Goods and Services	27,357.5	32,583.3	(5,225.8)	28,607.1	43,560.4	(14,953.4)
Income	1,012.6	2,762.0	(1,749.4)	761.0	3,414.3	(2,653.3)
Current Transfers	7,730.8	1,704.3	6,026.6	10,414.7	1,562.9	8,851.8
Current Account Balance	36,101.0	37,049.6	(948.7)	39,782.8	48,537.7	(8,754.9)
Capital Transfers			1,413.2			3,719.5
Foreign Direct Investment			710.8			534.6
Foreign aid, net (RGOB loans)			4,193.3			2,215.2
Other loans, net (commercial)			(1,252.2)			547.1
Capital and Financial Account Balance	-	-	5,065.2	-	-	7,016.5
<i>Net Errors and Omissions</i>			1,578.3			6,139.8
Overall Balance			5,694.8			4,401.4
Gross international reserves (USD millions)			772.7			868.1

Source: Research and Statistics Department, RMA. (p) = provisional estimates.

Current Account

Chart 3.1 Overall BOP

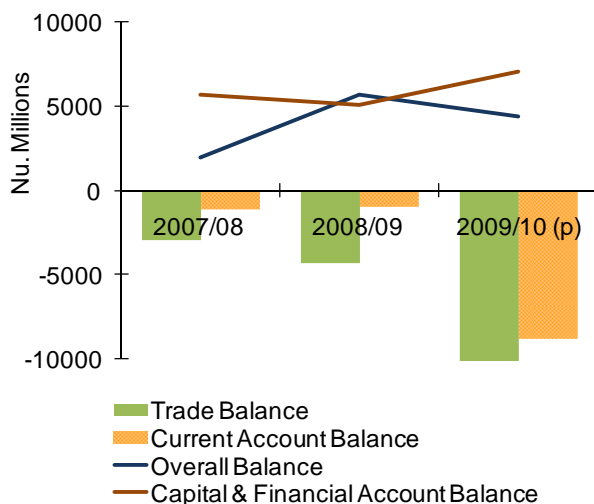
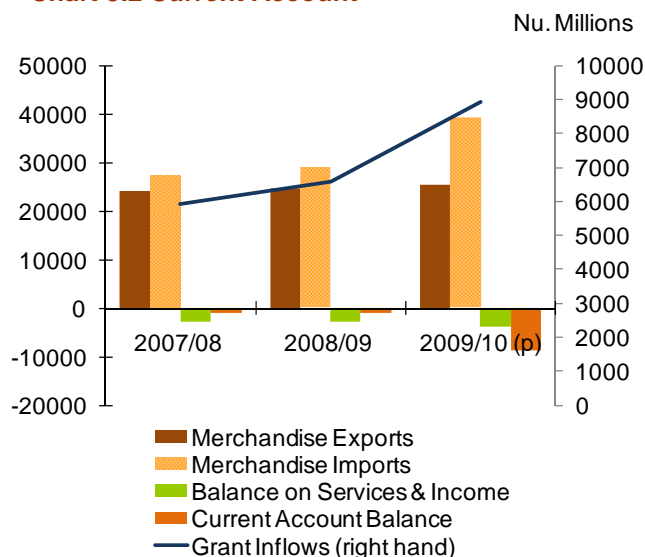


Chart 3.2 Current Account



Bhutan's **current account** deficit which grew more than eight-fold during 2009/10 to Nu.8.8 billion equivalent to 14.3 percent of GDP (1.7 percent in 2008/09), was driven largely by a substantial trade deficit and by slow growth in the services and invisibles accounts. The considerable widening of the trade deficit was underpinned by sluggish growth in commodity exports coupled with a significant increase in overall merchandise import levels.

Trade Account

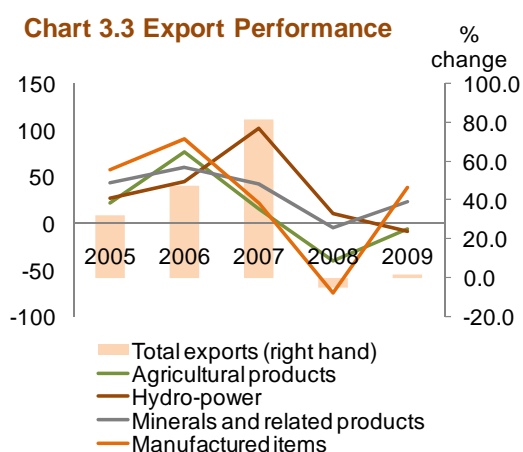
Bhutan's **trade deficit** tripled during the fiscal year to Nu.13.9 billion or 22.8 percent of GDP (2008/09: 7.9 percent of GDP or Nu.4.3 billion). This was attributed to a slight expansion in merchandise exports both to India and COTI that was more than offset by a 35.7 percent surge in commodity imports from both countries, which in turn grew by 20.3 percent and 102.2 percent, respectively.

Weak export performance by hydropower and agro-based exports contributed to the marginal 3 percent increase in **gross commodity exports** up from its 2 percent growth in 2008/09 (Chart 3.3). In particular, while hydro-power production levels remain consistent, growing demand by the domestic industrial sector has reduced surplus power available for export. Nevertheless, these developments were to some extent mitigated by the growth of mineral and mineral based as well as other manufactured exports. Meanwhile, the sale of hydro-power from the Chhukha, Kurichhu and Tala plants to India (Nu.10 billion for the year 2009/10), remains Bhutan's top merchandise export constituting 39.2 percent of overall exports. Further information on developments in Bhutan's power sector is presented in Annex V.

Table 3.2 Gross Merchandise Exports

	<i>Millions of Ngultrum</i>				
	2005	2006	2007	2008	2009
Agricultural based products, <i>of which</i>	1,566.2	2,759.5	3,175.7	1,904.1	1,788.2
<i>Processed food & beverages</i>	618.9	1,866.9	2,251.4	888.3	329.9
Hydro-power	3,439.9	4,982.0	10,034.3	11,032.6	10,072.5
Minerals & mineral based products, <i>of which</i>	3,720.6	5,973.3	8,536.7	8,134.4	10,016.0
<i>Base metals and related articles</i>	2,496.0	4,110.3	6,343.5	5,535.3	7,061.9
Manufactured Items, <i>of which</i>	2,659.4	5,057.1	6,112.4	1,519.6	2,097.1
<i>Products of chemical & allied industries</i>	744.1	590.5	783.9	895.1	1,051.8
<i>Plastic & rubber products</i>	298.0	262.1	285.9	214.2	308.4
<i>Textiles, footwear, headgear etc.</i>	787.4	485.4	461.1	294.3	67.1
<i>Magnetic discs</i>	546.8	3,626.7	4,451.3	0.0	619.3

Source: Department of Revenue and Customs. Note: A figure denoted by 0.0 indicates a marginal value compared to (-), indicating no value for that particular item.



In the **non-power export segment**, the share of **agricultural based exports** to total exports has gradually declined over the years and dropped further to 7.5 percent (2008: 8.4 percent), decreasing by 6.1 percent to Nu.1.8 billion as of 2009. This was led mainly by a decline in the export of processed food and beverages, which accounted for 18.4 percent of all agricultural exports in 2009. Similarly, exports of palm oil have experienced sharp declines in the past 2 years, with close to zero-value exports in 2009.

Chart 3.4 Composition of Exports, 2004

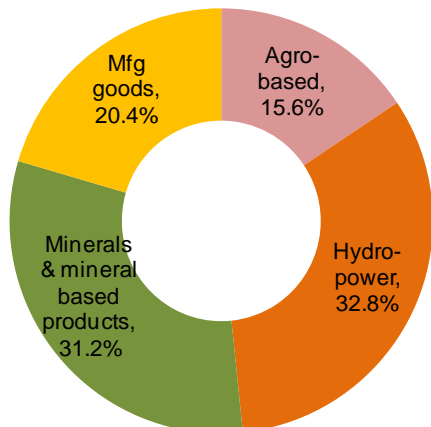
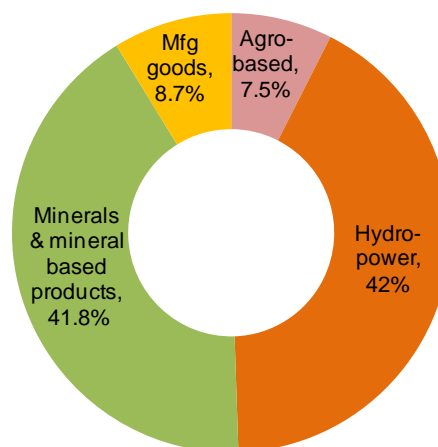
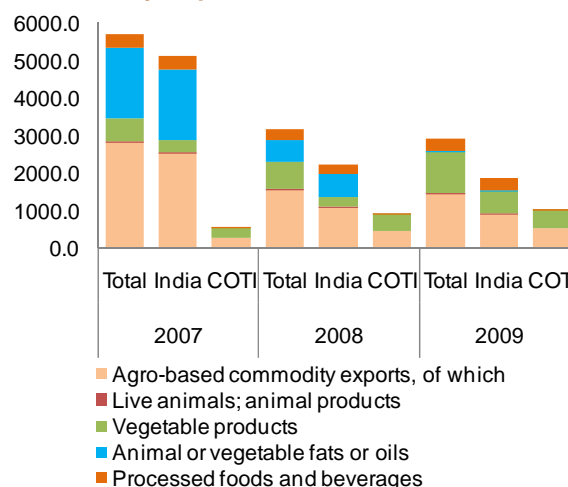


Chart 3.5 Composition of Exports, 2009



It is hoped that the Royal Government’s recent incentive packages through the FDI and Economic Development Policies, will be instrumental in not only boosting agro-based industries in the country and export performance, but also contribute towards improving self-sufficiency levels within the nation. Notably, incentives are being targeted at FDI in cash-crops, including passion fruit, citrus, walnut, and asparagus, besides mandarin oranges, potatoes, and pomegranates for Indian and Bangladeshi markets. In 2009, Bhutan’s single largest agro-exports were potatoes and oranges, with export values of Nu.401.9 million, and Nu.386.8 million, respectively.

Chart 3.6 Bhutan Agro-Based Commodity Exports



Growth in **minerals and mineral-based commodity exports** has been sustained over the years, growing to Nu.10 billion in 2009, by 23.1 percent from 2008 (Nu.8.1 billion) and contributing 41.8 percent of total exports in 2009 (2008: 36 percent). Compared to the previous year when copper exports were adversely affected by volatile global prices, export of base metal and related articles, which traditionally account for about 70 percent of Bhutan’s mineral-based merchandise exports, grew considerably by 27.6 percent during 2009. 99 percent of all base metal and articles of base metal are exported to India. Besides the latter, other mineral and mineral-based commodity exports from Bhutan include salt, sulphur, earths and stone, plastering materials, lime and cement, ores, slag and ash, mineral fuels, mineral oils, and bituminous substances.

Table 3.3 Commodity Export Performance: Base Metal and Related Articles

Millions of Ngultrum

Base Metal Exports and Articles of Base Metals	2008		2009	
	India	COTI	India	COTI
Iron and Steel	3,803.1	284.3	5,914.8	49.1
Articles of iron and steel	1.2	0.0	0.3	0.1
Copper and articles thereof	818.3	0.0	977.7	-
Aluminium and articles thereof	2.3	0.0	2.7	-
Tin and articles thereof	5.8	-	4.7	0.0
Other base metals and articles thereof	620.3	0.0	112.3	0.0
Total	5,250.9	284.4	7,012.6	49.2

Source: Department of Revenue and Customs.

As for **manufactured merchandise**, their contribution to overall exports grew to 8.7 percent during 2009 (Table 3.2), with a recent boost in exports of chemical and allied industries, particularly calcium and carbides. Overall, this sector's performance is relatively lower compared to pre-2008 levels, largely due to the 2005-2007 unusual spurt in magnetic discs and unrecorded media exports abroad (discs, tapes, solid-state non volatile storage devices, smart cards and other media for recording). Figures for the latter had dropped to almost nil values in 2008, but have re-surfaced in 2009 with exports valued at Nu.619.3 million. A list of top 20 non-power commodity exports and imports are provided in Tables 3.4 and 3.6.

Table 3.4 Top 20 Non-Power Commodity Exports

Item	2009		2008	
	Value (Millions of Nu.)	% Share of total	Value (Millions of Nu.)	% Share of total
Ferro-alloys	4,369.0	18.2	2,813.0	12.5
Cement (<i>Portland, aluminous, slag, supersulphate</i>)	1,425.1	5.9	1,206.8	5.3
Carbides (<i>calcium, silicon, others</i>)	1,017.0	4.2	852.7	3.8
Copper wire	971.9	4.1	810.5	3.6
Bars & rods (<i>hot-rolled, of iron or nonalloy steel</i>)	875.6	3.7	501.0	2.2
Recorded or Unrecorded media (<i>discs, tapes, smart cards</i>)	619.3	2.6	0.004	0.0
Dolomite	568.9	2.4	507.6	2.2
Gypsum (<i>anhydrite, plasters</i>)	464.2	1.9	338.4	1.5
Potatoes (<i>seeds & other</i>)	401.9	1.7	119.8	0.5
Oranges	386.8	1.6	246.5	1.1
Semi finished products of iron & non alloy steel	368.4	1.5	350.9	1.6
Ingots (<i>iron & non-alloy steel</i>)	323.8	1.4	319.7	1.4
Particle & similar board	272.5	1.1	268.2	1.2
Plastics (<i>plates, sheets, film etc</i>)	156.7	0.7	161.9	0.7
Limestone & other calcareous stone	152.8	0.6	133.1	0.6
Fruit & vegetable juices	138.4	0.6	151.4	0.7
Monofilament rods, sticks, profiles (of plastics)	130.6	0.5	32.0	0.1
Mineral water & areated, sweetened waters	122.2	0.5	61.3	0.3
Manganese & articles thereof, incl. waste and scrap	110.7	0.5	619.8	2.7
Apples	93.9	0.4	60.4	0.3
Total exports (including electricity & others)	23,973.9	54.1	22,590.6	42.3

Gross imports (as reported in customs records) increased by 35.7 percent during 2009/10 (2008/09: 7 percent), and broadly reflects higher growth in the import of **capital goods** by 18.1 percent in 2009 (2008: 28.4 percent). Major capital import components include machinery and mechanical/electrical appliances (which constitute 65.4 percent of all capital

imports for 2009), as well as the import of transportation equipment (accounting for another 30.6 percent of total capital imports for the same period). The import of motor vehicles totaling Nu.2 billion, accounted for 25.4 percent of capital imports during 2009 (Table 3.6).

Meanwhile, the top 20 imports for 2009 (Table 3.7), still largely feature specific **intermediate commodities**, including mineral fuels, oils and articles of base metals, largely used in the construction and manufacturing sectors. In line with investment and construction-related activity in the country, intermediate commodity imports continued to grow in 2009, expanding by 7.5 percent, and dominating overall imports with a share of 38.5 percent, followed by capital imports to the tune of 31.3 percent.

Table 3.5 Gross Merchandise Imports

<i>% change</i>	2005	2006	2007	2008	2009
Intermediate goods, of which	26.0	16.0	12.4	11.2	7.5
<i>Mineral-based products</i>	24.0	18.0	17.8	31.0	0.6
<i>Base metals and related articles</i>	29.5	13.2	7.2	(6.9)	16.7
Capital goods, of which	(38.6)	(9.4)	8.8	28.4	18.1
<i>Machinery/mechanical equipment</i>	13.6	(8.1)	2.3	13.3	26.0
<i>Transport equipment and parts</i>	(80.9)	(7.5)	59.2	52.1	11.9
Consumption goods, of which	9.4	27.3	20.4	(8.2)	1.5
<i>Processed Foods and beverages</i>	12.4	105.1	18.5	(34.0)	(20.0)
<i>Products of chemicals and allied industries</i>	(2.9)	10.0	(7.8)	24.1	6.8
<i>Vegetables, fruits, other crops, seeds</i>	9.9	13.5	17.0	14.2	14.4
<i>Live animals and animal products</i>	30.7	10.7	8.6	15.1	25.8

Source: Department of Revenue and Customs.

Consumption related commodity imports grew slightly by 1.5 percent during 2009, despite the 20 percent fall in the import of processed foods and beverages, which account for 20.5 percent of all consumer-related imports. Bhutan's major imports of chemicals and food related imports of vegetables, cereals, and animal products constitute 12.6 percent, 16.8 percent, and 12.9 percent, respectively of total consumption imports. These imports expanded in 2009 by 6.8 percent, 14.4 percent, and 25.8 percent, respectively.

Of significance, commodity import values recorded in customs data are adjusted for **informal commodity imports** estimated through informal trade surveys carried out at major commercial towns along the border with India. As of the latest figures, informal imports are estimated at around Nu.5.1 billion for the FY 2009/10. In line with efforts to improve estimation methods for informal merchandise imports from India, the RMA carried out a survey in Phuentsholing (the previous one was conducted in Samdrup Jongkhar in September 2009). Given the nature of the porous border between the two countries, these surveys are necessary to improve current estimates on informal imports in Bhutan's BOP with India (and to reduce errors and omissions in BOP reporting). The first informal imports survey was conducted by the RMA in 2006 in Phuentsholing.

Table 3.6 Overview of Motor Vehicle Imports, 2007 – 2009

	Millions of Nu.						
	2007		2008		2009		
	Total	Total	India	COTI	Total	India	COTI
Import of Motor Vehicles, of which	1,107.4	2,270.6	1,198.7	1,071.9	2,029.9	1,704.6	325.3
1) Passenger Vehicles	718.2	1,697.1	904.6	792.5	1,265.9	1,009.7	256.2
<i>Motor vehicles (for 10 persons or more)</i>	40.3	134.5	25.4	109.1	56.3	51.4	4.9
<i>Motor vehicles for passenger transport (< 1000 cc - > 2,500 cc) ¹</i>	663.9	1,545.4	863.8	681.6	1,194.8	944.7	250.1
<i>Motorcycles (including mopeds) 50 cc - 500 cc</i>	13.9	17.2	15.4	1.8	14.8	13.6	1.2
2) Heavy Duty Motor Vehicles	389.2	573.5	294.1	279.4	764.0	694.9	69.1
<i>Tractors</i>	17.2	21.4	21.4	-	33.0	33.0	-
<i>Vehicles for the transport of goods</i>	367.1	269.0	269.0	-	618.2	618.2	0.0
<i>Special purpose vehicles ²</i>	4.8	1.4	1.3	0.0	112.7	43.7	69.1
<i>Work trucks ³</i>	0.0	281.8	2.4	279.4	0.1	0.1	0.0

Source: Department of Revenue and Customs. Does not include the import of vehicle parts.

1) Most passenger cars e.g. maruti alto, santa fe, tucson, rexton, hilux, landcruisers etc. would fall under this category. 2) Includes crane lorries, mobile drilling vehicles, fire fighting vehicles, concrete mixers, road sweepers, spraying lorries, mobile workshops, etc. 3) For use in factories, airports etc. Includes those for lifting/handling equipment, used in warehouses, docks, airports, short distance transport of goods etc.

Table 3.7 Top 20 Commodity Imports

Item	2009		2008	
	Value (Millions of Nu.)	% Share of total	Value (Millions of Nu.)	% Share of total
High speed diesel	1,910.6	7.5	1,807.7	7.7
Ferrous products (by <i>direct reduction of iron ore</i>)	997.1	3.9	678.9	2.9
Excavators, front-end shovel loaders, other rollers & dozers	735.4	2.9	430.0	1.8
Motor spirit (<i>gasolene</i>) including aviation spirit (<i>petrol</i>)	724.3	2.8	703.4	3.0
Rice	721.8	2.8	693.7	3.0
Dumpers & motor vehicles for goods transport	618.2	2.4	270.9	1.2
Copper wire	593.1	2.3	362.2	1.5
Wood charcoal	573.7	2.2	431.0	1.8
Motor vehicles (<i>cylinder range: 1000 CC to 1500 CC</i>)	522.3	2.0	558.9	2.4
Ferrous waste & scrap (cast iron, tinned iron or steel etc)	513.1	2.0	525.2	2.2
Coke & semi-coke of coal	434.0	1.7	480.1	2.0
Coal, briquettes & similar solid fuels of coal	411.9	1.6	223.1	0.9
Machinery for moving, grading, levelling, scraping, excavating, tamping, compacting & boring	363.0	1.4	15.0	0.1
Towers & lattice masts (of iron or steel)	327.2	1.3	94.5	0.4
Motor vehicles (<i>cylinder capacity not exceeding 1000 CC</i>)	310.6	1.2	179.8	0.8
Corrugated iron/non-alloy steel sheets	307.5	1.2	248.1	1.1
Petroleum bitumen	280.7	1.1	381.0	1.6
Machine for reception, conversion & transmission of image, data etc (<i>incl. switching & routing</i>)	253.2	1.0	288.5	1.2
Milk powder	252.8	1.0	233.5	1.0
Soyabean oil (<i>crude & other</i>)	239.9	0.9	273.2	1.2
Total imports (including remaining items)	25,522.9	43.5	23,495.1	37.8

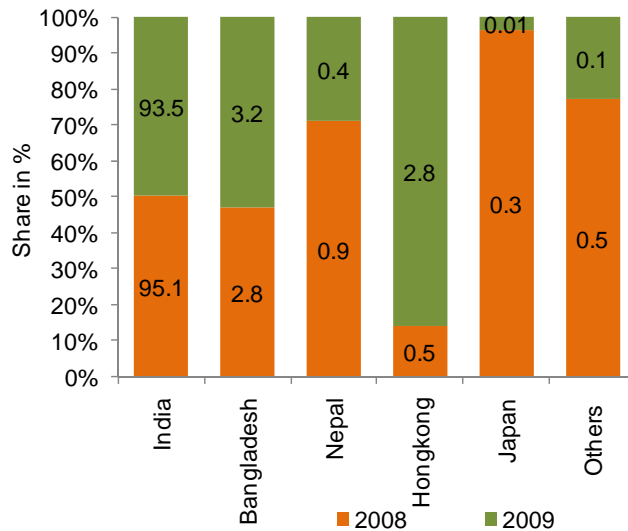
Source: Department of Revenue and Customs.

Due to the porous border and close financial and trade linkages with India, **India** remains Bhutan primary destination for both commodity exports and imports. Trade diversification has been minimal over the years, and India accounts for 93.5 percent of Bhutan's commodity exports as of 2009 (Chart 3.7).

India is followed by **Bangladesh** with 3.2 percent (*oranges, apples, cardamom, fruit juices and processed foods and beverages, and mineral products, including dolomite, gypsum and limestone*), and **Hong Kong** with 2.8 percent share, importing mostly cordyceps and furniture from Bhutan.

Within the region, **Nepal's** place in Bhutan's export destinations over the years has remained steady over the years, with its share in Bhutan's overall commodity exports at less than 1 percent. Exports to Nepal include largely gypsum, coal, cement and cordyceps from Bhutan. In 2009, Bhutan recorded a balance of trade deficit with Nepal of Nu.284.9 million. As of March 2010, both countries have agreed to work towards finalizing a Preferential Trade Agreement that will benefit both nations in the form of reduced export duties.

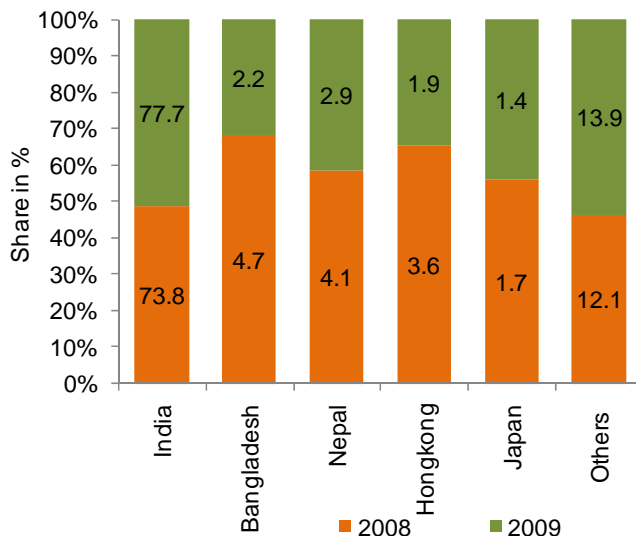
Chart 3.7 Exports of Goods by Destination



India is also Bhutan's largest source of commodity imports at 77.7 percent in 2009 (Chart 3.8).

Following India in the top five list are **Singapore** with 2.9 percent (*processed foods and beverages, polymers and polythene, synthetic yarn, commemorative coins, transportation and communication equipment and parts, electronics and mechanical appliances*), **Japan** with 2.2 percent (*transportation and communications equipment and parts, and other mechanical/ electrical appliances*), **China** at 1.9 percent (*textiles and footwear, processed foods, articles of plastic and rubber, iron bars, steel, heavy machinery equipment and parts, electrical appliances/equipment, home furnishings*), and **Sweden** at 1.8 percent (*telecommunications equipment and heavy duty earth moving equipment/ vehicles*).

Chart 3.8 Direction of Commodity Imports



Box 3.2 Bhutan's Food Trade Balance

While Bhutan remains an agrarian economy with over 65 percent of labor force engaged in farming, food sufficiency looms as a major issue of concern to policy makers, due to its vast socio-economic implications for the nation.

World Food Day in October 2010 highlighted that 13.8 percent of Bhutanese households, largely rural, do not have sufficient access to food for 1 or more months in a year. Moreover, according to the Bhutan Living Standard Survey of the NSB, 26.6 percent of Bhutanese households fall short of the minimum required daily energy intake of 2,124 kilocalories per person per day. Numerous reasons have been attributed to this phenomenon, including restricted access to land and markets, rural-urban migration effects on a shrinking farming workforce, in addition to natural constraints associated with terrain and wildlife. However, what concerns policymakers is the fact that these developments take place against a backdrop of ever-increasing food demand in the country that is projected to double by 2030 (Ministry of Agriculture).

Furthermore, with the escalation in food prices across the border, Bhutan continues to import large amounts of food items to meet domestic demand. Looking at Table 3.8, during 2009, Bhutan imported essential food items totaling Nu.2.6 billion, with an overall food trade deficit totaling Nu.1.6 billion as of 2009.

Table 3.8 Bhutan's Food Trade Balance: Selected Food Commodities

Millions of Nu.

	2007			2008			2009		
	Total	India	COTI	Total	India	COTI	Total	India	COTI
Selected Food Deficit/Surplu	-1214.4	105.5	-1319.9	-2031.3	-1502.9	-528.5	-1629.8	-2083.6	453.9
Export of Selected Food Items, of which	2336.4	2103.3	233.1	1189.6	805.1	384.6	999.5	528.3	471.2
Milk, butter & cheese	12.8	12.8	0.0	0.2	0.2	0.0	4.9	4.9	0.0
Eggs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Meat and related products	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Cereals, of which	8.6	0.0	8.6	7.3	0.2	7.1	8.8	0.7	8.1
Rice	8.6	0.0	8.6	7.1	0.0	7.1	8.5	0.4	8.1
Vegetables, roots, tubers	196.7	157.9	38.8	253.9	129.7	124.2	490.4	412.2	78.2
Edible fruits & nuts	234.2	57.1	177.1	321.0	69.6	251.3	491.5	106.6	384.9
Edible Oils	1875.3	1875.3	0.0	607.3	605.3	2.0	3.9	3.9	0.0
Sugar	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Import of Selected Food Items, of which	3550.8	1997.8	1553.0	3220.9	2307.9	913.0	2629.3	2612.0	17.3
Milk, butter & cheese	328.0	327.4	0.6	410.2	408.6	1.6	465.1	464.4	0.7
Eggs	36.1	36.1	0.0	15.2	11.8	3.4	36.9	34.1	2.7
Meat and related products	323.1	320.6	2.5	363.5	355.7	7.8	489.4	485.0	4.3
Cereals, of which	672.1	672.0	0.2	1165.8	755.4	410.4	825.3	825.1	0.2
Rice	544.8	544.6	0.1	694.0	693.7	0.3	721.8	721.7	0.2
Vegetables, roots, tubers	140.2	138.2	1.9	150.1	147.1	3.1	182.4	180.4	2.0
Edible fruits & nuts	27.4	26.8	0.6	30.0	28.9	1.1	42.3	41.5	0.8
Edible Oils	1912.1	365.2	1547.0	966.1	480.7	485.5	414.1	407.7	6.4
Sugar	111.8	111.6	0.2	120.0	119.8	0.2	173.9	173.8	0.1

Source: Department of Revenue and Customs.

1) Meat and related products includes all live animals and meat including fish, and excluding eggs, milk, cheese and honey. 2) Cereals include wheat, barley, maize, rice, buckwheat, millet etc.

Services, Income and Current Transfer Account

Overall, Bhutan's **invisibles account** improved during 2009/10, underpinned by a 46.9 percent increase in the **current transfer surplus** to Nu.8.9 billion. A slight decrease in net remittance outflows by 8.6 percent was supplemented by an increase in budgetary grant inflows by 35.5 percent. On the other hand, the performance of the **services industry** deteriorated as recorded in the widening of its overall deficit by 12.4 percent in 2009/10 to Nu.1 billion or 1.7 percent of GDP. Meanwhile, the **income deficit** rose to 4.3 percent of GDP to Nu.2.7 billion.

Table 3.9 Services, Income and Current Transfer Accounts

(Millions of Nu.)	2007/08	2008/09		2009/10 (p)			
	Net	+	-	Net	+	-	Net
Invisibles	1841.4	11443.4	-8069.7	3373.7	14381.0	-9197.7	5183.3
Services Account							
of which	-1562.6	2700.0	-3603.4	-903.4	3205.3	-4220.5	-1015.2
% of GDP	-3.2	4.9	-6.6	-1.7	5.2	-6.9	-1.7
Transportation	214.4	412.5	-218.1	194.4	1102.2	-227.3	874.9
Travel	-1135.1	2022.7	-1574.5	448.3	1862.3	-1926.7	-64.3
Other services	-676.8	119.4	-1615.5	-1496.1	146.4	-1834.0	-1687.6
Government transactions	34.8	145.3	-195.2	-50.0	94.4	-232.5	-138.2
Income Account							
of which	-1310.1	1012.6	-2762.0	-1749.4	761.0	-3414.3	-2653.3
% of GDP	-2.6	1.9	-5.0	-3.2	1.2	-5.6	-4.3
Compensation of employees	-463.5	83.9	-989.9	-905.9	72.1	-1188.0	-1115.9
Investment income, of which	-846.6	928.7	-1772.2	-843.5	688.9	-2226.2	-1537.4
Interest on deposits	977.5	928.7		928.7	688.9		688.9
Debt service	-1769.8		-1798.6	-1798.6		-2097.6	-2097.6
Current Transfers Account							
of which	4714.1	7730.8	-1704.3	6026.6	10414.7	-1562.9	8851.8
% of GDP	9.5	14.1	-3.1	11.0	17.0	-2.6	14.5
Budgetary Grants	5935.4	6575.1		6575.1	8909.0		8909.0
Remittances	-1855.8	148.4	-1589.9	-1441.5	191.9	-1509.0	-1317.1
Other transfers (INGO receipts)	634.4	1007.4	-114.3	893.0	1313.8	-53.9	1259.9

Source: Research and Statistics Department, RMA.

Deterioration in the services account was driven mostly by reduced inward **travel**, which resulted in a huge turnaround from an **overall travel net surplus** of Nu.448.3 million in the previous year to a deficit of Nu.64.3 million in 2009/10. COTI travel inflows dominate the travel account at 90.9 percent of total inflows, compared to 62.9 percent share of India travel outflows in total outward travel flows. For the year under review, COTI travel inflows dropped by 9.4 percent to Nu.1.7 billion, while travel outflows to both India and other countries grew by 22.4 percent to Nu.1.9 billion.

Under travel, **business travel** transactions constituted 0.1 percent of all inward travel receipts while the remaining 99.9 percent were accounted for by personal inward travel from both India and COTI. On the other hand, 85.5 percent of all outward travel flows were channeled for **personal travel**, including health-related, education and other private travel (general inward and outward tourism).

During the year, net personal travel receipts fell considerably by 70.8 percent to Nu.213.3 million, that can be highly attributed to a 24.3 percent drop in net receipts from COTI, and a

20.6 percent increase in **other travel** net outflows (*Personal travel covers both inward and outward tourism for education and health, other tourism, i.e., Indian tourists, convertible currency paying tourists visiting Bhutan as recorded by the daily visa fee and tour operators' revenues, and includes estimates on outward tourism such as pilgrimage travel and visits to COTI under the foreign exchange Annual Travel Scheme*).

Chart 3.9 Composition of the Services Account, 2009/10 (p)

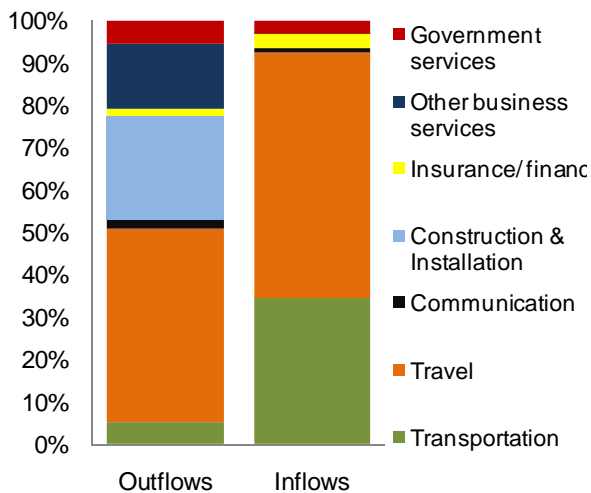
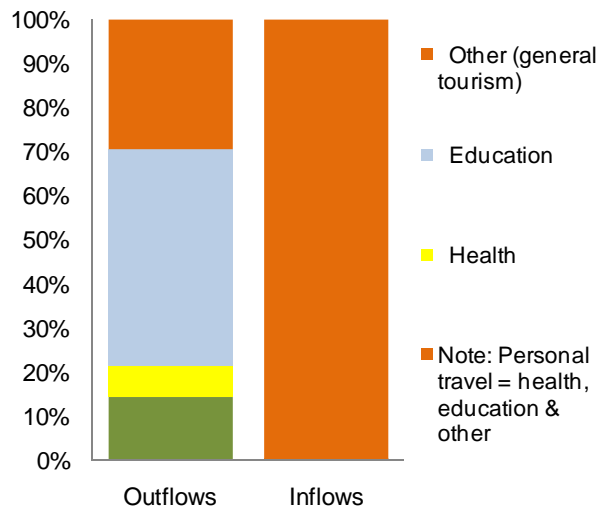


Chart 3.10 Composition of the Travel Account, 2009/10 (p)



During the year, Bhutan's expenditure on **personal travel** abroad expanded by 27.7 percent to Nu.1.6 billion (2008/09: Nu.1.3 billion), of which 57.5 percent was incurred on education-related expenditures (Nu.948.3 million), followed by 34.4 percent on other travel (Nu.567.7 million), and health-related expenditures amounting to Nu.132.1 million. 69.9 percent of all personal travel outflows were directed to India. Meanwhile, recorded tourist revenues from COTI totaled Nu.1.7 billion for the year 2009/10, a decrease of 9.4 percent over the previous year. Details on tourist arrivals and revenues are provided in Section 1 and Annex IV.

Besides travel-related transactions, the import of **construction and installation-related services** (entirely from India) fell slightly by 2.1 percent to Nu.1 billion as of the end of the fiscal year. These services constitute 24.4 percent of total services imports, and were imported for the development and maintenance of the Chhukha and Punatsangchhu I hydropower projects. Additionally, the deficit on **other business services** (*information technology, financial and insurance, communications and miscellaneous business services*) in line with overall economic activity, expanded by 49.3 percent to Nu.637.9 million as of 2009/10. Payments abroad on other business services accounted for 15.1 percent of overall services imports.

Similarly, Bhutan's **income account** deteriorated further in 2009/10, with the deficit expanding by 51.7 percent to Nu.2.7 billion or 4.3 percent of GDP (2008/09: 3.2 percent of GDP). This generally reflects a decline in **investment income** from abroad combined with substantial payments on **compensation of employees** (*payments to non-resident workers employed in Bhutan*). Under **investment income**, interest earned on deposits held abroad, 97.3 percent of which were sourced from countries other than India, fell by 25.8 percent from

the years, with inward COTI remittances expanding at an average of 27.6 percent per annum. The majority of non-resident Bhutanese remittances appear to be denominated in USD assumed to originate mostly from the United States (96.3 percent of total NRB remittances) with Nu.184.7 million during the year ending June 2010.

Capital and Financial Account

With sizable inflows related to official capital grants (associated with the development of the hydropower sector) and concessional borrowing, Bhutan's **capital and financial account balance** continued to record a surplus, registering 38.5 percent expansion in growth during 2009/10 to Nu.7 billion (2008/09: Nu.5.1 billion) or equivalent to 11.5 percent of GDP. Riding on developments associated with the commencement of construction works on the 1020 MW Punatsangchhu Phase I hydropower project in 2008/09, grants for hydropower development (entirely from India) continued to grow by more than 300 percent in 2009/10 to Nu.3.1 billion. Consequently, overall **capital transfers**, surged by 163.2 percent to Nu.3.7 billion during the year, and comprising 51.6 percent of net capital and financial inflows. This trend is likely to continue over the 10th Plan period given the RGOB's hydropower-development target of 10,000 MW by 2020.

Table 3.10 Capital and Financial Account

<i>(Millions of Nu.)</i>	2006/07	2007/08	2008/09	2009/10 (p)
Capital and Financial Account	5095.5	5650.7	5065.2	7016.5
<i>% of GDP</i>	12.5	11.4	9.3	11.5
Capital Transfers	1111.8	635.5	1413.2	3719.5
<i>% of GDP</i>	2.7	1.3	2.6	6.1
Direct Investment in Bhutan¹				
of which	3238.1	1198.3	710.8	534.6
<i>% of GDP</i>	8.0	2.4	1.3	0.9
<i>Other capital</i>	3185.4	1139.8	802.5	106.0
<i>Reinvested earnings</i>	39.1	76.6	-51.0	86.6
Other Investment				
of which	745.5	3816.9	2941.1	2762.3
<i>% of GDP</i>	1.8	7.7	5.4	4.5
<i>Net loans, RGOB</i>	783.3	1015.0	4193.3	2215.2
<i>Net loans, Other sectors</i>	-37.8	2801.9	-1252.2	547.1

Source: Research and Statistics Department, RMA.

FDI flows into Bhutan have picked up in the past few years; there were a total of 14 approved FDI joint ventures as of 2009/10, 6 of which are currently under construction. An additional 9 FDI joint ventures are currently under review, targeting the tourism, manufacturing and IT sectors. The net FDI flow into Bhutan in 2009/10 was positive at 0.9 percent of GDP corresponding to Nu.534.6 million. In terms of growth however, for 2009/10, net direct investment flows into Bhutan experienced negative growth propelled by developments in **other capital** (*liabilities by FDI enterprises to affiliated companies abroad*) which decreased to Nu.106 million for the year.

Chart 3.12 Capital and Financial Account

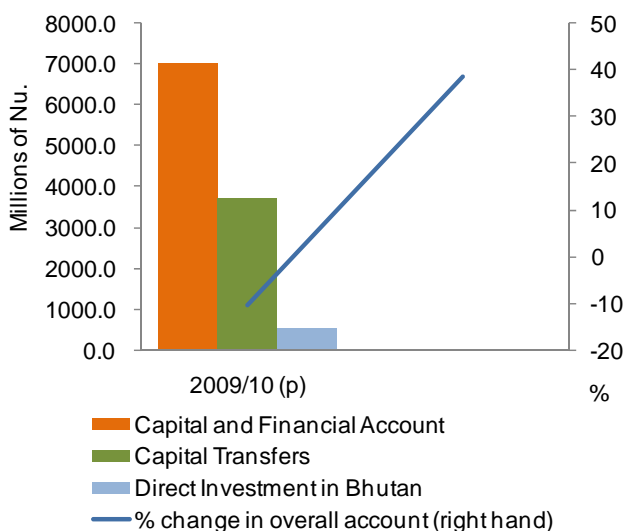
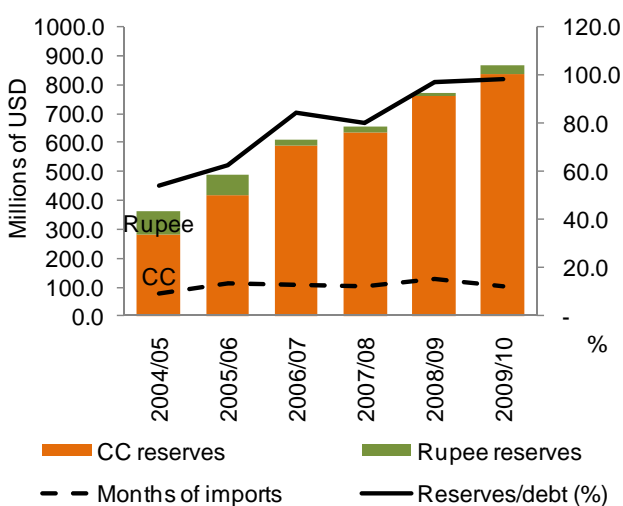


Chart 3.13 Gross International Reserves



the principal repayment on the SBI overdraft facility totaling Nu.4.6 billion during 2008/09 (in 2009/10, total debt repayment on the SBI overdraft facility amounted to Nu.4.3 billion, including interest payments of Nu.39.6 million). Bhutan's principal repayments on both concessional and private convertible currency debt also increased, by 10.6 percent for the year ending 2009/10.

After provisioning for net errors and omissions, Bhutan's overall balance of payments was positive at Nu.4.4 billion for the fiscal year 2009/10, underpinned by the combination of substantially large current transfer receipts and capital and financial account surplus. Notably, **net errors and omissions** were positive at Nu.6.1 billion for the year, indicative of under-recordings in overall inflows of capital from India and/or COTI.

Corresponding to this increase in the overall balance of payments was an increase in the country's **international reserves** by an equivalent of USD 95.4 million from USD 772.7 million in 2008/09, increasing by 12.3 percent at the end of 2009/10. This increase in the

Meanwhile, under **other investment**, Bhutan's net surplus fell by 6.1 percent as of 2009/10 to Nu.2.8 billion, attributed largely to the decreased disbursements towards Rupee as well as increased repayment obligations on convertible currency loans.

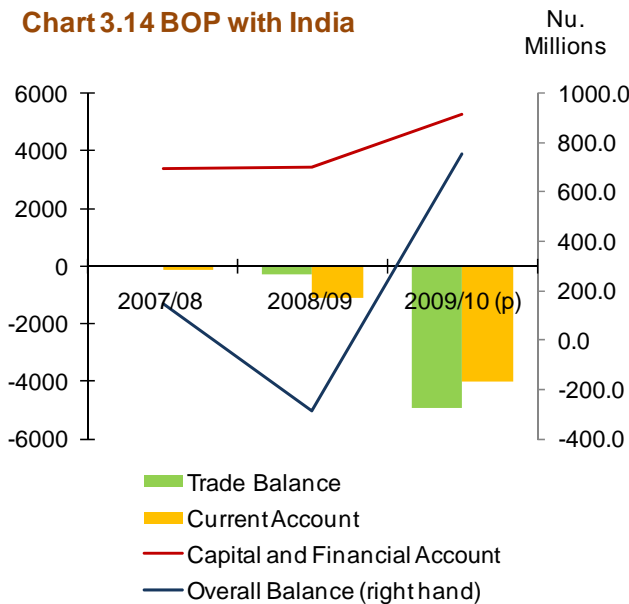
Flows associated with the Royal Government's external debt obligations (**net loans, RGOB**), while positive during 2009/10 were lower by 47.2 percent with total disbursements falling by 30.8 percent to Nu.4.2 billion (2008/09: Nu.6.1 billion). Of this, Rupee loan disbursements constituted 55.9 percent (Nu.2.4 billion down from Nu.4.7 billion in 2008/09). Convertible currency loan disbursements however increased by 34.3 percent from Nu.1.4 billion in 2008/09 to Nu.1.9 billion in 2009/10. During the year, Bhutanese authorities continued to avail of the short-term overdraft facility from the State Bank of India at an interest rate of 9.2 percent per annum. The latter made up 66.7 percent of all Rupee loan disbursements that year.

The Royal Government's **principal debt repayment** obligations on its Rupee loans, which had reached Nu.6.1 billion as of 2008/09, remained elevated at Nu.5.8 billion for the year ending June 2010. One of the key reasons was

gross international reserves was driven by a 10.4 percent rise in the convertible currency reserves, from USD 759.6 million to USD 838.5 million, corresponding to flows associated with foreign aid and debt. India Rupee reserves also more than doubled from INR 628.1 million to INR 1.4 billion. As of the year ending 2009/10, total reserves are adequate to meet **12.3 months of merchandise imports** (11.1 months of imports of goods and services) and 103.3 percent of overall external debt as at the end of 2009/10.

3.2 Balance of Payments with India

Chart 3.14 BOP with India



Bhutan's balance of payments with India for 2009/10 was characterized by a **trade deficit** of Nu.4.9 billion equivalent to 8 percent of GDP. Customs records reflect a marginal growth of 0.6 percent in merchandise exports to India, from Nu.23.3 billion to Nu.23.4 billion. On the other hand, commodity imports from India increased by 20.3 percent from Nu.23.5 billion to Nu.28.3 billion as of 2009/10. Similarly, the net **services, and income account deficits** deteriorated to Nu.2.5 billion and Nu.2.9 billion, respectively for the period under review. Moreover, Bhutan's **net current transfer surplus with India** expanded by 60.5 percent to Nu.6.4 billion. Particularly, budgetary

grant inflows from India which constituted 83.1 percent of all current transfer inflows rose sharply by 46.5 percent during 2009/10 to Nu.6.4 billion. Overall, the **current account deficit** with India widened from 2008/09 to Nu.4 billion or 6.5 percent of GDP (2008/09: 2 percent of GDP).

Chart 3.15 Major Exports to India, 2009

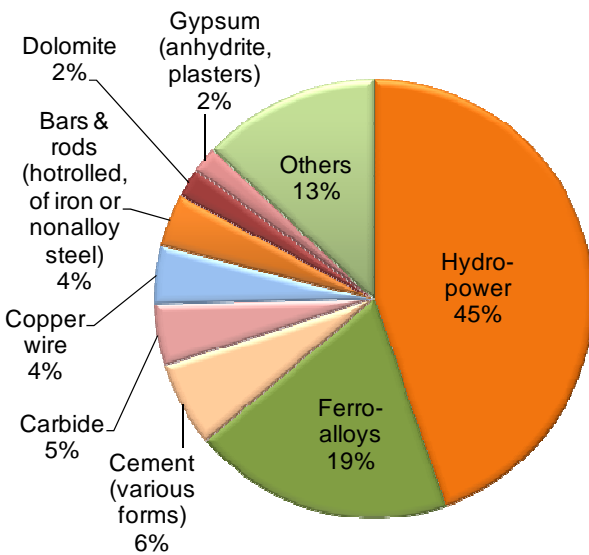
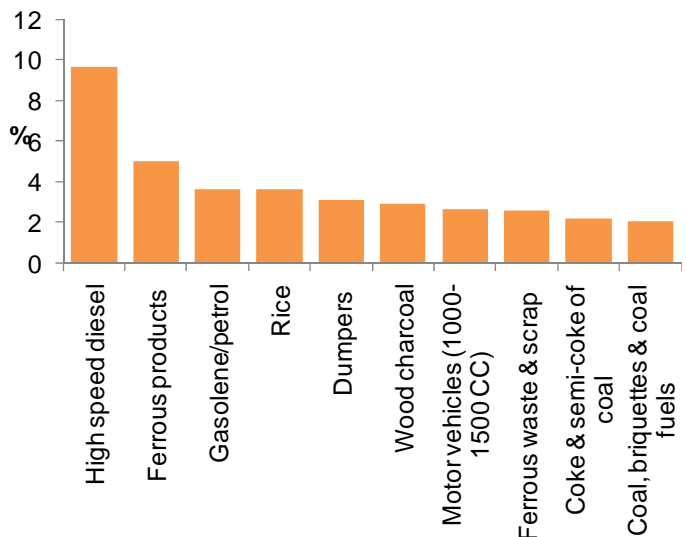


Chart 3.16 Selected Top Imports from India, 2009

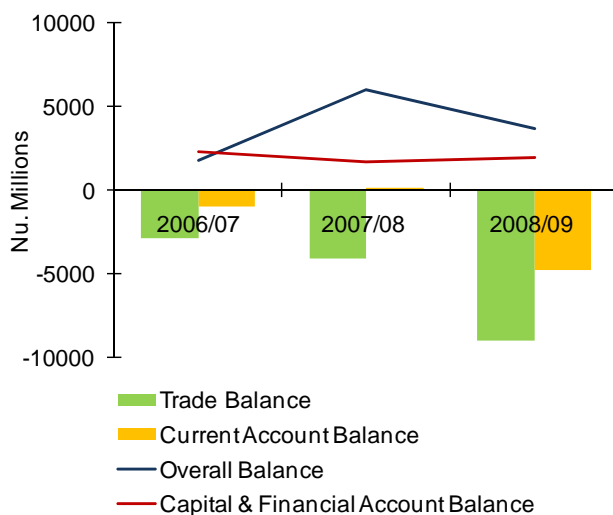


Under the **capital and financial account**, new disbursements for both capital transfers and debt that commenced for the Punatsangchhu project from the previous year, have more than doubled capital grant levels, together with the short term over draft facility availed from the State Bank of India, thus offsetting subsequent growth in debt servicing (both interest and principal) for India. As a result, the net balance on the capital and financial account has increased from Nu.3.4 billion to Nu.5.3 billion as of 2009/10.

With the growth in capital and financial net inflows albeit the substantial current account deficit, Bhutan's **overall balance** with India was positive at Nu.750.5 million as of the end of June 2010.

3.3 Balance of Payments with Countries Other Than India

Chart 3.17 BOP with COTI



Bhutan's balance of payments with COTI experienced a huge **current account deficit** of Nu.4.8 billion from the surplus of Nu.150.1 million in 2008/09. Reasons for the turnaround include a significant deterioration in the trade deficit and the income account and modest growth in services and current transfer receipts. Despite a 43.5 percent expansion in COTI exports, Bhutan's **trade deficit** more than doubled from Nu.4 billion to Nu.9 billion as of 2009/10, largely on account of a 102.2 percent increase in commodity imports.

Tourism receipts during the year, on the other hand, declined 9.4 percent from Nu.1.9 billion to Nu.1.7 billion. Moreover, earnings on depository investments abroad declined by 21.7 percent to Nu.670 million.

Meanwhile, the **capital and financial account** balance with COTI was recorded at Nu.2 billion in 2009/10, an increase of 15.2 percent from in 2008/09, driven entirely by the 37.9 percent growth in net inflows on sovereign debt that totaled Nu.1.4 billion for the year ending June 2010.

After providing for possible errors and omissions, the combined current account surplus and capital and financial account balances resulted in a positive **overall balance** of Nu.3.7 billion as of 2009/10.

Chart 3.18 Major Exports to COTI, 2009

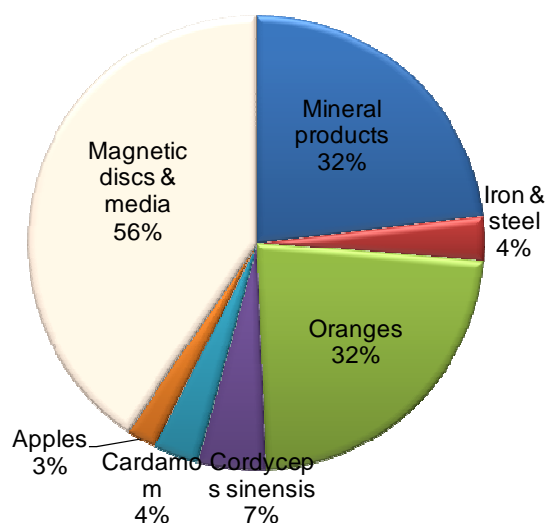
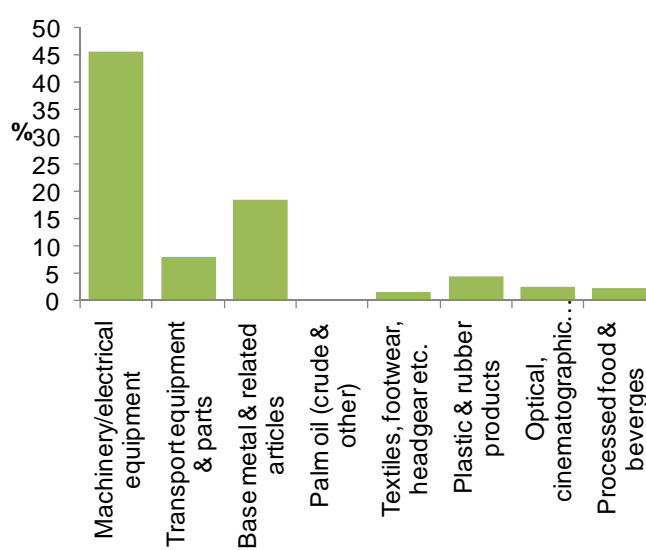


Chart 3.19 Major Imports from COTI, 2009



Bhutan's medium term outlook will be driven mostly by planned activities in the hydropower sector which will continue to be a major engine of growth and revenue during and beyond the 10th FYP (2008/09-2012/13). BOP developments will track associated flows under official aid and commodity and services imports. From the 2009/10 current account deficit of 14.3 percent of GDP, it is projected that Bhutan's **current account deficit** will average to 17.6 percent of GDP in the medium term, largely due to expansion in the trade account. Grants flows and loans for the power sector are still projected to be substantial during the 10th FYP. As a result, it is expected that Bhutan's **overall balance** will continue to show a surplus, supported also by other financial inflows. On average, it is projected that Bhutan's **international reserves** will be adequate to cover over 12 months of merchandise imports.

3.4 External Debt

Bhutan's outstanding external debt stood at an equivalent of USD 840.7 million at the end of 2009/10, out of which 58.1 percent were outstanding on Indian Rupee debt while the remaining 41.9 percent were convertible currency debt (both concessional and private debt). The debt service ratio fell slightly to 29.5 percent as of 2009/10 against 30.5 percent in the previous year. Debt servicing on Rupee debt remained high due to repayment obligations towards the State Bank of India overdraft facility. Though Bhutan's Rupee debt service ratio reduced slightly during the review period, it continued to remain elevated at 31.4 percent as of 2009/10.

The stock of external debt outstanding increased by 5.8 percent from an equivalent of USD 794.3 million as of 2008/09. Much of this development can be assigned to the growth in Indian Rupee debt outstanding which grew by 6.4 percent, while that of convertible currency debt outstanding increased marginally by 1.7 percent as of 2009/10. Of Bhutan's total Rupee debt outstanding (INR 22.8 billion), 80.2 percent were denominated public debt on hydropower (Kurichhu, Tala, and Punatsangchhu I projects). Within the convertible currency loan portfolio, concessional public and publicly guaranteed debt accounted for 96.6 percent, while the residual was outstanding external debt of the private sector.

Table 3.11 External Debt Indicators

Debt Outstanding (in millions)	2005/06	2006/07	2007/08	2008/09	2009/10
Total (USD)	780.1	723.8	819.1	794.3	840.7
Convertible Currency (USD)	368.8	308.1	349.7	346.4	352.5
Indian Rupee	18,400.2	18,369.9	18,948.4	21,400.7	22,777.9
<i>Of which, GOI Standby Credit</i>				3,000.0	3,000.0
<i>SBI Overdraft</i>			1,628.1	917.3	1,500.3
Debt/GDP ratio (%)					
Total	98.3	80.8	67.0	70.1	63.5
Convertible Currency loan	46.5	34.4	28.6	30.6	26.6
Indian Rupee loan	51.8	46.4	38.4	39.5	36.9
External Debt (per capita, Nu.)	54,964.5	49,445.6	50,184.6	56,552.2	57,391.1
Debt service ratio (%)					
Total	7.6	3.6	18.3	30.5	29.5
Convertible Currency loan	15.6	8.0	13.5	16.4	19.9
Indian Rupee loan	5.5	2.3	19.2	32.7	31.4

* Based on calendar year GDP figures. Example, the 2008 GDP figure is used to calculate the ratio for 2008/09.

** Debt service payments as a percent of the export of goods and services. The total debt service ratio represents the total debt service payments (i.e. on convertible currency & Rupee loans) as a percentage of the total export earnings (from India & other countries). Convertible currency debt service ratio is the debt servicing on convertible currency loans as a percentage of the export earnings from countries other than India. Similarly, the Indian Rupee debt service ratio is the debt servicing on Indian rupee loans as a percentage of the export earnings from India. The debt service ratio for the latest period is calculated based on the previous year's export of goods and services.

Source: Department of Public Accounts & private sector enterprises.

Corresponding to developments in Bhutan's output and external debt levels, the overall debt to GDP ratio improved from 70.1 percent as of 2008/09 to 63.5 percent as of 2009/10.

The Government of India continues to be Bhutan's biggest lender, with total outstanding debt at INR 21.3 billion as at the end of 2009/10, followed by the ADB with USD 136.4 million, the World Bank with USD 107.7 million and the Government of Austria with an equivalent of USD 57.9 million.

Debt servicing (repayments of principal plus interest) on convertible currency loans grew substantially by 61.2 percent to an equivalent of USD 20.4 million in 2009/10. And as highlighted above, debt servicing on Rupee debt (hydropower and commercial) more than doubled from 2007/08 levels but did decline slightly to INR 7.5 billion as of 2009/10 (2008/09: INR 7.7 billion). A status report on Bhutan's external debt is included as Annex VI.

3.5 Exchange Rate Developments¹

Chart 3.20 BTN/USD: Monthly Movements, FY 2009/10

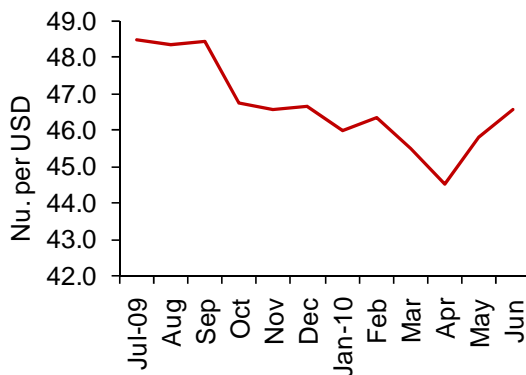


Chart 3.21 BTN/USD: Fiscal Year Average

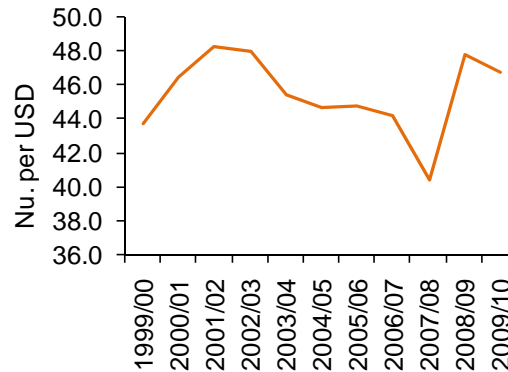
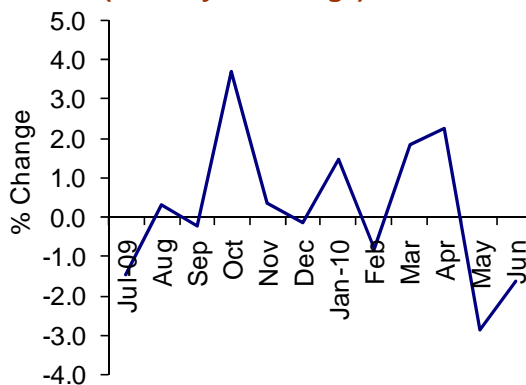


Chart 3.22 Appreciation (+) / Depreciation (-) of BTN/US Dollar (Monthly % Change)



During the FY 2009/10, the Ngultrum ranged between an average of Nu.48.48 (July 2009) and Nu.46.56 (June 2010) per US Dollar.

Capital flow developments in India remain a key source of volatility for movements in its exchange rates. During 2009/10, though capital flows were moderate, the Indian Rupee and the Ngultrum appreciated in tandem against the US Dollar, indicative of the general flexibility of the Indian Rupee and positive growth outlook for India. However, with the onset of the Greek debt crisis towards the end of the year, the Rupee depreciated in line with increased volatility in

foreign exchange markets and the flight from Euro to Dollar assets.

Overall, the Ngultrum appreciated by 2.6 percent for the year ending June 2010 as compared to June 2009. However, taking the average for the entire fiscal year, the Ngultrum appreciated by 2.4 percent against the US Dollar from the fiscal year 2008/09.

Among other major currencies, the Japanese Yen appreciated against the US Dollar, by 8 percent from an average exchange rate of 98.6 Yen per US Dollar in 2008/09 to 91.3 Yen in 2009/10. The Euro appreciated against the US Dollar by 1.4 percent from an average of 0.73 Euro to 0.72 Euro per US Dollar in the same period.

¹ The Bhutanese Ngultrum is pegged at par to the Indian Rupee, and as such, movements in the Ngultrum vis-à-vis major international currencies are a reflection of developments in the Indian foreign exchange market. Recent strong growth in India has translated into the stability of the ngultrum vis-à-vis major convertible currencies.

4. GOVERNMENT FINANCE

Against the backdrop of promoting macroeconomic and financial management and achieving balanced and sustainable growth in the country, the fiscal policy initiatives of the government during the year 2009/10 continued to focus on boosting the economy's capacity through investment in social physical infrastructure and growth oriented economic activities. With increasing pressure on resources to successfully achieve envisaged planned development goals, it has also become necessary for the Government to manage public finances in the most effective and efficient manner possible.

Thus, keeping in view both internal and external sectors development, the recent fiscal policy stance remained progressive with the budget deficit increasing to 6.7 percent of GDP in 2009/10, from a surplus of 2 percent of GDP in 2008/09.

For the 2009/10 revised budget, total government spending has increased substantially from 40.9 percent of GDP in 2008/09 to 49.7 percent of GDP in 2009/10. The increase in the overall spending is largely attributed to the incorporation of additional budget for both current and capital expenditures during the financial year. On the revenue side, while tax revenue and external grants increased by over 40 percent each from 2008/09, there was a huge drop in revenue collection from sources such as non-tax revenue and other miscellaneous receipts. As a result, total revenue including grants, increased only marginally from 42.9 percent of GDP in 2008/09 to 43.1 percent of GDP in 2009/10. Consequently, the fiscal deficit for the year increased to 6.7 percent of GDP, totaling Nu.4 billion. Around 84 percent of the revenue-expenditure gap was financed through domestic sources.

The 2009/10 national budget was geared towards achieving the core objectives of poverty alleviation by pursuing focused socio-economic development strategies within a sound macroeconomic framework. The macroeconomic framework is based on the general budget policy and fiscal framework (BPPF). As in the past, the current fiscal operation continued to be guided by the following policies:

- (i) Avoid current operating deficits;***
- (ii) Limit the overall fiscal deficit to GDP at sustainable levels;***
- (iii) Keep outstanding debt at internationally acceptable thresholds;***
- (iv) Limit domestic borrowings by the government to avoid crowding out of private sector borrowings;***
- (v) Maintain the momentum of investments in the socio-economic sectors and;***
- (vi) Invest in industries with potential for significant revenue and employment generation.***

Analyses of developments in the government fiscal operations are based on the National Budget Report published by the Ministry of Finance for the financial year 2010/11. This report also incorporates the 2009/10 revised budget and the projected budget for the 2010/11 financial year.

Box 4.1 Major 2009/10 National Budget Objectives

A. Social sector

- Improve the quality of human lives through a sustained and professional health care system.
- Provision of free education up to the tenth standard and enhance accessibility to quality education.

B. Tourism sector

- Construction of hotels and tourism related infrastructure.
- Developing overall capacity of the tourism sector.

C. Urban development, housing and public amenities

- Implementation of urban structural plans.
- Provision of basic urban amenities and services.

D. Energy

- Ongoing efforts towards achieving 100 percent rural electrification by 2013.
- Preparation of DPRs for new hydro-power projects.

E. Agriculture

- Construction of farm roads.
- Construction of RNR centers at Gewogs (sub-districts).

F. Trade, industrial and private sector development

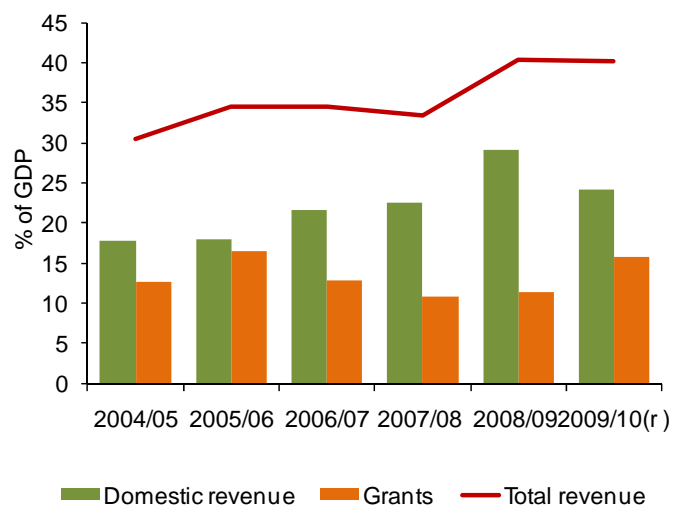
- Provide opportunities for economic growth and employment.
- Supporting general private sector development.

Source: Ministry of Finance.

4.1 Revenue and Grants

Total revenue (including grants) during the financial year 2009/10, totaled Nu.26 billion, higher by Nu.3 billion as compared to 2008/09. As a percentage of GDP, total revenue and grants increased marginally from 42.9 percent in 2008/09 to 43.1 percent in 2009/10, growing by 12.4 percent during the review period down from its growth rate of 28 percent in 2008/09. The slower growth in the total revenue during the financial year is attributed to a drop in the domestic revenue collection from sources such as non-tax revenue and other miscellaneous receipts. On the other hand, tax collection and donors' assistance (in the form of grants) remained progressive, with growth rates of 45.2 percent and 58.5 percent in 2009/10 as compared to 23.7 percent and 10.8 percent in 2008/09, respectively.

Chart 4.1 Composition of Revenue



Domestic revenue (excluding grants), which financed over 52 percent of the total outlay during the year, declined by 5.5 percent in 2009/10. Of the total domestic revenue, **tax revenue** and **non tax revenue** constituted 59 percent and 37 percent, respectively, while, the remaining was on account of other miscellaneous receipts.

Looking at major components of **tax revenue**, corporate income tax accounted for 50.7 percent (Nu.4.8 billion) of tax revenues, followed by excise duty (Nu.1.2 billion) at 12.9 percent. Business income tax from tour operators, contractors, and other miscellaneous business entities amounted to Nu.594.4 million. Collection under personal income tax alone amounted to Nu.441.7 million in the review year. Meanwhile, revenue collected from sales tax and import duty totaled almost Nu.1.2 billion.

Table 4.1 Highlights of Budgetary Operations, 2004/05-2009/10

	<i>Percent of GDP</i>					
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 (r)
Total revenue (including grants)	33.57	34.47	34.55	33.33	42.85	43.06
Tax	10.81	11.42	10.49	10.59	11.85	15.37
Non-tax	8.58	7.69	14.30	14.37	13.83	9.73
Other receipts	0.20	0.34	0.00	0.07	5.15	0.93
Grants/1	13.98	17.79	14.75	12.00	12.02	17.03
Expenditure and net lending	41.21	38.13	38.83	36.22	40.85	49.74
Current expenditure	19.72	18.48	18.91	19.67	20.22	22.60
Capital expenditure/2	21.49	19.66	19.92	16.56	20.63	27.14
Overall balance	-7.65	-0.88	0.71	0.82	2.00	-6.68
Foreign financing (net)	2.36	1.98	1.30	-2.31	-2.23	1.07
Domestic financing (net)	5.67	-1.04	-0.43	-0.35	0.23	5.61

Source: Ministry of Finance.

/1 Grants include both GOI grants and grants from other countries. /2 Includes net lending.

Non-tax revenue collections, which comprise of dividends, transfers of profit, administrative fees and charges, capital revenue, interest receipts, and other non-tax revenue of the government, amounted to almost Nu.6 billion in 2009/10, higher by over Nu.197 million from the 2009/10 projected non-tax revenue. This increase in non-tax revenue during the financial year 2009/10 is mainly attributed to enhanced revenue collections through dividends and profit transfers. Collections from dividends and profit transfers alone accounted for almost 62 percent of the total non tax revenue during 2009/10.

Foreign grants, which financed over 34 percent of the total budget outlay in 2009/10, increased to 17 percent of GDP in 2009/10 as compared to 12 percent of GDP in 2008/09, mainly due to the growth in aid inflows and improved commitments by development partners. Of total grants, the Government of India (GoI) alone accounted for more than 58 percent in 2009/10, an increase of 39.8 percent compared to negative 5.9 percent in the previous year. External grants (excluding GoI grants) recorded a growth of 96.2 percent in 2009/10 against the growth of 72.4 percent in 2008/09. In the revised budget, the increase in the total grants is attributed to the incorporation of additional budget under the Small Development Projects for local governments, SAARC Summit works, preparation of DPRs for power projects, and other bilateral and multi-lateral development assistance.

Box 4.2 Fiscal Incentives 2010

During the year, the RGOB announced various fiscal incentives to stimulate private sector growth and employment generation in the country. These **tax incentives** are comprised of three types, as summarized below.

I. **General Tax Incentives:** General tax incentives are applicable to all sectors of the economy. Under this category, sales tax and customs duty exemption has been provided to manufacturing and service industries for the import of plant and machinery. Besides these, other forms of incentives such as exemption on income tax for export oriented business enterprises (other than tourism business), tax deductibles, tax rebates and tax holidays are included.

II. **Specific Tax Incentives:** Specific tax incentives include cross-sector incentives targeted at sectors such as cottage and small industries. Under this category of incentives, 10 years and 20 years of income tax holidays are provided to new cottage and small industries and cooperatives operating outside the city centres and in remote areas, respectively. The financial institutions engaged in lending to cottage and small industries and cooperatives have also been provided income tax exemptions. Sales tax and customs duty exemptions are also being provided on equipments and labour saving devices. Further, a 15 years income tax holiday along with sales tax and customs duty exemptions have been provided to waste management and recycling agencies.

III. **Sector Specific Tax Incentives:** Sector specific tax incentives are related to the following specific sectors including agriculture, ICT, tourism, film and media industries, construction, transport, education and health.

- **Agriculture sector:** Commercial farming and related processing of its products are provided income tax holidays of 10 years. Sales tax and customs duty exemption have been provided on all farm machinery and other agriculture related inputs.
- **Information and communication technology sector:** An income tax holiday of 15 years has been provided to IT park developers. IT and IT enabled service businesses operating in the IT parks are provided an income tax holiday of 10 years. In addition, sales tax and customs duty exemptions were also provided on computers, computer related accessories, imported construction materials and other inputs.
- **Tourism sector:** Income tax holidays of 10 years are provided to newly-established high-end tourist hotels and hospitality units. Various levels of sales tax and customs duty exemptions are also being given to tourism related activities.
- **Film and media sector:** Reasonable years of income tax holidays are provided to firms engaged in film animations, printing and broadcasting services, media services, and domestic cinema production.
- **Construction and transport sectors:** Sales tax and customs duty exemptions are being provided on the imports of heavy machinery, earth-moving equipments, drilling equipments, and other construction machinery. In the transport sector, a 5 year of income tax holiday has been provided to taxi and car-hire service providers. Sales tax and customs duty exemptions are also being provided to public transport operators.
- **Education and health sectors:** Education and vocational institutes operating outside the main cities are being provided with an income tax holidays of up to 15 years. The exemption of sales tax and customs duty are also being provided on school conveyance, text books and other stationeries, furniture and fixtures and education related construction materials. With regard to the health sector, a 10 and 5 year income tax holiday is being provided to newly established high-end private health services and pharmaceutical shops operating in far-flung areas of the country.

Besides the above tax incentives, the RGOB has introduced **non-tax incentives** such as direct cash subsidies, and exemptions, and has provided leverage to firms and industries engaged in export-oriented businesses.

Source: Ministry of Finance.

Box 4.3 Revision of Sales Tax and Customs Duty

During the fiscal year 2009/10, the RGOB took initiatives to revise the upward sales tax (ST) and customs duty (CD) on motor vehicles imports. Categorically, the revision of sales tax and customs duty were applied to the following range of motor vehicles. This revision became effective from June 2010.

<i>Cylinder capacity (cc)</i>	<i>Revised CD rate (%)</i>	<i>Revised ST rate (%)</i>
1. Petrol		
<i>Upto 1000cc</i>	30	20
<i>1001cc-1500cc</i>	30	20
<i>1501cc-2500cc</i>	30	30
<i>2501cc-3000cc</i>	50	30
<i>3001cc and above</i>	50	30
2. Diesel		
<i>Upto 1500cc</i>	30	20
<i>1500cc-2500cc</i>	30	30
<i>2501cc and above</i>	50	30
3. Others		
<i>i) Motor vehicles for transport of 10 or more persons</i>	30	30
<i>ii) Vehicles used for travelling on snow, golf cars, etc.</i>	30	30
<i>iii) Other vehicles</i>	50	30
<i>iv) Motor vehicles for transport of goods (including dumpers and tippers)</i>	30	20

According to the notification issued by the RGOB, vehicles cleared under bond arrangements (without payment of ST and CD) sold on or after June 2010 shall also be subjected to the levy of ST and CD.

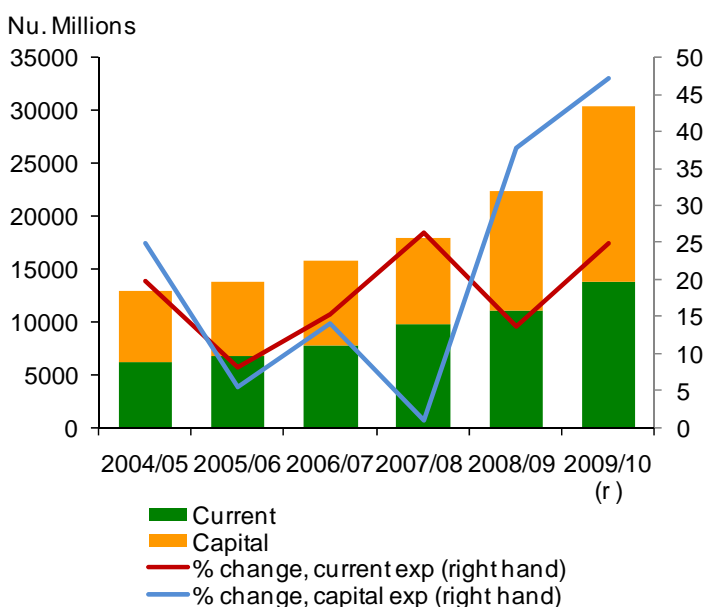
Source: Ministry of Finance.

4.2 Expenditure

Total expenditure during 2009/10 amounted to Nu.30.5 billion, 36.2 percent higher than that of the previous year's outlay. The expansion in total expenditure reflected a higher level of budget allocation towards both current and capital expenditures for the review period. The share of current expenditure and capital expenditure to total outlay accounted for 45.4 percent and 54.6 percent, respectively.

During FY 2009/10, the **current expenditure** budget stood at Nu.13.8 billion, an increase of 25.1

Chart 4.2 Composition of Total Expenditure



percent from the previous year's current outlay. Similarly, the **capital expenditure** stood at Nu.16.6 billion and was higher by 47.2 percent from the previous year's capital outlay. Incorporation of additional project funds and the budget line provided for the adjustment of previous year's advances are some of the driving factors for the increase in the current expenditure. On the other hand, reasons for the expansion in capital expenditure of 2009/10 budget included the incorporation of additional budget for activities such as the construction of monasteries and cottages for nuns, acquisition of land for green zone areas and the incorporation of supplementary budget received from donors for capital expenditure.

During the financial year 2009/10, the RGOB made continued efforts to prioritize the sectoral budget in view of meeting the plan objectives. In the **sectoral budget allocation**, the share of expenditure on economic services (comprised of agriculture, mining and manufacturing industries, roads, housing and community amenities, communications and energy sector) as a percentage of total outlay continued to be the highest, increasing from 27.5 percent in 2008/09 to almost 32 percent in 2009/10. Similarly, the percentage share of the budget outlay allocated to social services (health and education), general services and national debt services, increased from 18.8 percent, 13.7 percent and 13 percent in 2008/09 to 25 percent, 16.4 percent and 15.6 percent in 2009/10, respectively.

Table 4.2 Highlights of Budgetary Expenditure, 2004/05-2009/10

Sectoral expenditure	Percentage of total expenditure					
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 (r)
Social services	17.92	19.48	22.21	18.32	18.82	25.06
Health	6.12	6.50	8.07	6.71	6.16	7.60
Education	11.80	12.98	14.14	11.61	12.67	17.46
Economic services	22.82	33.36	27.23	25.06	27.48	31.98
General services	36.18	25.31	18.45	19.04	13.71	16.44
National debt services	5.16	2.37	7.52	14.22	13.02	15.60
Others/1	0.00	0.00	2.38	5.05	8.14	10.92

Source: Ministry of Finance.

1/Others includes public order services and cultural services

Box 4.4 Expenditure Cutting Measures

It often becomes essential for the government to make adjustments to the fiscal imbalance by cutting down on unproductive expenditures. Generally, the RGOB has resorted to expenditure trimming when there are delays in receiving income projected in the budget or when income is lower than previously estimated. Notably, such adjustments may not necessarily address the underlying fiscal problems a country is faced with. .

Thus, in accordance with Article 14 Section 6 of the Constitution (which states the government must “ensure that cost of recurrent expenditure is met from internal resources of the country”), the RGOB undertook numerous measures to minimize and eliminate unnecessary public expenditures in the following identified areas during 2009/10:

1. *Expenditure on office stationeries, printing and publication were reduced by 50 percent.*
2. *Expenses on annual conferences were limited to biennial events.*
3. *All proposals for the purchases of new pool-vehicles were kept on hold and no budgets were provided for new procurements.*

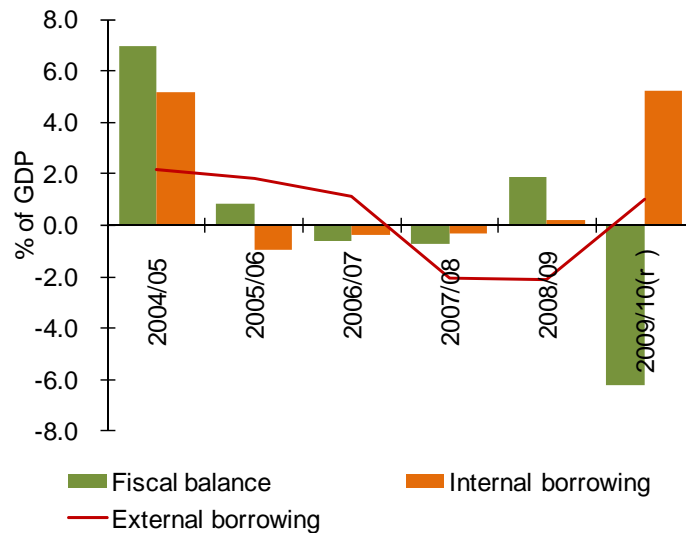
Source: Ministry of Finance.

4.3 Financing the Deficit

Although the RGOB embarked on several expenditure cutting and revenue enhancing measures with the objective of maintaining a minimal and sustainable level of deficit at least during the medium term, the revised budget of 2009/10 resulted in an overall **fiscal deficit** of Nu.4 billion. This is an increase to 6.7 percent of GDP in 2009/10 from a surplus of 2 percent of GDP in 2008/09.

Of this total deficit, only 16 percent was financed through **external borrowings**, mainly from the Asian Development Bank for its road network project and World Bank loans for decentralized rural development and education development projects. The remaining 84 percent of the fiscal deficit was met through internal borrowing.

Chart 4.3 Deficit financing



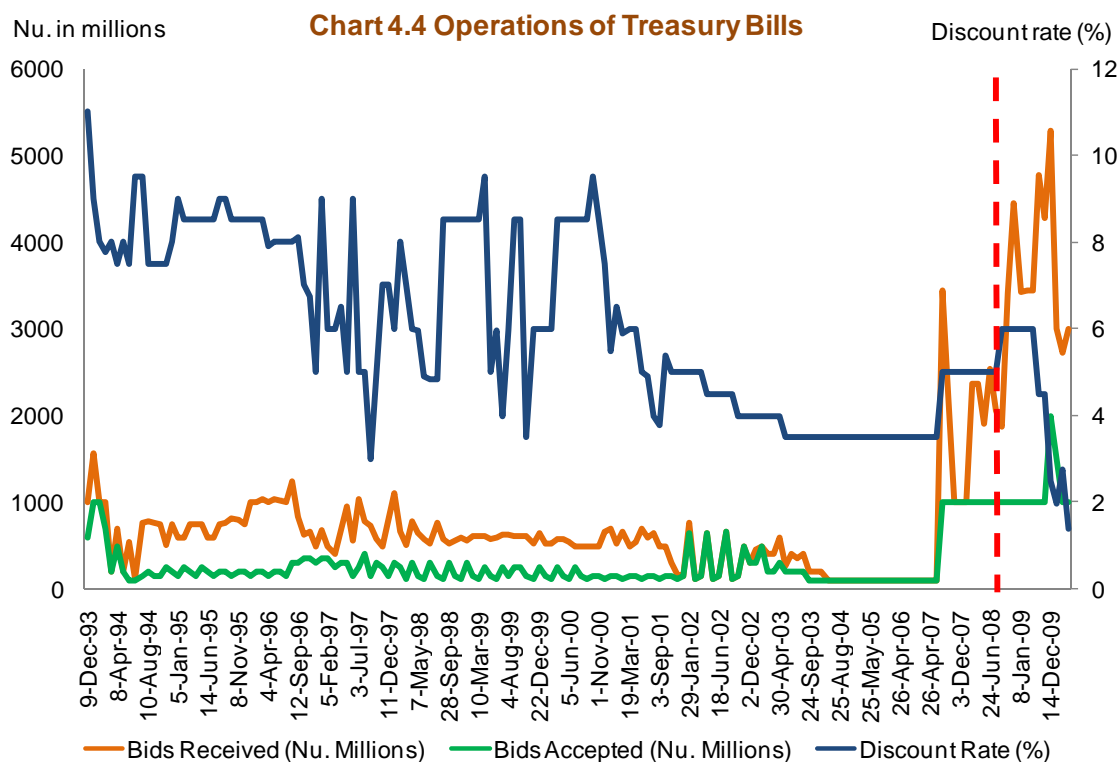
4.4 Developments in Treasury Bill Operations

With the dual objectives of financing the domestic resource gap and to help develop the domestic debt market in the country, the Ministry of Finance and Royal Monetary Authority commenced their issue of the 91 days **Treasury Bills** (short-term financing) to replace the RMA Bills. The first issue of Treasury Bills worth Nu.2 billion was issued on December 14, 2009 and sold at a discount rate of 2.5 percent. As of date, four series (R201, R202, R203 and R204) of Treasury Bills have been issued.

The introduction of Treasury Bills is an integral element in the country's process of liberalising interest rates and promoting capital and debt market development. The sale or auction of government securities not only helped the RGOB to borrow funds at a market-driven price, it also helped the financial market to create additional investment opportunities for domestic investors and fund managers. In order to set up a credible domestic debt market, both from the perspective of issuing agents and market participants (as a reliable source of funds and investment avenues, respectively), the RMA proposed that the government issue debt securities (government papers) on a regular basis, to benefit budget process and liquidity management. Nonetheless, institutionalization and operationalization of debt markets, particularly, short term secondary debt securities remains as an essential part of fiscal and monetary policies management.

Looking at the past trend in the operations of the Bills, it has been observed that the RMA had been offering higher rates of interest (that ranged at 4.5 percent to 11 percent) on the sale of Bills prior to 2001, mainly because the Bills are sold at a fixed price at outright sale. However, with the operation of the Treasury Bills, the discount rates on the Bills have now dropped considerably since the Bills are sold at market determined rates (on the basis of the

Uniform Price auction). Nevertheless, the volume of the Bills issued continues to remain unmatched versus the availability of investible funds in the market. In other words, the demand for Bills has attained an all time high in recent years.



4.5 2010/11 National Budget Estimates

The **total budget outlay** for the FY 2010/11 has been estimated at Nu.31.6 billion, or 42.7 percent of GDP. The budget continues to focus on achieving the RGOB’s core objective of poverty alleviation by promoting socio-economic development activities within a sound macro-economic framework. Tracing its consistent prudent fiscal approach, the RGOB is guided by a policy rooted in avoiding current operating deficits and limiting overall fiscal deficit at a sustainable level of GDP, maintaining outstanding debt at internationally acceptable thresholds, keeping external debt service to export ratio within low levels, and maintaining the momentum of investments in socio-economic sectors while investing in industries with potential to generate additional revenue and employment.

The **2010/11 budget** has been formulated in line with the budget ceilings drawn from the 10th FYP and keeping in mind the RGOB’s capacity to generate matching resources and absorptive and implementing capacity of the budget agency. Compared to the revised budget for 2009/10, the 2010/11 budget estimates provide for a growth of 3.7 percent in the total outlay. More than the half of the total budget is being allocated for capital expenditure, estimated at 52 percent of the total outlay, with the remaining budget allocated to meet current expenditure. Of the total capital expenditure, over 82 percent of the capital expenditure is estimated to be financed by external grants and loans.

According to the 2010/11 budget estimates, it is expected that **current expenditure** will experience a 9.5 percent growth, mainly on account of the revision of the civil service and defense personnels' salaries, provident fund contribution, new official appointments, and interest payments. Salaries and wages alone will account for about 41 percent of total current expenditures. Meanwhile, interest payments for the year are estimated at Nu.1.8 billion, of which 83 percent is on account of the Tala and Kurichhu hydropower loans. Interest payments on domestic loans are estimated at Nu.81.99 million. Interest payments are estimated to account for 12 percent of the total current expenditure budget. Meanwhile, residual current expenditures totaling Nu.753.3 million has been budgeted to cover subsidy requirements towards the Druk Air, Bhutan Broadcasting Service Corporation, Rural Life Insurance Scheme, *Thimphu Thomdey* (municipal), and Bhutan Postal Corporation.

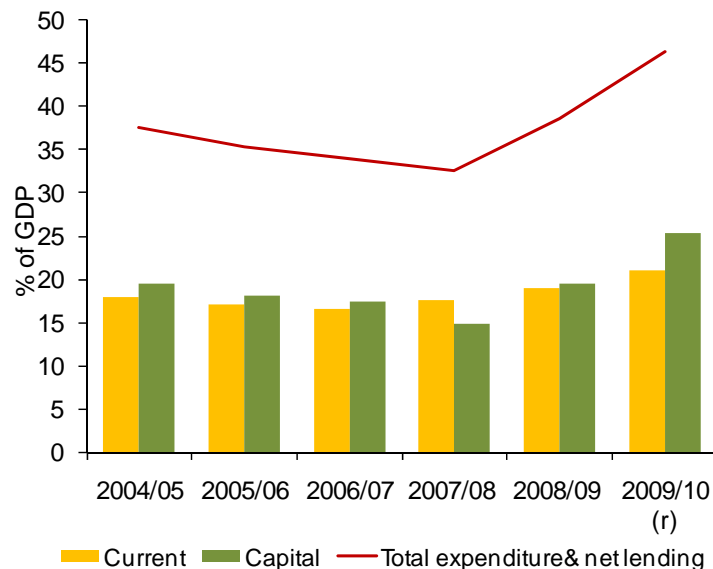
Reviewing the **sectoral budget allocation**, of the total current expenditure, health and education services account for Nu.1.5 billion and Nu.3.2 billion, respectively. Similarly, general public services, and economic services (agriculture, mining and manufacturing, roads, housing and community amenities, communications and energy) were allocated 3.7 billion and Nu.2.9 billion, respectively, while, the remaining were budgeted for cultural, national debt, and law and order services. On the other hand, of the total capital expenditure, economic services

were allocated almost Nu.9.6 billion, followed by social services, national debt services and general public services at Nu.3.5 billion, Nu.3.4 billion and Nu. 2.3 billion, respectively.

The net lending component under **capital expenditure** is provisioned at Nu.1 billion. Of this amount, Nu.953.4 million is allocated for rural electrification projects and the remaining is allocated for rural credit related activities.

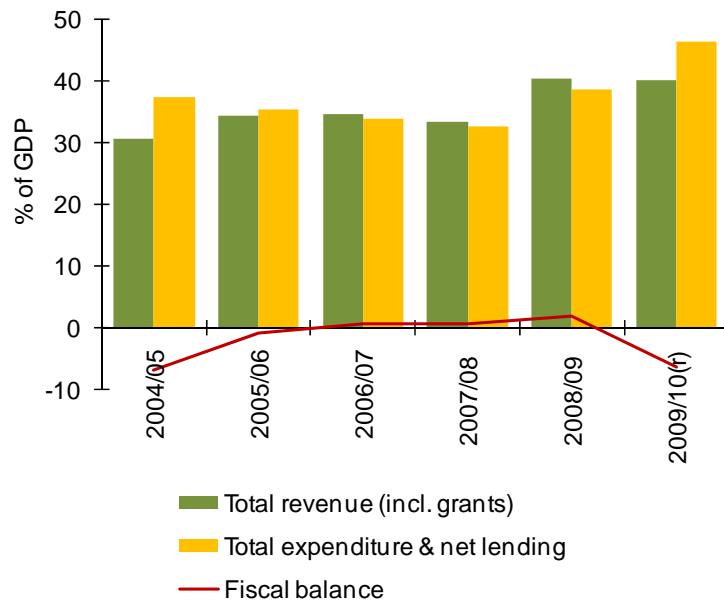
Total revenue including grants, is projected at Nu.26.8 billion, or 36.2 percent of GDP. Of this amount, 13.7 percent is expected to be financed through **tax revenue**, mainly collected from corporate income tax (hydropower companies), business income tax, personal income tax, and sales tax and excise duties. Under **non-tax revenue** sources, dividends and interest from corporations are expected to contribute Nu.5.7 billion to domestic revenue. Based on the development partners' commitments and agreements, total grants are estimated at Nu.10.9 billion. This constitutes about 41 percent of the total revenue and covers about 33.6 percent of the total expenditure.

Chart 4.5 Expenditure Allocation



Considering the resource mobilization and expenditure allocation efforts of the Royal Government, the **overall fiscal deficit** for the year 2010/11 is estimated at Nu.4.8 billion (6.5 percent of GDP), higher by Nu.714.7 million as compared to the 2009/10 revised budget. To finance the revenue-expenditure mismatch, **net external borrowing** of Nu.1 billion and **net internal borrowing** of Nu.3.8 billion is forecast for 2010/11. In that connection, it is expected that the RGOB will resort to external borrowing from the World Bank and the Asian Development Bank.

Chart 4.6 Level of Deficit Financing



5. WORLD ECONOMY

According to the latest World Economic Outlook of the IMF, economic recovery around the globe is proceeding as expected. While growth in most advanced economies and some emerging economies remain sluggish, growth in the developing and emerging economies appeared to be stronger. The financial sector in the developed world is still vulnerable to shocks, while developing economies have fared better in light of more prudent macroeconomic policies adopted in the advent of earlier crises.

Advanced economies grew at a collective rate of 3.5 percent during the first half of 2010 which is considered very low considering these economies are in recovery mode after a catastrophic recession. Consumption in the United States has grown since the third quarter of 2009, but at low levels. On the other hand, advanced Asia, with the exception of Japan, enjoyed a strong rebound with their manufacturing sector benefiting from a global rebound in trade, elevating growth to pre-crisis levels. Japan and the Euro area, remain largely dependent on foreign demand, and growth in output recorded below pre-crisis levels. However, fiscal stimulus packages in Japan have been instrumental in boosting growth and output since the last quarter of 2009, while demand in the Euro area is constrained by its dependence on bank credit and over-cautious bank lending. However, a depreciating Euro is expected to further support its tradable goods sector.

Growth in emerging economies during the first half of 2010 was 8 percent, led by Asian and Latin economies and the expansion in fixed investment. In emerging Asia, growth reached 9.5 percent with the spread in domestic demand from China and India to other Asian economies. China's growth in domestic demand by 13 percent stemmed from fiscal stimulus and a huge expansion in credit to boost household incomes and consumption. Authorities are now focused on a transition from public stimulus to more private-sector led growth. Meanwhile, most of the developing world was less affected by the global recession, and are now feeding in the pick-up to global trade, except for parts of emerging Europe and the Commonwealth of Independent States.

Despite the expected pace of recovery world-wide, the IMF identifies a multitude of sovereign and banking vulnerabilities that loom ahead. In particular, sovereign risks associated with the withdrawal of fiscal stimulus, incomplete regulatory reform, weakness in real estate markets bearing on the stability of financial institutions, and high unemployment remains major issues of concern.

According to the IMF, sustained economy across the globe rests on both internal rebalancing, with the strengthening of domestic private demand in advanced economies, allowing for fiscal consolidation, and that of external rebalancing, with the growth in net exports in deficit economies and a decrease in net exports in surplus economies, mostly that of emerging Asia. It is imperative that fiscal consolidation push forward in 2011 and that necessary financial sector reform take charge in advanced economies to re-start growth in credit.

In the latest update on the world economic outlook, the IMF expects recovery across the world to be in line with previous forecasts with the negative and positive growths

countering each other. Projections for the years 2010 and 2011 indicate world growth to expand by 4.8 percent in 2010 and by 4.2 percent in 2011. Inflation is expected to be rather contained in the projection period in light of excess capacity and high unemployment. Policymakers in emerging Asian economies have successfully intervened to slow credit growth with prudential regulation. As monetary policy remains supportive in most economies, fiscal policy is anticipated to tighten during 2011. In some emerging economies such as India, capacity constraints are expected to place upward pressure on prices.

Table 1.1 World Economic Outlook, October 2010

Indicator	Percentage change (year-on-year)			
	Actual		Projection	
	2008	2009	2010	2011
World Output¹				
World Output	2.8	-0.6	4.8	4.2
Advanced economies	0.2	-3.2	2.7	2.2
Emerging and developing countries	6.0	2.5	7.1	6.4
<i>Memorandum items:</i>				
Developing Asia	7.7	6.9	9.4	8.4
<i>Bhutan</i>	5.0	7.4	6.8	6.6
<i>India</i>	6.4	5.7	9.7	8.4
Consumer Prices				
Advanced Economies	3.4	0.1	1.4	1.1
Emerging and developing countries	9.2	5.2	6.2	5.2
<i>Memorandum items:</i>				
Developing Asia	7.5	3.1	6.1	4.2
<i>Bhutan</i>	9.0	4.1	7.0	4.5
<i>India</i>	8.3	10.9	13.2	6.7

Source: World Economic Outlook, October 2010, International Monetary Fund.

1) Real GDP growth.

6. MACROECONOMIC INDICATORS FOR THE SAARC REGION

Table 6.1 on the selected macroeconomic indicators of SAARC member countries has been updated based on data available in the annual reports and websites of the respective central banks and the IMF.

Fiscal year 2009/10 has been a year for recovery following the global recession in 2008/09. While Asia has led the recovery in general, performance within the SAARC countries has been mixed. The Indian economy experienced a 7.4 percent growth in GDP in 2009/10, one of the highest in the world, as it continued to maintain an expansionary monetary and fiscal stance in response to the global crisis. On the other hand, the Maldivian economy contracted by 3.1 percent as its tourism industry, which contributes a third of the GDP, took a hard hit in 2009 because of the global crisis and the H1N1 influenza pandemic.

Increased international commodity prices, especially food and oil, and accommodative monetary policy have contributed to increasing inflationary pressures. Inflationary pressures however have varied across the region. India exhibited strong upward trends in its WPI inflation on account of high food and oil prices. According to the IMF's Regional Economic Outlook for Asia and the Pacific (October 2010), the persistence¹ of food price inflation is higher and food price shocks feed more strongly into non-food prices in India compared to other advanced and emerging economies. As a result, the overall inflationary impact of increased commodity prices have also have relatively persistent in India. On the other hand, inflation fell significantly in Maldives (largely from discontinuing deficit monetization) and Sri Lanka (from monetary policy tightening).

Export growth in 2009/10 has generally slowed in the region resulting in an increased current account deficit. According to the IMF, slowing export growth and strong domestic demand in the Asia region as a whole is expected to decrease Asia's current account surplus to about 3 percent of regional GDP in 2010 and 2011, from about 5 percent in 2007.

On the fiscal front, the region witnessed increased expenditure and fiscal deficit in 2009/10. India continued its expansionary fiscal stance to help aid economic recovery from the global crisis, as a result of which, fiscal deficit as a percentage of GDP increased by 1 percentage point over the previous year.

¹ Inflation persistence refers to how long a deviation in inflation (following a shock) from its long-run value persists.

Table 6.1 Selected Macroeconomic Indicators for the SAARC Region

(Indicator*)	2005/06	2006/07	2007/08	2008/09	2009/10
I. Growth in Real GDP (% change)					
a) Afghanistan	13.8	8.2	12.1	3.4	15.1 (P)
b) Bangladesh (1995/96 prices)	6.6	6.4	6.2	5.9	5.0
c) Bhutan (2000 prices) 1/	8.8	6.8	17.9	4.7	6.7
d) India (1993/94 prices)	9.5	9.7	8.8	6.7	7.4
e) Maldives (1995 prices)	(4.6)	18.0	7.2	6.2	(3.1)
f) Nepal (2000/01 prices)	2.8	3.3	5.3	4.7	3.0
g) Pakistan (1980/81 prices)	6.6	7.0	5.8	2.0	4.1
h) Sri Lanka (2000 prices)	6.2	7.7	6.8	6.0	3.5
II. Inflation: CPI (% change) 2/					
a) Afghanistan	9.4	4.8	20.7	3.2	6.0
b) Bangladesh (1995/96=100)	7.2	7.2	9.9	6.7	7.8
c) Bhutan (Third Quarter, 2003=100)	6.2	5.9	8.8	3.0	6.1
d) India (1982=100; for industrial workers)	4.9	6.7	7.9	8.4	11.2
e) Maldives (2004=100)	-	3.5	7.4	12.3	4.0
f) Nepal (1995/96=100)	8.0	6.4	7.7	13.2	11.8
g) Pakistan (2000/01=100)	7.7	7.0	10.3	20.8	11.7
h) Sri Lanka (2002=100)	7.4	13.5	18.8	14.4	4.8
III. Government Budget (% of GDP)					
Total Revenue and Grants					
a) Afghanistan	5.2	16.8	18.1	15.7	19.9
b) Bangladesh 3/	10.8	10.8	11.3	11.1	11.4
c) Bhutan	34.5	34.6	33.3	42.8	43.1
d) India	9.7	10.5 (RE)	11.0	9.7	9.3
e) Maldives	48.1	52.5	56.1	46.2	35.6
f) Nepal	12.9	14.0	15.3	16.9	19.9
g) Pakistan 3/	14.0	15.7	14.9	14.7	14.5
h) Sri Lanka	16.8	17.3	16.6	15.6	14.5
Expenditure and Net Lending					
a) Afghanistan	-	19.6	19.9	19.4	22.1
b) Bangladesh	14.7	13.4	15.9	14.1	14.8
c) Bhutan	38.1	38.8	36.2	40.9	49.7
d) India	14.1	14.1	14.4	15.9	16.4
e) Maldives	59.0	59.3	60.8	63.1	65.0
f) Nepal	14.5	15.9	17.4	17.2	22.4
g) Pakistan	18.2	18.1	21.7	19.9	21.0
h) Sri Lanka	23.8	24.3	23.5	22.6	24.9
Overall Budget Balance					
a) Afghanistan	-	(2.9)	(1.8)	(3.7)	(2.1)
b) Bangladesh	(2.8)	(2.6)	(4.6)	(3.0)	(3.4)
c) Bhutan	(0.9)	0.7	0.8	2.0	(6.7)
d) India	-4.1	(3.5)	(2.7)	(6.2)	(7.2)
e) Maldives	(10.9)	(6.8)	(4.7)	(16.9)	(29.4)
f) Nepal	(1.6)	(1.9)	(2.1)	(0.2)	(2.4)
g) Pakistan	(4.2)	(3.9)	(7.1)	(4.0)	(28.6)
h) Sri Lanka	(7.0)	(7.0)	(6.9)	(7.0)	(9.9)

(Indicators*)	2005/06	2006/07	2007/08	2008/09	2009/10
IV. Trade and Balance of Payments 4/					
Exports Growth Rate (US\$ values)					
a) Afghanistan	0.9	2.9	11.0	13.5	3.9
b) Bangladesh	21.4	15.8	17.4	10.1	3.2
c) Bhutan	47.6	81.5	(4.6)	2.0	3.0
d) India	23.4	21.8	23.7	5.4	(3.6)
e) Maldives	(10.7)	39.4	1.2	45.2	(49.0)
f) Nepal	2.2	13.4	(4.6)	0.5	(11.0)
g) Pakistan	16.5	17.0	19.0	(6.4)	2.7
h) Sri Lanka	10.2	8.4	11.0	6.2	(12.7)
Imports Growth Rate (US\$ values) 5/					
a) Afghanistan	-	12.5	20.6	10.4	5.3
b) Bangladesh	12.1	16.6	25.6	4.2	3.5
c) Bhutan	(5.3)	19.6	16.4	7.0	35.7
d) India	32.1	21.8	29.9	14.3	(5.2)
e) Maldives	16.1	24.4	18.3	26.6	(30.3)
f) Nepal	15.8	25.8	8.4	14.1	30.0
g) Pakistan	28.6	31.0	40.0	(10.3)	(2.2)
h) Sri Lanka	10.8	15.7	10.2	24.7	(27.6)
Trade Balance (US\$ millions)					
a) Afghanistan	(4,335.0)	(4,933.0)	(6,002.0)	(6,608.0)	(6,971.0)
b) Bangladesh	(2,889.0)	(3,459.0)	(5,330.0)	(4,708.0)	(4,927.0)
c) Bhutan	(122.9)	46.7	(72.4)	(90.5)	(298.8)
d) India	(51,841.0)	(64,905.0)	(90,060.0)	(119.4)	(102.1)
e) Maldives	(493.8)	(590.1)	(736.8)	(889.9)	(682.2)
f) Nepal	(1,569.4)	(1,977.0)	(2,265.0)	(2,707.0)	(3,890.0)
g) Pakistan	(8,442.0)	(9,944.0)	(9,293.7)	(12,627.0)	(11,423.0)
h) Sri Lanka	(2,516.0)	(3,370.0)	(3,657.0)	(5,981.0)	(3,122.0)
Current Account (% of GDP)					
a) Afghanistan	(2.8)	(4.9)	0.9	(1.6)	(3.6)
b) Bangladesh	0.9	1.4	0.9	2.8	2.9
c) Bhutan	(4.7)	15.8	(2.2)	(1.7)	(13.3)
d) India	(1.2)	(1.1)	(1.3)	(2.4)	(2.9)
e) Maldives	(36.4)	(33.0)	(41.5)	(51.4)	(30.8)
f) Nepal	2.2	(0.1)	2.7	4.3	(2.1)
g) Pakistan	(3.9)	(4.9)	(13.9)	(9.3)	(2.0)
h) Sri Lanka	(2.7)	(5.3)	(4.3)	(9.5)	(0.5)
Capital and Financial Account (% of GDP)					
a) Afghanistan	-	2.5	0.3	2.5	(2.6)
b) Bangladesh	(0.2)	(0.4)	(1.0)	(3.2)	(3.0)
c) Bhutan	16.2	12.5	11.4	9.3	11.5
d) India	3.1	4.9	9.1	0.6	4.5(P)
e) Maldives	35.2	31.8	41.9	39.4	26.7
f) Nepal	0.3	0.3	2.3	2.5	(0.7)
g) Pakistan	3.7	-	4.9	3.6	2.8
h) Sri Lanka	5.2	6.7	0.0	4.5	7.4

(Indicator*)	2005/06	2006/07	2007/08	2008/09	2009/10
V. External Debt (end of period)					
Total External Debt and Liabilities (% of GDP)					
a) Afghanistan	184.0	155.0	20.8	18.0	11.2
b) Bangladesh	30.1	29.1	25.6	24.1	22.5
c) Bhutan	98.3	80.8	67.0	70.1	63.5
d) India	17.0	18.8	19.2	19.9	19.3(P)
e) Maldives	50.6	60.9	78.6	70.9	71.4
f) Nepal	35.8	30.2	27.4	27.0	23.8
g) Pakistan	27.9	28.0	27.1	32.1	31.6
h) Sri Lanka 6/	53.3	49.4	51.0	43.7	45.6
Debt Service Ratio (% of X G & S)					
a) Afghanistan	5.7	1.6	1.1	1.2	0.9
b) Bangladesh	6.3	5.8	5.2	4.9	4.5
c) Bhutan	7.6	3.6	18.3	30.5	28.9
d) India	9.9	4.8	4.7	4.4	5.5
e) Maldives	6.4	4.1	4.5	5.1	6.1
f) Nepal	10.6	10.5	9.9	10.6	-
g) Pakistan	13.3	12.5	15.2	21.6	19.7
h) Sri Lanka	7.9	12.7	13.1	15.1	19.0
VI. Exchange Rate Per US Dollar					
a) Afghanistan	-	49.9	49.8	51.0	49.8
b) Bangladesh	67.2	68.8	68.6	68.8	65.9
c) Bhutan	44.7	44.2	40.4	47.8	46.7
d) India	44.7	44.2	39.3	51.0	45.1
e) Maldives	12.8	12.8	12.8	12.8	12.8
f) Nepal	72.1	70.5	65.0	76.6	74.6
g) Pakistan	59.9	60.7	62.7	78.7	83.9
h) Sri Lanka	102.0	107.4	108.7	115.9	114.1
VII. Monetary Aggregates (end of period)					
Narrow Money (M1) Annual Growth					
a) Afghanistan	-	-	28.6	38.0	34.3
b) Bangladesh	20.5	18.2	18.2	12.0	32.5
c) Bhutan	14.4	26.8	6.3	27.7	22.7
d) India	21.1	16.9	19.4	9.0	18.6
e) Maldives	22.5	22.2	20.0	37.1	22.0
f) Nepal	(1.2)	12.2	21.3	27.3	8.7
g) Pakistan	13.3	89.7	-	-	-
h) Sri Lanka	22.4	12.6	2.7	4.0	21.4
Broad Money (M2) Annual Growth					
a) Afghanistan	-	-	31.6	35.2	39.3
b) Bangladesh	19.3	17.1	17.6	19.2	18.8
c) Bhutan	26.3	8.6	2.3	24.6	30.1
d) India	17.0	21.5	21.4	19.3	16.8
e) Maldives	10.6	18.9	24.1	21.9	12.4
f) Nepal	(0.2)	14.0	25.3	27.7	10.6
g) Pakistan	15.2	19.0	17.9	9.6	12.5
h) Sri Lanka (M2)	19.1	17.8	16.6	8.5	18.6

(Indicator*)	2005/06	2006/07	2007/08	2008/09	2009/10
Reserve Money (M0) Annual Growth					
a) Afghanistan	-	22.3	14.4	64.9	25.0
b) Bangladesh	27.1	17.9	19.8	31.5	16.0
c) Bhutan	44.3	(1.2)	(3.4)	14.2	40.0
d) India	17.2	23.7	31.4	6.4	17.0
e) Maldives	1.0	15.0	27.8	23.1	14.2
f) Nepal	14.9	7.6	21.8	35.2	-
g) Pakistan	10.2	20.9	22.3	1.9	11.4
h) Sri Lanka	15.8	21.2	10.2	1.5	13.1
Income Velocity of Money (GDP/M2)					
a) Afghanistan	-	4.2	4.0	3.7	2.9
b) Bangladesh	2.3	2.2	2.2	2.1	1.9
c) Bhutan	1.5	1.6	1.9	1.7	1.0
d) India	1.3	1.2	1.2	1.1	1.2
e) Maldives	1.4	1.5	1.4	1.3	1.2
f) Nepal	1.9	1.8	1.7	1.5	1.6
g) Pakistan	2.3	2.0	2.2	2.5	2.5
h) Sri Lanka	2.6	2.7	2.7	2.9	2.7
Money Multiplier (M2/M0)					
a) Afghanistan	-	1.6	1.9	1.5	1.7
b) Bangladesh	4.8	4.8	4.7	4.3	4.5
c) Bhutan	1.7	1.9	2.0	2.2	2.0
d) India	4.8	4.7	4.6	4.8	5.2
e) Maldives	2.3	2.3	2.3	2.3	2.2
f) Nepal	3.1	3.3	3.4	3.2	3.6
g) Pakistan	3.4	3.4	3.2	3.4	3.4
h) Sri Lanka	5.2	5.0	5.3	5.7	6.0

*) Data for Maldives and Sri Lanka are on a calendar year basis. For example, entry under 2006/07 is for CY 2006. (P) Provisional. (RE) Revised Estimates. (QE) Quick Estimates. XG&S: Export of goods & services.

1/ GDP data for Bhutan was rebased to 2000 in 2005. Data are on a calendar year basis. For example, entry under 2006/07 is for CY 2006. 2/ End of period; Point-to-point, except for Nepal and Maldives which are annual averages, and Bhutan which are quarterly averages compiled with third quarter 2003 as the base. 3/ Excluding grants; also for Pakistan - consolidated federal and provincial governments. 4/ Trade and current account figures for Bhutan and corresponding growth rates have been calculated based on Ngultrum equivalent figures. 5/ Import values are fob except for Bhutan & Maldives which are cif. 6/ Including banking sector external liabilities.

Sources:

Afghanistan : IMF Country Paper Nos. 10/22 (Jan 2010) & 10/40 (Feb 2010).
Da Afghanistan Bank Annual Bulletin 2008-09; IMF International Financial Statistics.

Bangladesh : IMF Country Paper No.10/55 (Feb 2010); Bangladesh Bank Annual Report 2008-2009 & Monthly Economic Trends November 2010.

Bhutan : RMA; NSB; DRC and DPA, Ministry of Finance.

India : Annual Report 2008-09, Reserve Bank of India; IMF Country Report No. 10/73 (Mar 10)

Maldives : Maldives Monetary Authority Annual Economic Review 2009

Nepal : IMF Country Report No.10/185 (Jul 2010); Nepal Rastra Bank Economic Report 2008-09

Pakistan : Annual Report 2007-08, State Bank of Pakistan.

Sri Lanka : IMF Country Report No. 10/333 (Oct 2010); Annual Report 2009, Central Bank of Sri Lanka.

II. GOVERNANCE AND ORGANIZATIONAL DEVELOPMENT

1. FUNCTIONS OF THE ROYAL MONETARY AUTHORITY OF BHUTAN

In accordance with the Royal Monetary Authority Act of Bhutan 2010¹, the RMA's core functions, i.e., the central function and the subsidiary functions can be summarized as follows:

a) Primary Objective is to Formulate and Implement Monetary Policy with a View to Achieving and Maintaining Price Stability

In view of the close economic and financial ties between Bhutan and India, an *exchange rate target* was chosen, i.e., the one-to-one peg between the Ngultrum and the INR. Monetary policy, which is aimed at achieving price stability, is confined to the support of the peg, which involves making available sufficient INR on demand, the provision of at least 100 percent reserve backing for all Ngultrum issued, the avoidance of a large Ngultrum liquidity build-up, together with additional confidence-building measures for the Ngultrum, implying, for example, credible RMA and government policies. Please see Section 2 for a more detailed description of the RMA's monetary policy framework and further on in this section for a schematic overview. All the other secondary and subsidiary functions, which are also very important, and which complement the primary objective, are outlined below [b) through h)].

b) Supervision and Regulation of the Financial Sector

A secondary objective of the RMA is to formulate and apply financial regulations and prudential guidelines to promote good governance and to ensure stability and integrity of the financial system against potential systemic risks. In general, this activity, which in quite a few countries is carried out by a separate institution, involves insuring that deposit money banks and other financial institutions conduct their business on a sound prudential basis and according to the various laws and regulations in force. This also includes the licensing of financial institutions.

In the "small economy case" and/or countries at a relatively early stage of economic and institutional development, (e.g., in Bhutan and on the Maldives) there is a very good case for making the central bank responsible for financial institutions' supervision (including all financial institutions) on account of economies of scale and the central bank's financial sector expertise. In larger developing countries, one might think at a later stage of development of creating a separate institution for financial institutions' supervision, or even several separate institutions.

c) Promotion of Financial Sector Stability and Development

This refers to the establishment and promotion of an effective financial system, comparable to international best practice, ensuring that financial transactions necessary for the smooth functioning of the economy can be carried out with a minimum amount of cost and time involved. In this connection, the RMA has to be a facilitator of advanced clearing and transfer systems, promoting, supervising and

¹ Prior to the RMA Act of Bhutan 2010, the RMA Act of 1982 was in effect.

if necessary, operating national and international payments and settlement systems including the electronic transfer of funds by financial institutions, other entities and individuals. Of importance are also the establishment of a deposit insurance system, the availability of certain specialized institutions, which could be represented, for example, by an industrial development bank, an agricultural development bank, and micro-finance institutions, and the facilitation of a money market, primary and secondary markets for securities, a foreign exchange market, and a capital market. All of this shall in turn be carried out to promote macro-economic stability and economic growth in Bhutan.

- d) The Bank of Issue²
The RMA has the sole right to issue notes and coins for the purpose of directly influencing the amount of currency in circulation outside banks, thereby providing the economy with sufficient, but if possible, non-inflationary liquidity.
- e) The Bankers' Bank
This function includes the acceptance of deposits as prudential reserves for banks (e.g., minimum reserves), the willingness to discount commercial and government paper, and the commitment to act as "lender of last resort" to banks in the case of short-term liquidity shortages. It also involves the provision of central clearance facilities for inter-bank transactions.
- f) The Government's Bank
The RMA is the banker and the fiscal agent for the government, and may be the depository of the government. The central bank may make temporary advances to the government.
- g) The Advisor to the Government
The RMA may advise the government on any matter relating to its functions, powers, and duties. The RMA may also be requested to advise the government on any matter related to its functions, powers, and duties, the credit conditions in the country, or any proposal, measures, and transactions relating thereto.
- h) The Guardian of the Country's External Reserves
The RMA is the depository of the official external assets of the country, including gold and foreign currency reserves. Guarding international reserves usually implies also the responsibility for the exchange rate policy (in Bhutan the external value of the Ngultrum is declared by the government on recommendation of the RMA's Board, while the RMA has to implement and support it), reserve management (with a view to the prudential management of the funds, with due regard to liquidity, safety, and profitability, in that order), and external debt management on behalf of the Ministry of Finance. In Bhutan, as in various other developing countries (e.g., in India), reserve management also includes the formulation, implementation, monitoring, and enforcement of foreign exchange regulations.

² Bhutan's currency notes are printed by the UK-based firm, De La Rue (with the exception of the Nu.1000 note printed by G&D, Germany). Since 2002, minting of the Chhetrum (in India) has been replaced by the reintroduction of the Nu.1 denomination currency note; although some coins remain in circulation.

All the functions are carried out under the general supervision of the Board of Directors by the RMA's executive management team with the close support of its departments. The Internal Audit Department and Management Secretariat are directly under the Governor, while at present there is one DMD responsible for both the Operations Department and the Policy and Programs Department. Departments under the Operations Department include Banking, Payment and Settlement, Hospitality and Protocol, Currency Management and Administration and Finance, while those under the Policy and Programs Department include the Financial Regulation and Supervision, Foreign Exchange, Information Technology, and Research and Statistics. The DMD is an observer on the Board of Directors. For a comprehensive overview of the organization structure, please see the latest RMA organization chart in the first section of the report.

The basic responsibilities of the eleven divisions can be summarized, in a nutshell, as follows:

a) Departments Directly under the Governor

- * The Internal Audit Department is responsible for examining the risks that the RMA faces, reviewing the adequacy of the controls in place to protect it from those risks, and verifying that the controls are working as intended.
- * The Management Secretariat extends administrative and policy-related assistance to the Governor. It interfaces between the Governor's Office and other Departments within the RMA, as well as with other government and non-government Bhutanese and international organizations.

The Library operates under the management of the Management Secretariat and provides all the necessary library services, as, for example, cataloguing of the Library's books and periodicals, registration of books and periodicals lent out, ordering of books and periodicals, and development and installment of a computerized cataloguing system.

b) Departments under the Operations Department

- * The Banking Department maintains the Government accounts, the financial institutions' accounts, the foreign exchange accounts and the central accounts.
- * The Hospitality and Protocol Department is responsible for the organization of protocol activities, the maintenance of the office building and the premises, the management of the pool vehicles, the management and supervision of security.
- * The work of the Currency Management Department involves the printing of notes and minting of coins, the supply of notes and coins to banks (currency chest) and the public (RMA counters), and dealing with any matters related to "counterfeit notes". Furthermore, soiled notes are sorted

into re-issuable and non-re-issuable notes, while non-re-issuable notes are destroyed.

* The Payment and Settlement Systems Department

The Payment and Settlement Systems Department is a new Department in the Royal Monetary Authority which became operational with effect from April 7, 2009. The Department is responsible for the development, regulation, oversight and efficiency of the payment and settlement systems in the country which currently includes the Cheque Truncation System, National Electronic Clearing System (NECS) Credit, National Electronic Clearing System (NECS) Debit, National Electronic Funds Transfer (NEFT) and the National Financial Switch. The Department is also responsible for monitoring the operations under SWIFT and the Asian Clearing Union (ACU).

The functions of the Department include the following:

- Development of payment and settlement systems in the country.
- Formulation of payment and settlement systems policies.
- Regulation of payment and settlement systems.
- Oversight of payment and settlement systems.
- Laying down standards for payment and settlement systems.

* The Administration and Finance Department is generally responsible for administrative matters, including, for example, work related to inventory and stores, recruitment, the maintenance of personnel records, leave management, and the maintenance of the administrative accounts. This Department is also responsible for bridging present and future human resource gaps by matching RMA officials with training opportunities, which it explores, in Bhutan and abroad.

c) Departments under the Policy and Programs Department.

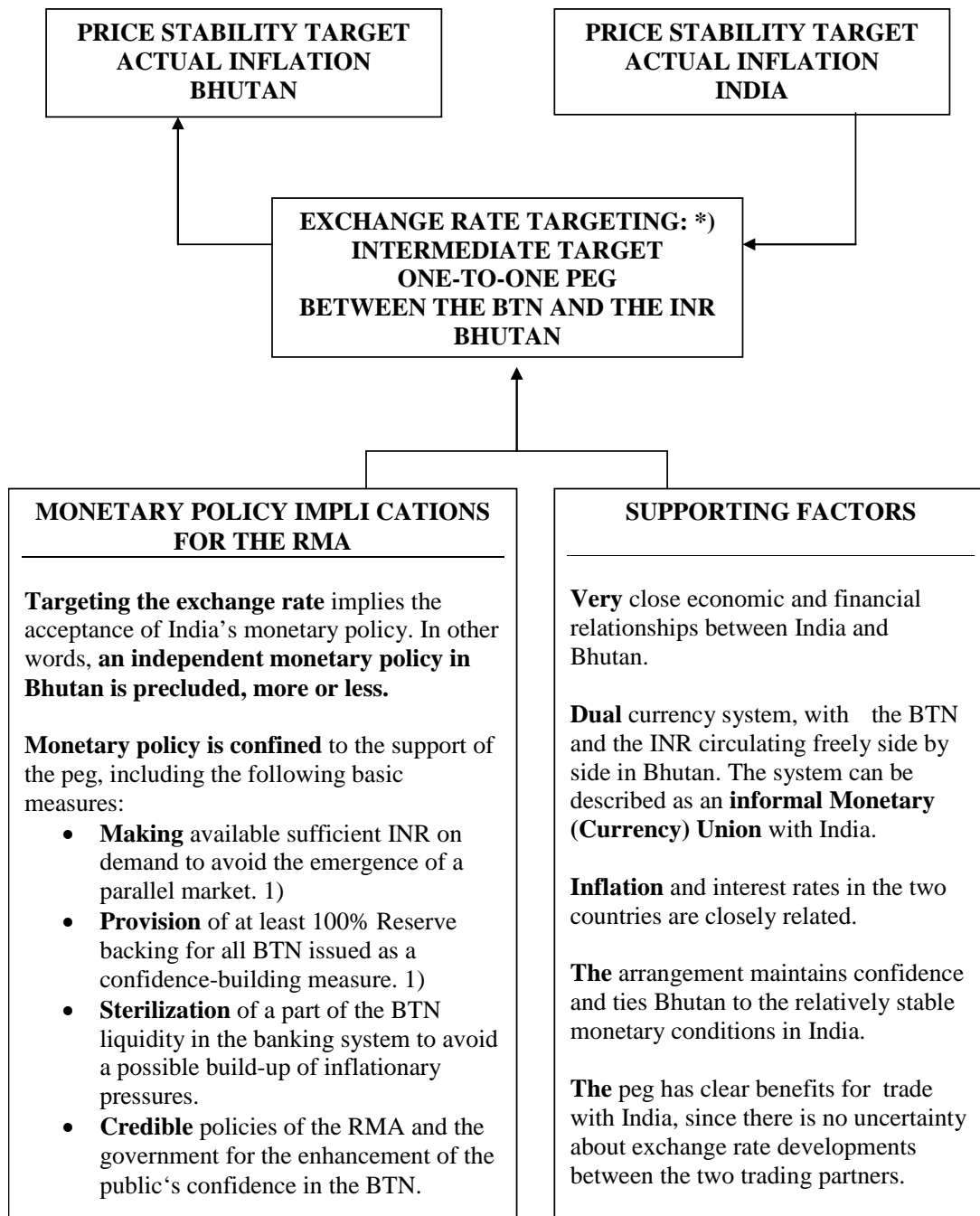
* The Financial Regulation and Supervision Department supervises regularly all financial institutions by means of on-site and off-site inspections on the basis of internationally accepted financial sector practices, licenses new institutions, issues and monitors regulations, and monitors money laundering.

* The Foreign Exchange Department drafts, implements, monitors, and enforces foreign exchange regulations, releases foreign exchange, provides information on exchange rates, and manages Bhutan's convertible currency and Rupee reserves (the latter are in the process of being taken over from the two commercial banks) with regard to liquidity, safety, and profitability, in that order.

- * The Information Technology (IT) Department is involved in all aspects of developing and maintaining the RMA's IT system, e.g., IT planning and monitoring, hardware management and support, and applications systems and database development, management, and support.

- * The Research and Statistics Department is responsible for research and statistics, the production and timely finalization of the Annual Report, Selected Economic Indicators, and the Monthly Statistical Bulletin, advice to the management and government, and the provision of statistical and economic information to management, the government, and the public.

**THE RMA'S MONETARY POLICY FRAMEWORK:
A SCHEMATIC PRESENTATION**



*) By default, the only realistic **targeting method.**- 1) Elements of a **Currency Board.**

2. OVERVIEW OF ORGANIZATIONAL DEVELOPMENT 2009/10

GOVERNANCE

Seven meetings of the RMA's Board of Directors were conducted during FY 2009/10. Several of the key issues discussed during these meetings included Monetary policy actions, strengthening Rupee management as a strategy for effective monetary operations, deposit insurance schemes for the banking sector, discussions on inter-corporate borrowing and external commercial borrowing guidelines, the review of the draft Financial Services Bill and the draft revised FDI Policy for Bhutan. Other central issues discussed by the Board included the collaborative efforts with commercial banks towards the reduction of bank fees and service charges for public benefit, facilitation of credit/debit cards in the country, and initiatives to counter the growing spread of pyramid/Ponzi schemes in the country.

RECENT ACTIVITIES AND DEVELOPMENTS

- **Developments in Currency and Foreign Exchange Management**

In a bid to streamline RMA's core functions and to enhance the quality of service delivery to the public, from May 1, 2010, the RMA has delegated the issue of all denominations of fresh Ngultrum notes in addition to the issue of Indian Rupee notes to the commercial banks. In turn, all commercial banks have been provided with adequate Indian Rupee working balances and supply of fresh Ngultrum notes to meet any public requirement. Meanwhile, from August 1, 2010, the RMA has delegated all foreign exchange processing and release operations to the banking sector. However, all commercial banks remain subject to periodical inspections and monthly reporting requirements.

Similarly, with effect from May 1, 2010, the RMA has authorized all commercial banks to import and sell gold and silver bullion within Bhutan. The delegation of these functions also enables the RMA to focus on other operational efficiencies within the Currency Management and Foreign Exchange Departments, and allows for better time allocation towards the supervision and monitoring of the commercial banking sector.

- **The Financial Services Act (FSA)**

The Financial Services Bill was officially submitted to the National Assembly Secretariat in April 2010 for discussion and endorsement during the fifth National Assembly Session in June 2010. Thereafter, the Financial Services Bill was submitted to the National Council Secretariat in August 2010. It is expected that the Bill will be enacted during 2011.

- **Developments in the Electronic Fund Transfer and Clearing System (EFTCS)**

On June 11, 2010, the RMA held the formal launch of the Electronic Fund Transfer and Clearing System (EFTCS), coinciding with the inauguration ceremony of the 39th ACU Board of Directors meeting. The launch held was inaugurated jointly by the Chairman of the RMA Board and Finance Minister, H.E. Lyonpo Wangdi Norbu, and Dr. D. Subbarao, Governor of the Reserve Bank of India. The Launch was attended by ACU Board Members, including representatives from the RGoB, the Bhutanese financial sector, and international organizations in Bhutan.

The RMA with the technical assistance from the Reserve Bank of India (RBI) has implemented the EFTCS Project to strengthen the payment systems in Bhutan. The project is aimed at providing fast, secure and efficient payment services to the general public.

The EFTCS Project consists of the National Electronic Clearing System (NECS Credit), National Electronic Clearing System (NECS Debit) and the National Electronic Funds Transfer System (NEFT). The EFTCS will in essence facilitate customers to transfer funds among the commercial banks. Customers will now be able to transfer funds from an account maintained with 'Bank A' to another account maintained with 'Bank B', 'Bank C' or 'Bank D', which was earlier not possible prior to the launching of the EFTCS Project.

Under the EFTCS, the transfer of money/funds from one account to another account takes place electronically. And the necessary legal framework such as the Act, Rules and Regulations, Procedural Guidelines etc. has been put in place to ensure that the payment system is safe and efficient. With the introduction of this electronic mode of transfer of funds, the inconveniences and delays associated with cash and other paper based transfer of funds such as cheques and drafts shall be greatly minimized.

National Electronic Clearing System (Credit)

Under NECS Credit, the accounts of individuals maintained with commercial banks shall be credited with amounts receivable by them from the company/organization on account of dividends, salaries, pensions etc. In other words, NECS Credit is used to channel credit to a large number of beneficiaries by raising a single debit to an account of the concerned company/organization.

Types of transactions planned to be covered during the initial stage of implementation of the NECS Credit, include payments of salaries and dividends. Further, to facilitate the payment of salaries, NECS Credit will be used to remit monthly provident fund contributions, group insurance scheme, salary tax, health contributions, and loan repayments etc. for faster deposit of these remittances. In the near future, additional transactions under NECS Credit such as payments of leave travel concession, pension payments, disbursement of bonus, income tax refunds by the government, and the refund of initial public offers for subscription of shares etc. shall also be included.

National Electronic Clearing System (Debit)

Under NECS Debit, the account of an institution shall be credited by debiting money from the accounts of many customers. In other words, NECS Debit is used for raising multiple debits from a number of accounts of customers for crediting the account of a particular institution. It is a scheme under which an account holder with a bank can authorize the user institution to recover an amount by raising a debit in his account. The user institution has to collect an authorization from the customer for raising such debit. Such authorization has to be endorsed by the bank maintaining the account of the customer.

Types of transactions planned to be covered during the initial stage of implementation of NECS Debit include the payments of utility bills (telephone bill, electricity bill and the water bill). In the near future, additional transactions under NECS Debit such as subscriptions to initial public offers for the purchase of shares of companies, loan repayments, payment of insurance premiums, monthly rental charges for cable television, fees for school/college/training institutions etc. shall also be included.

National Electronic Funds Transfer

The National Electronic Funds Transfer (NEFT) system is a nationwide funds transfer system to facilitate the transfer of funds from one bank branch to any other bank branch. NEFT facilitates the transfer of funds from one individual to other individual, one institution to other institution, one institution to one individual. In other words, under NEFT, funds can be transferred only between two parties.

The Benefits of the Payment System

The following are some of the benefits of using the EFTCS by individuals (customers), user institutions and the banks:

- Inconveniences and delays associated with cash and other paper based transfer of funds such as cheques and drafts shall be avoided.
- The transfer of funds electronically from one branch of a bank to any branch of the other participating commercial banks in Bhutan shall be possible.
- The Receipts/payments of funds shall be faster.
- Administrative costs associated with the conventional methods of payments will be reduced to a great extent.
- The reconciliation of accounts shall be immediate.
- This provides safe and secure methods of payments.
- It will greatly improve the efficiency and provide better services to the general public.

During the initial stage, the project will be implemented in the capital city Thimphu. Thereafter, it shall be extended to rest of the country. During these first few months of the implementation of the Project, concentration is focused on the implementation of NECS Credit. Since its inauguration in June 2010, the RMA has been joined by all other financial institutions, as well as some of the key government ministries in

transferring funds through the NECS Credit. Efforts have been made to include additional user institutions under NECS Credit every month. Implementation of NECS Debit and the NEFT on a mass scale shall also be carried out within the next several months.

- **Bhutan's Commemorative Coins**

Commemorative coins issued by the RMA are minted by Singapore Mint and MDM Germany. During the FY 2009/10, the RMA entered into three agreements to produce three types of commemorative coins covering different themes. One agreement was signed on July 1, 2009 with the Singapore Mint to mint a series of commemorative coins along "Cultural, Historical, Celebratory or Religious" themes. The other two agreements were signed on December 1, 2009 and December 15, 2009, with the World Coin Association (WCA) of the MDM Group, Germany, to mint commemorative coins on various themes, including the 2010 FIFA World Cup, South Africa. Both the Singapore Mint and WCA of MDM have been allotted full rights to mint, market, and sell Bhutanese-theme based commemorative coins outside Bhutan, with royalty payments to be paid to the RMA.

- **RMA Hosts the Asian Clearing Union Board of Directors Meeting**

The RMA hosted the 39th Meeting of the Asian Clearing Union (ACU) Board of Directors on June 11-12, 2010 in Thimphu.

RMA Financial Literacy Program 2010

A Financial Literacy Education Program and Awareness Campaign, spearheaded by the RMA and in collaboration with the financial institutions, was conducted in the Chukha, Paro, Punakha, Haa, Thimphu and Wangdue Phodrang districts during 2010 (March 15 – 24, 2010).

The main objectives of the campaign were to educate the public at large on the financial services and products offered by the financial institutions, the roles and responsibilities of the financial institutions, their rights as clients, and information on pyramid schemes. It is hoped that this will contribute towards enhancing the public's understanding of the financial sector, and in improving their skills to make sound financial decisions while avoiding predatory lending and credit scams.

The financial literacy program was supplemented with a live BBS TV program on March 16 and 17, 2010, enabling viewers to call and clarify their queries.

The First Governor of the Royal Monetary Authority of Bhutan



On August 18, 2010, His Majesty the King appointed RMA Managing Director, Daw Tenzin, as the first Governor of Bhutan's Central Bank and awarded him traditional ceremonial honors of both Patang and Kabney.

H.E. Daw Tenzin has enjoyed an illustrious career spanning 3 decades. He started his professional career as a Trainee Officer in the Planning Commission in 1980 and went on to serve 9 years there, ending his term at the Commission as Under Secretary in 1989. Next, he served another 9 years as Under Secretary and Deputy Director at the Ministry of Communications before being appointed as the Joint Director of the Policy and Planning Division of the Ministry of Communications in 1999. Thereafter, he was promoted to the post of Secretary of the Planning Commission in 2002, before joining the Royal Monetary Authority as Managing Director in 2003.

When Governor Daw Tenzin joined the RMA, the Central Bank was at a stage of tremendous institutional change and faced with enormous challenges associated with the extensive macroeconomic developments taking place in the Bhutanese economy.

Under his leadership, the RMA has not only made successful strides in its transition into a fully fledged and modern Central Bank, but has also led the path for extensive and evolutionary changes in the Bhutanese economy to support financial sector development and stability. In the last 7 years, the RMA has been responsible for facilitating and implementing essential financial sector reforms ranging from the establishment of Bhutan's first Credit Information Bureau to the formulation of critical legislation, including the recently endorsed RMA Act 2010, as well as timely financial sector liberalization that has promoted foreign investment, healthy competition and vast innovations in financial services for the public and private sector. Similarly, the RMA has worked closely with the RGOB and the financial institutions to support reforms in the securities markets, and launched the nation's first Treasury Bills. Ground-breaking work has been initiated through the Electronic Funds Transfer and Clearing System to enhance efficiency and safety in Bhutan's payments and settlements system. Other plans in the near future include the endorsement of the Financial Services Act and revised Foreign Exchange Regulations that will pave the path for further opportunities within the financial sector and investment market.

Balancing growth with financial sector soundness remains a looming and daunting challenge for the Central Bank, one which the RMA remains ever ready and equipped to face.

Governor Tenzin is a graduate of Punjab University in India and holds a Post Graduate Diploma in Development Economics from the Australian National University.

KNOWLEDGE MANAGEMENT

During the fiscal year 2009/10, RMA officers attended organized seminars and trainings in the following macro policy and central-banking related areas:

- *Anti-money laundering and combating the financing of terrorism*
- *Balance of payments and international investment position statistics*
- *Banking and non-bank supervision, bank fraud and detection, financial soundness indicators, financial intelligence unit operations*
- *Credit information bureau policy and operations*
- *Currency management*
- *External debt management*
- *Financial literacy programs*
- *Financial safeguards at central banks*
- *Information Technology*
- *Legal framework for problem banks and resolving banking crisis*
- *Macroeconomic policy and management*
- *Microfinance policy*
- *Monetary and exchange rate policy*
- *Payments and settlements systems*
- *Regional economic and financial monitoring*
- *Remittances statistics*
- *Risk management for securities regulators*
- *Talent management and human resource development in central banks*

RMA officers also participated in several staff exchange attachment programs with international institutions, including the Asian Development Bank, Bank Negara Malaysia, Nepal Rastra Bank, and the Reserve Bank of India, in addition to study visits to the Bangladesh Bank and the Thai National Credit Bureau.

Mid to top management officials of the RMA attended various conferences, including the Seminar for Senior Bank Supervisors from Emerging Economies in Washington D.C., South Asian Capital Market Conference and Annual General Meeting of the SAFE, Mauritius, SAARC Finance Coordinators Meeting in Colombo, Sri Lanka, SAARC Payments Council Meeting in Dhaka, Bangladesh, and the Conference on Post Crisis Growth and Poverty Reduction on Low-Income Asia in Hanoi, Vietnam. In-country, the RMA was actively involved in national consultations organized by the Anti Corruption Commission, the Ministry of Information and Communications on Information and Management Security Policy for the RGOB, as well as the National Statistical Bureau on national statistical development issues.

STATUS OF STAFF

As of June 2010, the RMA's staff strength totaled 169, consisting of 2 Executives, 72 Officers (43 percent of total) and 95 general support staff (57 percent). Of this, 160 employees were stationed at the Head Office, while 9 members were employed in Regional Clearing Houses located in Phuentsholing, Gelephu and Mongar.

3. RMA ANNUAL AUDITED ACCOUNTS, FY 2009/10

In accordance with Section 164 of the Royal Monetary Authority Act of Bhutan 2010, the annual audit of the Authority's accounts for the period ending June 30, 2010 was carried out by Nag and Associates, a chartered accountancy firm from Kolkata, India.

A major development the past year has been the enactment of the revised RMA Act. The impact of the new Act on the RMA's accounts is in the enhancement of authorized capital, paid up capital and general reserves. In order to comply with the Act these increases were made by transfers from the Ministry of Finance revaluation reserve account as prescribed in the Act. The Ministry of Finance's revaluation reserve is an accumulation of a mix of realized and unrealized gains due to exchange rate changes in the past. The new act also prescribes a change in accounting for revaluation gains and losses. Factors that influenced the RMA's annual accounts are summarized below.

BALANCE SHEET

The total assets and liabilities of the Authority grew by 7 percent from Nu.35.7 billion during FY 2008/09 (referred to as 2009) to Nu.38.3 billion in FY 2009/10 (referred to as 2010).

LIABILITIES

Total Liabilities of the RMA are made up of three major components: Capital and Reserves, Foreign liabilities, and Domestic liabilities.

1. **Capital and Reserves** consists of Paid-up Capital, General Reserve, Revaluation Reserve, and Special reserves. This category of liabilities grew by 3 percent. As required by the new Act, Section 16, a), the RMA's *Paid-up Capital* has been increased from Nu.21.4 million to Nu.800 million, and general reserves from Nu.660 million to Nu.2 billion (Section 19). As mentioned earlier, these increases were made by transfers from the Ministry of Finance revaluation account which had accumulated to Nu.3.8 billion. After these transfers, there is a remaining balance of Nu.1.7 billion in the Ministry of Finance revaluation reserve account.

Due to appreciation of the Ngultrum against other major currencies during the year, the *Revaluation Reserve account* balance has decreased from Nu.2.4 billion last year to Nu.596 million. This has offset to an extent, the growth in capital and reserves which would have been much higher due to enhancements. Even though there was a net loss on revaluation during the year, there was sufficient balance in the revaluation reserve account to accommodate this loss and hence it did not affect the surplus of the year.

Special Reserves is the accumulated earnings on the USD 60 million deposit placed by Kuwait Central Bank with the RMA since December 2006. This is a fund maintained by the government with the RMA. The balance in this account has now reached Nu.217 million.

2. **Foreign Liabilities** of the RMA³ decreased by 3 percent from Nu.8.4 billion in 2009 to Nu.8.2 billion in 2010. This decrease was mainly due to the drawdown in Government Foreign Currency (FC) accounts, repatriation of Asian Reinsurance Corporation (ARC) deposits, and partly due to the appreciation of the Ngultrum which resulted in reduced balances in Ngultrum terms.
3. **Domestic Liabilities**⁴ grew by 11 percent from Nu.23.6 billion in 2009 to Nu.26 billion in 2010 (an increase of Nu.2.6 billion). This development was largely due to an increase in the balances of the government and the financial institutions, as well as currency in circulation (by 21 percent).

ASSETS

The total assets of the RMA comprises of Fixed assets, Foreign assets, and Domestic assets.

By nature, RMA's assets consist almost entirely of foreign assets in the form of deposits with banks abroad. Accordingly, the movements in total assets were on account of developments in **Foreign assets** which grew by 6 percent, from Nu.35.3 billion in 2009 to Nu.37.3 billion in 2010. The growth in foreign assets in turn, was mainly due to Special Drawing Rights (SDR) allocation by the IMF of SDR 5.989 million during August and September 2009, as well as an increase in investments at the Punjab National Bank, Hong Kong branch by 186 percent.

Meanwhile, total **Domestic assets**, (which form a very small part of overall assets, and consist mainly of balances with the commercial banks) increased by Nu.583 million during the year, due to an increase in RMA's balances maintained with the commercial banks.

INCOME AND EXPENDITURE

The RMA's main source of income is from the interest earned on its investments, just as its key expenditure is on interest on borrowings. In 2010, 96 percent of its income was generated from interest earnings, while on the expenditure side, 65 percent was spent on interest payments, followed by currency printing expense at 13 percent, with the remaining 22 percent being other operating expenses. In terms of growth, RMA's total income decreased by 28 percent while total operating expenses grew by 8 percent.

In 2010, earnings on investments continued to fall (the average interest rate for 2010 was 1.73 percent as against 2.51 percent of 2009), while the Authority's interest expense continued to increase mainly on account of costs incurred on Indian Rupee (INR)

³ Consists of dues to the IMF, government and government agencies' FC accounts, deposits of other foreign financial institutions such as the World Bank, ADB, ARC and Kuwait Central Bank, GOI Stand-by credit facility and INR overdrafts.

⁴ Consists of notes and coins in circulation, due to banks, due to government, debt securities issued, MoF revaluation reserve, gratuity fund, interest accrued but not due and other miscellaneous liabilities.

borrowings in the form of the GOI Stand-by Credit facility and Overdraft from the State Bank of India (SBI). To elaborate, interest income decreased by 27 percent while interest expenses increased by 7 percent. Moreover, the Ngultrum appreciated (Nu. 48.51/1 USD in 2009, Nu. 46.54/1 USD in 2010) against major foreign currencies in line with the Indian rupee, which translated into lower earnings in Ngultrum terms. A combination of these unfavorable developments resulted in the surplus falling by 55 percent from Nu.505 million last year to Nu.226 million this year.

Of the total surplus, Nu.33.9 million was transferred to the Special Reserve account, bringing the total accumulation in this account to Nu.217 million. The remaining surplus has been transferred to the Ministry of Finance upon approval of the final accounts by the Board.

Costs on Monetary Policy instruments

Expenditures on monetary policy instruments (RMA Bills, Government Treasury bills), increased from Nu.205 million in 2009 to Nu.228 million in 2010, a growth of 11 percent. In 2010, out of the total expenditure on policy instruments, approximately Nu.38 million were on account of RMA Bills and Government Treasury bills, and Nu.189 million was incurred on account of INR borrowings. Interest expenses on INR borrowings grew by 88 percent during 2010 compared to 2009.

III. STATISTICAL SECTION

TABLE 1. GROSS DOMESTIC PRODUCT BY KIND OF ACTIVITY AT CURRENT PRICES

Millions of Ngultrum

Sector	Year										Share of GDP in 2009 (%)
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
1. Agriculture, livestock, and forestry	5290	5735	6554	7292	7524	8066	8707	9234	10078	11159	18.2
1.1 Agriculture proper	2516	2682	3000	3192	3481	3685	3926	4377	5061	5668	9.3
1.2 Livestock	1468	1628	1677	2163	1991	2261	2467	2531	2625	2895	4.7
1.3 Forestry and logging	1305	1425	1877	1938	2052	2120	2315	2326	2393	2596	4.2
2. Mining and quarrying	315	422	457	581	440	550	878	890	1252	1392	2.3
3. Manufacturing	1619	1880	1938	2087	2297	2571	3098	4033	4593	5017	8.2
4. Electricity and water	2255	2279	2658	2616	2635	3635	5340	10082	11521	11816	19.3
5. Construction	2761	3818	4711	5021	5741	6219	6020	6781	6251	7470	12.2
6. Wholesale and retail trade	882	1045	1283	1447	1726	2089	2317	2497	2695	2935	4.8
7. Hotel and restaurant	88	113	120	135	169	212	301	368	569	538	0.9
8. Transport, storage, and communication	1800	2083	2452	2626	3295	3891	4095	4469	5366	5990	9.8
9. Financing, insurance , real estate & Business services	1392	1532	1559	1949	2280	2918	3473	4105	4577	4962	8.1
9.1. Finance & Insurance	761	886	842	1027	1279	1810	2294	2802	3174	3466	5.7
9.2. Real estate & dwellings	631	645	716	922	1001	1109	1179	1297	1374	1460	2.4
9.3. Business services								6.5	28.2	35.6	0.1
10. Community, social services	2814	3037	3342	3664	3823	4472	4895	5312	5930	7963	13.0
10.1. Public Administration	1779	2262	2556	2778	2637	3120	3221	3370	3763	4728	7.7
10.2. Education and health	1035	775	786	886	1186	1352	1674	1942	2168	3235	5.3
11. Private social, personal & recreational services	96	101	111	124	144	172	213	242	268	276	0.5
12. Plus: taxes net of subsidies	424	480	815	920	1211	1318	1338	1443	1613	1704	2.8
Gross Domestic Product	19736	22526	26000	28461	31285	36112	40674	49456	54713	61223	100.0
GDP Growth rate (%)	7.7	14.1	15.4	9.5	9.9	15.4	12.6	21.6	10.6	11.9	

Source: National Accounts Statistics, 2009, National Statistics Bureau.

Discrepancies in the figures are due to rounding.

TABLE 2. GROSS DOMESTIC PRODUCT BY KIND OF ACTIVITY IN 2000 PRICES

Millions of Ngultrum

Sector	Year										Growth from 2008 to 2009(%)
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
1. Agriculture, livestock, and forestry	5290	5570	5727	5854	5982	6043	6196	6246	6291	6458	2.7
1.1 Agriculture proper	2516	2617	2689	2766	2824	2861	2898	2942	2997	3064	2.2
1.2 Livestock	1468	1609	1637	1642	1649	1728	1765	1812	1821	1864	2.4
1.3 Forestry and logging	1305	1345	1401	1446	1509	1455	1533	1493	1472	1529	3.9
2. Mining and quarrying	315	370	407	402	381	447	531	650	780	726	-6.9
3. Manufacturing	1619	1821	1855	1967	2055	2214	2469	3087	3349	3580	6.9
4. Electricity & water	2255	2186	2561	2332	2552	3259	4312	8061	9110	8893	-2.4
5. Construction	2761	3461	4329	4449	4820	4701	4248	4466	4010	4672	16.5
6. Wholesale and retail trade	882	1029	1234	1378	1633	1878	1901	1976	1993	2116	6.2
7. Hotels and restaurants	88	112	115	129	157	186	246	264	385	335	-12.9
8. Transport, storage, and communication	1800	1844	2000	2007	2448	2661	2857	3083	3247	3547	9.2
9. Finance, insurance , real estate & Business services	1392	1471	1427	1771	1991	2554	3005	3282	3447	3661	6.2
9.1. Finance & Insurance	761	874	878	1080	1292	1846	2285	2505	2645	2824	6.8
9.2. Real estate & dwellings	631	597	549	691	699	708	720	772	783	814	3.9
9.3 Business services								5	20	24	20.9
10. Community, social services	2814	2937	3154	3386	3379	3753	3912	4037	4161	5350	28.6
10.1. Public Administrator	1779	2188	2412	2568	2330	2618	2574	2562	2640	3179	20.4
10.2. Education and health	1035	660	639	720	1048	1134	1338	1476	1521	2171	42.8
11. Private social, personal & recreational services	96	99	103	114	127	144	167	178	187	191	1.9
12. Plus taxes on products less subsidies	424	453	738	802	1025	1039	1014	1059	1128	1121	-0.6
Gross Domestic Product	19736	21352	23650	24591	26550	28879	30857	36389	38088	40651	6.7
GDP Growth rate (%)	7.2	8.2	10.8	4.0	8.0	8.8	6.8	17.9	4.7	6.7	

Source: National Accounts Statistics, 2009, National Statistics Bureau.

Discrepancies in the figures are due to rounding.

TABLE 3. SALES OF MAJOR INDUSTRIES

Millions of Ngultrum

Industry	Period											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
											I	II
(1) Army Welfare Project	255.0	283.8	255.0	190.4	233.8	240.0	279.4	315.1	302.1	327.8	141.4	95.0
Exports to India	55.7	74.0	66.3	28.8	20.8	13.7	25.8	37.9	18.3	10.6	6.4	2.7
Exports to Countries other than India	-	-	-	-	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0
Sales within Bhutan	199.3	209.8	188.6	161.6	213.1	226.3	253.6	277.2	283.7	317.2	134.9	92.3
(2) Bhutan Board Products Limited	228.6	294.1	288.8	491.5	546.2	394.62	381.7	400.0	397.8	413.7	75.2	111.1
Exports to India	213.9	255.8	80.3	-	418.7	332.66	297.3	328.8	301.1	305.2	59.0	26.9
Exports to Countries other than India	-	-	-	-	0.0	1.10	0.0	-	0.0	0.0	0.0	0.0
Sales within Bhutan	14.7	38.3	5.8	-	26.2	60.86	84.4	71.1	96.6	108.5	16.2	84.2
(3) Bhutan Carbide & Chemicals Ltd.	474.6	675.9	707.5	703.4	731.6	760.2	765.3	1382.9	1877.3	1158.5	339.8	521.9
Exports to India	448.0	509.4	704.7	687.0	714.7	712.8	759.5	1392.5	1652.9	1097.8	325.4	503.2
Exports to Countries other than India	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	26.6	166.4	2.8	16.4	16.9	47.4	5.8	13.2	224.4	60.7	14.4	18.7
(4) Bhutan Fruit Products Limited	108.8	111.6	133.9	122.4	174.1	69.4	134.7	148.5	560.8	201.2	40.8	55.4
Exports to India	89.2	87.0	107.9	98.9	145.0	54.9	108.3	120.6	426.3	169.0	33.6	47.1
Exports to Countries other than India	7.4	6.9	4.2	4.9	8.5	2.8	4.0	3.2	2.0	5.0	1.3	0.5
Sales within Bhutan	12.3	17.7	21.8	18.6	20.5	11.7	22.3	24.7	132.6	27.2	5.9	7.8
(5) Bhutan Polythene Company	21.8	46.9	46.7	28.8	59.2	56.5	66.7	79.9	39.2	72.7	21.9	31.3
Exports to India	8.6	11.5	11.5	10.1	5.3	0.7	9.9	3.7	1.4	4.3	1.1	2.2
Exports to Countries other than India(*)	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales within Bhutan	13.2	35.3	25.9	18.6	53.8	56.4	56.8	76.2	37.8	68.4	20.9	29.0
(6) Penden Cement Authority Ltd.	696.7	763.9	814.3	896.1	851.8	807.0	1359.1	1663.6	1327.5	1784.6	540.0	483.3
Exports to India	236.0	316.5	258.1	254.7	265.1	278.5	781.6	840.4	912.6	1106.9	324.7	203.0
Exports to Countries other than India	-	-	-	-	0.0	0.0	0.0	237.2	1.9	18.7	0.0	0.0
Sales within Bhutan	460.7	447.4	556.1	641.4	586.7	528.5	577.5	586.0	413.0	659.0	215.3	280.3

TABLE 3. SALES OF MAJOR INDUSTRIES, CONTINUED

Millions of Ngultrum

Industry	Period											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
											I	II
(7) Bhutan Ferro Alloys Limited	428.4	579.0	643.2	658.1	748.3	651.2	678.3	1886.4	1898.8	1711.8	491.5	508.3
Exports to India	428.4	579.0	643.2	658.1	712.9	643.0	658.3	1825.4	1813.2	1707.9	456.5	473.9
Exports to Countries other than India	-	-	-	-	24.2	5.0	15.0	57.7	83.2	3.2	32.5	33.7
Sales within Bhutan	-	-	-	-	11.2	3.3	5.0	3.4	2.4	0.7	2.5	0.8
(8) Bhutan Agro Industries Limited	19.7	27.9	27.7	26.1	34.9	34.6	45.2	50.5	57.6	71.4	16.9	21.5
Exports to India	8.9	13.3	8.2	6.9	11.4	7.6	10.9	8.4	8.9	6.8	3.8	2.0
Exports to Countries other than India	2.4	1.8	0.7	0.7	2.8	0.5	0.2	0.5	0.3	0.8	0.1	0.0
Sales within Bhutan	8.4	12.7	18.8	18.5	20.6	26.6	34.0	41.6	48.4	63.8	13.1	19.5
(9) S.D. Eastern Bhutan Coal Company Ltd.	126.5	141.0	133.4	110.7	26.0	180.0	203.0	222.5	337.7	197.3	127.3	104.5
Exports to India	10.5	8.3	22.1	18.5	8.5	38.7	76.0	105.0	167.3	47.9	52.5	76.3
Exports to Countries other than India	47.2	50.5	29.7	14.5	0.0	47.2	39.8	33.7	18.7	39.1	6.7	0.0
Sales within Bhutan	68.8	82.2	81.7	77.6	17.6	94.1	87.2	83.7	151.7	110.3	68.2	28.2
(10) Druk Satair Corporation Limited	94.0	98.3	106.0	118.4	140.4	172.9	258.4	242.6	338.5	468.8	134.0	119.5
Exports to India	79.7	74.6	83.9	94.7	112.3	130.5	223.9	194.6	285.7	399.6	115.3	102.9
Exports to Countries other than India	7.3	8.9	2.1	2.6	2.1	8.2	6.1	12.1	11.3	23.6	8.1	4.3
Sales within Bhutan	6.9	14.9	20.0	21.1	26.0	34.2	28.4	35.9	41.5	45.6	10.7	12.2
(11) Druk Plaster & Chemicals Limited					31.3	40.5	49.2	44.5	42.4	51.9	13.7	14.2
Exports to India					31.3	40.2	49.0	43.5	40.9	51.7	13.5	14.1
Exports to Countries other than India					0.0	0.1	0.0	0.5	1.0	0.0	0.0	0.0
Sales within Bhutan					0.0	0.2	0.2	0.5	0.5	0.2	0.2	0.1
TOTAL	2446.5	3022.4	2944.4	2854.2	3476.3	3407.4	4220.8	6459.0	7179.8	6459.6	1942.5	2065.9
Exports to India	1578.9	1929.4	1986.2	1857.7	2445.9	2253.1	3000.7	4900.7	5628.7	4907.7	1391.7	1454.3
Exports to Countries other than India	65.6	68.1	36.7	22.7	37.7	64.8	65.1	344.8	118.4	90.4	48.6	38.5
Sales within Bhutan	801.9	1024.9	921.4	973.8	992.6	1089.6	1155.1	1213.5	1432.7	1461.5	502.2	573.1

Source : Respective Industry. - (-) data not available -(1) Alcoholic beverages. -(2) Particle boards. -(3) Calcium carbide. -(4) Processed vegetables and fruits. -(5) High Density Polythene (HDPE) Pipe. (*) Deemed export.-(6)Cement.-(7) Ferro Silicon.-(8) Processed vegetables and fruits -(9) Coal . -(10) Gypsum dust & Gypsum boulders.

TABLE 4. SALES OF MAJOR POWER PROJECTS

Millions of Ngultrum

Period	Total Sales					Domestic Sales (1)					Exports (2)			
	Total	Basochu	Chukha	Kurichhu	Tala	Total	Basochu	Chukha	Kurichhu	Tala	Total	Chukha	Kurichhu	Tala
2005	3,780.5	325.4	2,908.2	546.9	-	586.5	325.4	243.1	18.0	-	3,194.0	2,665.0	529.0	-
2006	5,581.8	388.7	3,592.9	537.5	1,062.6	603.0	388.7	133.4	19.6	61.3	4,978.8	3,459.5	518.0	1,001.3
2007	10,994.4	372.9	3,807.9	523.3	6,290.4	960.0	372.9	58.7	131.1	397.3	10,034.3	3,749.1	392.1	5,363.2
2008	11,885.5	398.2	3,795.9	526.7	7,164.8	852.9	398.2	71.4	177.7	205.6	11,032.6	3,724.5	349.0	6,959.2
2009	10,991.7	381.6	3,748.4	476.7	6,385.0	919.2	381.6	81.8	168.8	287.0	10,072.5	3,666.6	307.9	6,098.0
Jun	1,073.6	34.9	397.9	55.9	584.9	78.4	34.9	5.7	14.2	23.5	995.2	392.1	41.7	561.4
Jul	1,749.6	54.6	582.3	65.4	1,047.3	99.9	54.6	6.3	14.5	24.5	1,649.7	575.9	50.9	1,022.8
Aug	2,015.3	57.6	583.4	67.3	1,307.1	103.3	57.6	6.6	14.7	24.5	1,912.0	576.8	52.6	1,282.6
Sep	1,827.8	53.5	553.5	66.4	1,154.4	100.0	53.5	6.8	14.4	25.2	1,727.8	546.6	52.0	1,129.1
Oct	1,441.4	50.3	511.9	39.9	839.3	99.9	50.3	7.0	17.0	25.6	1,341.5	505.0	22.9	813.7
Nov	686.6	32.7	269.1	29.7	355.1	81.0	32.7	8.1	14.3	25.8	605.6	261.1	15.3	329.2
Dec	397.4	23.5	166.6	22.3	185.0	75.5	23.5	9.2	14.5	28.2	321.9	157.4	7.7	156.8
2010														
Jan	247.7	17.9	112.9	15.4	101.5	69.7	17.9	9.3	14.6	27.9	177.9	103.5	0.7	73.7
Feb	154.8	12.7	76.4	16.8	49.0	60.5	12.7	8.4	12.6	26.9	94.3	68.0	4.2	22.1
Mar	235.7	13.7	103.3	36.7	82.1	74.6	13.7	8.4	23.2	29.3	161.1	94.9	13.5	52.8
Apr	375.4	12.7	159.1	29.8	173.8	62.9	12.7	7.1	15.6	27.5	312.4	152.0	14.1	146.3
May	604.3	17.3	234.8	45.9	306.2	68.7	17.3	7.1	16.0	28.3	535.6	227.8	29.9	277.9
Jun	1,198.4	33.8	406.1	58.7	699.8	85.1	33.8	6.9	16.8	27.6	1,113.3	399.2	41.9	672.3
Percentage change on the previous year														
2005	22.8	69.3	23.1	4.5	-	60.4	69.3	53.5	19.2	-	17.8	21.0	4.0	-
2006	47.6	19.4	23.5	(1.7)	-	2.8	19.4	(45.1)	8.9	-	55.9	29.8	(2.1)	-
2007	97.0	(4.1)	6.0	(2.7)	492.0	59.2	(4.1)	(56.0)	570.7	547.8	101.5	8.4	(24.3)	435.6
2008	8.1	6.8	(0.3)	0.7	13.9	(11.2)	6.8	21.6	35.5	(48.2)	9.9	(0.7)	(11.0)	29.8
2009	(7.5)	(4.2)	(1.2)	(9.5)	(10.9)	7.8	(4.2)	14.6	(5.0)	39.6	(8.7)	(1.6)	(11.8)	(12.4)
Jun	(31.7)	(27.4)	(23.6)	(10.2)	(37.8)	(7.7)	(27.4)	8.3	(12.5)	54.0	(33.1)	(24.0)	(9.4)	(39.3)
Jul	(13.0)	(2.5)	(0.6)	(4.7)	(19.5)	4.1	(2.5)	18.7	(18.2)	45.2	(13.9)	(0.8)	(0.0)	(20.3)
Aug	(1.8)	0.4	(1.9)	(0.2)	(2.0)	7.4	0.4	52.7	(7.8)	31.7	(2.3)	(2.3)	2.1	(2.5)
Sep	(6.1)	(4.1)	(1.2)	0.4	(8.7)	6.6	(4.1)	20.7	3.2	37.6	(6.7)	(1.4)	(0.4)	(9.4)
Oct	10.7	4.5	9.6	(31.0)	15.2	10.7	4.5	10.9	16.7	20.3	10.7	9.6	(47.0)	15.0
Nov	1.0	0.7	5.5	(13.4)	(0.7)	10.4	0.7	17.1	(3.3)	35.1	(0.1)	5.2	(21.2)	(2.7)
Dec	(10.2)	3.2	(0.3)	(2.3)	(19.5)	17.5	3.2	28.0	(9.4)	55.1	(14.9)	(1.5)	14.6	(25.9)
2010														
Jan	(18.9)	(4.8)	(5.7)	(13.8)	(31.9)	14.4	(4.8)	30.2	(2.7)	39.7	(27.2)	(7.9)	(73.8)	(42.9)
Feb	(24.8)	(9.4)	(11.1)	10.0	(46.0)	23.6	(9.4)	38.3	21.8	44.7	(39.9)	(14.9)	(15.0)	(69.4)
Mar	12.1	0.3	14.9	134.1	(9.9)	35.8	0.3	22.8	120.1	22.6	3.7	14.3	162.8	(21.4)
Apr	(82.6)	(79.7)	(79.8)	(78.3)	(85.1)	(67.7)	(79.7)	(60.4)	(63.9)	(61.1)	(84.0)	(80.2)	(84.9)	(86.6)
May	48.4	30.4	48.8	20.4	54.7	17.4	30.4	12.0	10.2	16.1	53.6	50.4	26.7	60.1
Jun	78.5	130.1	76.1	36.8	82.6	46.9	130.1	19.5	15.1	20.8	81.5	77.6	48.1	86.5

Source: BHPCL, CHPCL, KHPCL, THPA. (1) Power tariff for domestic sales: Nu. 0.3 per unit for CHPCL & KHPCL; Since Feb. 2007 KHPCL has also started selling power for industrial use at Nu.1.2 per unit (Domestic sales of KHPCL are exclusive of demand charges); Tala sales are at Nu.0.3 per unit for 15% of energy sold with the remaining 85% at Nu.1.2 per unit; Nu. 1.2 per unit for BHPCL sales to Chukha effective from July 2005 (2) Power tariff for export to India: Nu. 2 per unit for CHPCL - revised from Nu. 1.5 per unit with effect from Jan. 2005; Nu. 1.75 per unit for KHPCL; Nu. 1.8 per unit for THPA.

TABLE 5. TOURIST ARRIVALS AND REVENUES (*)

Number of Tourists and Revenues in Millions of US Dollars

Period	2005		2006		2007		2008		2009		2010	
	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue	Number	Revenue
Q1	3131	3.7	2325	2.9	3794	5.2	5355	7.1	3662	4.7	5719	7.1
Jan	334	0.2	412	0.4	441	0.5	532	0.6	667	0.7	552	0.5
Feb	631	0.6	532	0.5	814	1.0	1311	1.5	811	0.9	1358	1.4
Mar	2166	2.9	1381	2.0	2539	3.7	3512	5.1	2184	3.0	3809	5.3
Q2	2489	3.5	4765	6.6	4291	6.1	5904	7.9	6770	8.9	5559	7.3
Apr	1474	2.2	3344	4.7	2666	4.1	3173	4.4	4263	5.8	3059	4.4
May	700	0.9	999	1.4	1045	1.4	1862	2.4	1743	2.1	1747	2.1
Jun	315	0.4	422	0.4	580	0.7	869	1.1	764	0.9	753	0.7
Q3	2538	3.2	3537	4.6	4673.0	5.8	4899.0	6.5	5098	6.9		
July	274	0.3	454	0.5	588	0.5	1085	1.0	858	0.8		
Aug	576	0.6	896	0.8	1133	1.0	1386	1.4	1220	1.3		
Sep	1688	2.3	2187	3.3	2952	4.3	2428	4.1	3020	4.7		
Q4	5468	8.2	6715	9.9	8336	12.7	11478	17.3	7950	11.5		
Oct	3412	5.6	3777	6.1	4512	7.3	6162	9.8	4326	6.7		
Nov	1443	1.9	2084	2.9	2733	4.0	4126	6.0	2607	3.5		
Dec	613	0.6	854	0.8	1091	1.4	1190	1.5	1017	1.2		
Total	13626	18.5	17342	23.9	21094	29.9	27636	38.8	23480	31.9	11278	14.4

Source : Department of Tourism. (*) Convertible currency paying tourists. Revenue: Gross revenues are inclusive of tour operators' revenue and government tax.

TABLE 6. MONETARY SURVEY

Millions of Ngultrum

End of Period	Assets									
	Total	Foreign Assets(Net)			Domestic Credit					
		Total	Rupee	Converti-ble Foreign Currency	Total	Claims on Govt. (Net)	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
2000	15661.0	15073.7	3711.2	11362.5	587.3	-1499.4	332.6	126.7	1624.3	3.0
2001	16312.7	14823.3	3405.1	11418.2	1489.4	-1255.7	315.2	117.4	2308.7	3.7
2002	20252.7	17303.7	4567.0	12736.7	2949.0	-455.9	252.0	117.8	3031.5	3.7
2003*)	20165.5	16802.8	3575.9	13227.0	3362.6	-2035.0	1102.6	227.1	3711.7	356.2
2004	23045.3	17327.3	5446.6	11880.8	5718.0	-936.3	1308.8	135.8	4963.4	246.3
2005	26772.2	21369.0	4779.5	16589.5	5403.1	-2715.3	1228.3	109.3	6461.6	319.2
2006	33537.5	24425.4	3786.0	20639.4	9112.1	-1495.7	1268.8	142.8	8658.3	537.9
2007	38602.5	27888.3	4024.7	23863.6	10714.2	-2955.0	1188.8	383.4	11528.9	568.0
2008										
Jan	36524.7	25222.8	1273.2	23949.6	11301.9	-2563.7	1151.8	342.5	11809.5	561.7
Feb	29650.7	24049.3	635.2	23414.0	5601.4	-2692.6	609.4	7.6	7673.3	3.7
Mar	38793.9	25720.7	746.0	24974.7	13073.3	-1784.5	1181.5	285.1	12624.8	766.4
Apr	38706.2	25227.0	25.0	25202.0	13479.2	-1731.0	1204.2	414.3	13029.9	561.7
May	40352.3	26455.7	-353.2	26809.0	13896.5	-1434.7	1154.0	361.3	13254.3	561.7
Jun	39727.7	26365.6	-834.5	27200.1	13362.1	-2264.5	1168.3	78.3	13812.1	567.9
Jul	40407.4	25682.6	-1392.4	27074.9	14724.8	-1354.6	1133.5	330.2	14053.9	561.7
Aug	41122.2	26177.3	-1669.0	27846.2	14944.9	-1590.1	1134.8	349.2	14489.4	561.7
Sep	44531.1	30356.7	238.2	30118.4	14174.4	-3165.4	1282.6	429.0	15050.9	577.3
Oct	48502.0	35248.7	2450.6	32798.1	13253.3	-4526.0	1076.8	400.8	15731.1	570.7
Nov	50815.5	36865.4	3855.7	33009.7	13950.1	-4122.0	1062.1	380.4	16064.0	565.7
Dec	46906.3	36081.9	3471.1	32610.8	10824.4	-7417.9	1054.0	365.9	16267.2	555.2
2009										
Jan	49360.0	35293.5	1719.7	33573.8	14066.5	-4518.7	1054.0	362.4	16617.6	551.3
Feb	47866.3	35011.3	966.8	34044.5	12855.1	-5869.3	1054.0	363.2	16733.1	574.1
Mar	49048.1	35364.4	177.2	35187.2	13683.7	-5494.5	1054.0	356.7	17157.2	610.3
Apr	46998.7	32940.3	-999.4	33939.7	14058.4	-5453.3	1054.0	352.5	17495.8	609.4
May	48659.3	33350.7	-888.2	34238.9	15308.6	-4490.1	1114.9	354.7	17719.6	609.5
Jun	48807.0	33074.0	-3258.5	36332.5	15732.9	-4204.3	1111.0	355.2	17860.8	610.3
Jul	49894.6	33286.9	-3471.3	36758.2	16607.7	-3633.8	1106.9	355.2	18169.1	610.3
Aug	52227.9	34914.0	-2486.4	37400.5	17313.8	-3166.1	1107.2	359.0	18397.7	616.0
Sep	53251.3	35538.4	-1842.9	37381.3	17712.9	-3071.4	1107.5	406.8	18632.8	637.2
Oct	53769.5	36229.2	-530.9	36760.1	17540.4	-3417.6	1107.7	406.8	18806.3	637.2
Nov	57965.5	40294.8	2295.3	37999.5	17670.7	-3850.2	1108.1	415.4	19339.5	658.0
Dec	57425.0	39075.0	2532.9	36542.1	18350.0	-3239.3	1184.0	49.6	19769.0	586.7
2010										
Jan	56324.2	36648.7	-1124.3	37773.0	19675.4	-2251.6	1110.6	50.4	20754.3	11.7
Feb	59655.3	39749.5	1475.4	38274.1	19905.8	-2232.6	1110.8	50.8	20965.1	11.7
Mar	57402.1	37642.4	-4.5	37646.9	19759.7	-2612.8	1141.7	49.6	20573.4	607.8
Apr	57045.0	35366.6	-1159.0	36525.6	21678.5	-4581.2	1143.5	50.5	24458.5	607.2
May	58315.6	36168.2	-1939.4	38107.5	22147.5	-4193.8	616.2	50.5	24541.2	1133.3
Jun	58373.0	35236.5	-3070.8	38307.2	23136.5	-4047.2	612.3	50.5	25195.6	1325.4

TABLE 6. CONTINUED
MONETARY SURVEY

Millions of Ngultrum

End of Period	Liabilities									
	Total	Broad Money(M2)						Quasi-Money	Money Market Instrument (Govt T Bill)	Other Items (Net)
		Total	Money(M1, Narrow Money)				Total			
			Total	Currency Outside Banks	Demand Deposits	NMFI Deposits				
2000	15661.0	10035.4	4039.0	1269.6	2669.5	100.0	5996.3	115.3	5510.4	
2001	16312.7	10802.1	4934.5	1609.9	3238.2	86.4	5867.6	5.2	5505.5	
2002	20252.8	13875.7	7143.4	1648.3	5322.8	172.3	6732.3	11.1	6366.0	
	-----	-----	-----	-----	-----	-----	-----	-----	-----	
2003*)	20165.5	13846.0	6769.8	1802.3	4967.5	0.0	7076.1	0.0	6319.5	
2004	23045.3	16599.5	8053.7	2070.7	5983.1	0.0	8545.7	1.8	6444.1	
2005	26772.2	18569.2	8969.7	2404.4	6565.2	0.0	9599.5	0.9	8202.1	
2006	33537.5	24671.8	12553.4	2762.5	9790.9	0.0	12118.4	33.9	8831.8	
2007	38602.5	27670.1	17474.9	3229.1	14245.8	0.0	10195.1	1765.3	9167.1	
2008										
Jan	36524.7	25727.3	15100.7	3690.3	11410.4	0.0	10626.7	1765.3	9032.0	
Feb	29650.7	11571.2	6179.0	3831.1	2347.9	0.0	5392.1	1969.4	16110.1	
Mar	38793.9	26835.4	15808.6	3492.7	12315.9	0.0	11026.8	2000.0	9958.6	
Apr	38706.2	26696.2	15993.4	3314.6	12678.8	0.0	10702.8	1913.1	10096.9	
May	40352.3	26830.0	16204.9	3372.9	12831.9	0.0	10625.2	1913.1	11609.2	
Jun	39727.7	25780.7	14392.4	3640.8	10751.6	0.0	11388.3	1585.8	12361.2	
Jul	40407.4	28863.1	16173.3	3559.7	12613.6	0.0	12689.8	746.6	10797.7	
Aug	41122.2	28620.9	15796.0	3347.3	12448.6	0.0	12824.9	950.9	11550.4	
Sep	44531.1	33405.1	20409.6	3518.1	16891.5	0.0	12995.5	1278.1	9847.9	
Oct	48502.0	33244.4	20113.9	3708.8	16405.2	0.0	13130.5	1204.3	14053.3	
Nov	50815.5	32797.3	19127.7	3780.8	15346.9	0.0	13669.6	2000.0	16018.2	
Dec	46906.3	31384.4	16233.4	3839.1	12394.3	0.0	15151.0	1000.0	14521.9	
2009										
Jan	49360.0	31415.3	16989.4	3824.9	13164.5	0.0	14425.9	1586.9	16357.8	
Feb	47866.3	30680.5	16627.3	3672.2	12955.1	0.0	14053.2	586.9	16598.9	
Mar	49048.1	32159.2	18458.6	4325.2	14133.4	0.0	13700.5	586.9	16302.0	
Apr	46998.7	32100.2	18699.3	4307.2	14392.0	0.0	13401.0	624.4	14274.1	
May	48659.3	32225.9	18503.8	4168.6	14335.2	0.0	13722.1	624.4	15809.0	
Jun	48807.0	32113.5	18373.7	4540.5	13833.2	0.0	13739.8	1254.2	15439.4	
Jul	49894.6	32915.8	18159.5	4349.8	13809.7	0.0	14756.2	629.7	16349.1	
Aug	52227.9	35176.7	20479.1	4454.9	16024.2	0.0	14697.6	629.7	16421.5	
Sep	53251.3	36719.0	19447.2	4579.9	14867.3	0.0	17271.8	767.9	15764.4	
Oct	53769.5	39473.4	20197.8	4855.0	15342.8	0.0	19275.6	790.3	13505.8	
Nov	57965.5	43294.3	20577.7	4879.7	15698.0	0.0	22716.7	22.3	14648.8	
Dec	57425.0	43862.8	22622.8	4980.1	17642.7	0.0	21240.0	35.0	13527.3	
2010										
Jan	56324.2	41248.9	20630.4	5103.3	15527.0	0.0	20618.6	35.0	15040.3	
Feb	59655.3	44714.9	23756.9	5356.0	18401.0	0.0	20957.9	35.0	14905.5	
Mar	57402.1	43728.1	23564.9	5078.0	18487.0	0.0	20163.1	-470.2	14144.2	
Apr	57045.0	42534.3	22115.1	5066.6	17048.5	0.0	20419.2	-470.2	14980.9	
May	58315.6	41824.4	23043.9	4920.1	18123.8	0.0	18780.5	-470.2	16961.4	
Jun	58373.0	41778.7	22537.7	5386.5	17151.2	0.0	19241.0	21.4	16573.0	

*)Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

TABLE 7. ROYAL MONETARY AUTHORITY OF BHUTAN - MONEY AND BANKING STATISTICS

Millions of Ngultrum

End of Period	Assets								
	Total	Foreign Assets			Claims on Deposit Money Banks	Claims on Govt.	Claims on Private Sector	Claims on Non-Monetary Financial Institutions	Government Securities
		Total	Rupee	Convertible Foreign Currency					
2000	11253.8	10357.6	87.8	10269.8	892.7	0.0	3.5	0.0	0.0
2001	11011.2	10716.1	1215.5	9500.6	293.2	0.0	1.9	0.0	0.0
2002	12321.9	11998.7	913.4	11085.3	194.3	127.0	1.9	0.0	0.0
		-----	-----	-----	-----	-----	-----	-----	
2003*)	12260.2	11899.0	987.3	10911.7	303.5	56.0	1.8	0.0	0.0
2004	13933.6	13000.5	2709.6	10290.9	895.4	37.0	0.7	0.0	0.0
2005	18220.4	17351.6	2539.7	14811.9	768.3	100.0	0.5	0.0	0.0
2006	18510.7	18397.7	200.8	18197.0	103.1	0.0	9.9	0.0	0.0
2007	25986.2	24659.8	2554.0	22105.7	157.4	0.0	11.5	0.0	1157.5
2008									
Jan	23950.1	22653.5	223.5	22429.9	127.7	0.0	11.5	0.0	1157.5
Feb	24706.7	23456.2	384.4	23071.8	81.7	0.0	11.2	0.0	1157.5
Mar	25431.2	24014.1	120.0	23894.1	246.7	0.0	12.9	0.0	1157.5
Apr	25839.5	24328.8	126.8	24202.0	339.5	0.0	13.7	0.0	1157.5
May	27335.6	26061.9	112.2	25949.6	102.2	0.0	14.1	0.0	1157.5
Jun	26532.1	26371.0	191.4	26179.7	146.6	0.0	14.5	0.0	0.0
Jul	26612.9	26034.4	140.1	25894.2	563.2	0.0	15.3	0.0	0.0
Aug	27495.2	27050.8	138.8	26912.1	429.3	0.0	15.0	0.0	0.0
Sep	31608.0	30591.6	1682.7	28908.9	1001.3	0.0	15.1	0.0	0.0
Oct	33543.4	33503.4	1688.6	31814.7	24.0	0.0	16.0	0.0	0.0
Nov	35001.8	34932.0	2755.7	32176.3	53.6	0.0	16.1	0.0	0.0
Dec	33768.3	33636.9	2291.9	31345.0	114.6	0.0	16.8	0.0	0.0
2009									
Jan	33608.3	33490.4	1455.2	32035.2	101.2	0.0	16.7	0.0	0.0
Feb	32634.3	32530.5	134.1	32396.5	86.8	0.0	17.0	0.0	0.0
Mar	33867.0	33743.6	177.2	33566.4	106.3	0.0	17.0	0.0	0.0
Apr	34978.2	34923.7	1243.0	33680.7	36.6	0.0	17.9	0.0	0.0
May	33797.9	33727.9	1243.0	32485.0	52.5	0.0	17.5	0.0	0.0
Jun	35296.3	35234.9	118.4	35116.4	44.2	0.0	17.2	0.0	0.0
Jul	35793.6	35685.8	426.9	35259.0	90.9	0.0	16.9	0.0	0.0
Aug	36034.8	35899.1	142.3	35756.8	118.2	0.0	17.4	0.0	0.0
Sep	37366.3	37269.3	1630.6	35638.7	79.8	0.0	17.1	0.0	0.0
Oct	36374.7	35900.4	1181.5	34718.9	457.5	0.0	16.7	0.0	0.0
Nov	39296.4	39100.2	3416.4	35683.9	179.5	0.0	16.7	0.0	0.0
Dec	39468.1	39281.5	3830.4	35451.1	170.8	0.0	15.8	0.0	0.0
2010									
Jan	36492.3	36409.2	47.3	36361.9	67.0	0.0	16.1	0.0	0.0
Feb	37060.8	36948.2	111.6	36836.7	96.2	0.0	16.3	0.0	0.0
Mar	37148.4	37066.3	1085.3	35981.0	66.2	0.0	16.0	0.0	0.0
Apr	35508.8	35380.6	121.8	35258.8	110.8	0.0	17.4	0.0	0.0
May	37514.6	37315.5	115.7	37199.9	181.3	0.0	17.8	0.0	0.0
Jun	37928.6	37277.4	137.3	37140.1	633.0	0.0	18.3	0.0	0.0

TABLE 7. CONTINUED

Royal Monetary Authority of Bhutan

Millions of Ngultrum

End of Period	Liabilities									
	Total	Reserve Money		Foreign Liabilities			Govt. Deposits	RMA Outstanding Bills	Capital Account	Other Items (Net)
		Total	Of which: Currency Outside Banks	Total	Rupee	Others				
2000	11253.9	6021.6	1269.6	0.0	0.0	0.0	918.2	410.0	220.6	3683.5
2001	11011.2	6160.7	1609.9	0.0	0.0	0.0	337.9	410.0	161.0	3941.7
2002	12321.9	6982.1	1652.1	0.0	0.0	0.0	141.3	1100.0	277.8	3820.7
2003*)	12260.2	8281.0	1802.3	0.0	0.0	0.0	462.0	0.0	174.3	3342.9
2004	13933.6	9222.6	2070.7	0.0	0.0	0.0	1087.6	200.0	205.8	3217.6
2005	18220.4	12732.9	2404.4	0.0	0.0	0.0	835.2	100.0	1058.2	3494.1
2006	18510.7	12284.8	2762.5	0.0	0.0	0.0	1495.7	100.0	1039.9	3590.3
2007	25986.2	14516.8	3229.1	0.0	0.0	0.0	2955.0	2000.0	1437.7	5076.7
2008										
Jan	23950.1	13183.0	3690.3	0.0	0.0	0.0	2563.7	2000.0	1156.7	5046.7
Feb	24706.6	13377.9	3831.1	0.0	0.0	0.0	2692.6	2000.0	1237.6	5398.5
Mar	25431.1	14166.6	3492.7	500.0	500.0	0.0	1784.4	2000.0	1318.2	5661.9
Apr	25839.5	14117.3	3314.6	1000.0	1000.0	0.0	1731.0	2000.0	1280.8	5710.4
May	27335.6	13867.0	3372.9	1400.0	1400.0	0.0	1434.7	2000.0	1351.4	7282.5
Jun	26532.1	12871.0	3640.8	1800.0	1800.0	0.0	2264.5	2000.0	1257.3	6339.4
Jul	26612.9	13613.8	3559.7	2300.0	2300.0	0.0	1504.3	2000.0	1276.6	5918.2
Aug	27495.2	12791.7	3347.3	2450.0	2450.0	0.0	1590.1	3000.0	1281.7	6381.7
Sep	31608.0	13618.3	3518.1	2400.0	2400.0	0.0	3165.4	3000.0	1302.0	8122.4
Oct	33543.4	15843.1	3708.8	0.0	0.0	0.0	4599.6	2000.0	1341.4	9759.3
Nov	35001.8	17477.6	3780.8	0.0	0.0	0.0	4196.1	2000.0	1485.3	9842.8
Dec	33768.3	15525.3	3839.1	0.0	0.0	0.0	7477.2	1000.0	946.1	8819.8
2009										
Jan	33608.3	16084.9	3824.9	636.7	636.7	0.0	4578.3	2000.0	956.6	9351.7
Feb	32634.3	14794.0	3672.2	0.0	0.0	0.0	5929.3	1000.0	1071.6	9839.4
Mar	33867.0	15661.8	4640.0	750.0	750.0	0.0	5555.7	1000.0	1124.8	9774.6
Apr	34978.2	14471.3	4073.6	3000.0	3000.0	0.0	5513.9	1000.0	1144.6	9848.4
May	33797.9	15247.6	4168.6	3000.0	3000.0	0.0	4490.1	1000.0	1258.5	8801.7
Jun	35296.3	14696.5	4540.5	3917.3	3917.3	0.0	4204.3	2000.0	1133.5	9344.6
Jul	35793.6	15313.9	4349.8	5267.3	5267.3	0.0	3633.8	1000.0	1172.4	9406.2
Aug	36034.8	15964.0	4454.9	4993.7	4993.7	0.0	3166.1	1000.0	1183.2	9727.8
Sep	37366.3	17946.0	4973.5	4798.1	4798.1	0.0	3071.4	1000.0	1205.8	9344.9
Oct	36374.7	20037.4	4855.0	3000.0	3000.0	0.0	3417.6	1022.3	935.9	7961.5
Nov	39296.4	22755.6	4879.7	3000.0	3000.0	0.0	3850.2	22.3	1002.9	8665.4
Dec	39468.1	21741.2	4980.1	3000.0	3000.0	0.0	3239.3	2022.3	1006.5	8458.8
2010										
Jan	36492.3	20221.2	5103.3	3000.0	3000.0	0.0	2251.6	2022.3	1039.5	7957.7
Feb	37060.8	20366.0	5356.0	3324.8	3324.8	0.0	2232.6	2022.3	1074.5	8040.4
Mar	37148.4	22349.7	5078.0	3000.0	3000.0	0.0	2612.8	1022.3	1052.3	7111.3
Apr	35508.8	19350.1	5066.6	3000.0	3000.0	0.0	4581.2	1022.3	1083.7	6471.5
May	37514.6	19603.8	4920.1	3841.6	3841.6	0.0	4193.8	1022.3	1166.2	7686.8
Jun	37928.6	20574.7	5386.5	4500.3	4500.3	0.0	4047.2	21.4	1097.7	7687.3

*) Starting from January 2003 onwards, a major reclassifications has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

TABLE 8. DEPOSIT MONEY BANKS - MONEY AND BANKING STATISTICS ¹⁾

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2000	11518.7	4669.5	4716.1	3623.4	1092.7	50.0	332.6	126.7	1623.8	
2001	13112.9	4923.6	5080.6	3163.0	1917.6	370.0	315.2	117.4	2306.1	
2002	16155.2	6473.4	5305.0	3653.6	1651.4	973.8	252.0	117.8	3033.3	
2003*)	16964.0	6342.4	4903.9	2588.6	2315.3	321.9	1102.6	227.1	3709.9	356.2
2004	19532.3	6608.1	4326.8	2737.0	1589.8	1943.8	1308.8	135.8	4962.7	246.3
2005	21879.2	9423.8	4017.4	2239.9	1777.5	320.0	1228.3	109.3	6461.2	319.2
2006	26484.0	9858.4	6027.7	3585.3	2442.4	0.0	1268.8	142.8	8648.4	537.9
2007	28621.0	11734.7	3228.6	1470.7	1757.9	0.0	1188.8	383.4	11517.5	568.0
2008										
Jan	26530.3	10106.9	2569.3	1049.6	1519.7	0.0	1151.8	342.5	11798.1	561.7
Feb	19810.0	10934.2	593.1	250.8	342.2	0.0	609.4	7.6	7662.1	3.7
Mar	28304.1	11252.6	2206.6	1126.0	1080.6	0.0	1181.5	285.1	12611.9	766.4
Apr	28417.9	11323.1	1898.2	898.2	1000.0	0.0	1204.2	414.3	13016.2	561.7
May	27834.1	10723.0	1793.9	934.6	859.3	0.0	1154.0	361.3	13240.2	561.7
Jun	27279.9	9873.2	1794.5	774.1	1020.4	0.0	1168.3	78.3	13797.6	567.9
Jul	29401.1	11239.1	1948.2	767.5	1180.7	149.7	1133.5	330.2	14038.6	561.7
Aug	29994.6	11898.1	1576.4	642.3	934.2	0.0	1134.8	349.2	14474.4	561.7
Sep	31602.1	12112.4	2165.1	955.6	1209.5	0.0	1282.6	429.0	15035.8	577.3
Oct	33000.5	13418.2	1745.3	762.0	983.3	73.6	1076.8	400.8	15715.0	570.7
Nov	34010.2	13946.8	1933.4	1100.0	833.4	74.0	1062.1	380.4	16047.9	565.7
Dec	35349.4	14619.6	2445.0	1179.2	1265.8	59.3	1054.0	365.9	16250.4	555.2
2009										
Jan	32590.7	11522.7	2439.9	901.2	1538.6	59.6	1054.0	362.4	16600.9	551.3
Feb	33264.9	12016.8	2480.7	832.7	1648.0	59.9	1054.0	363.2	16716.1	574.1
Mar	33572.8	11979.6	2370.8	749.9	1620.8	61.3	1054.0	356.7	17140.1	610.3
Apr	33605.0	11751.4	2299.2	915.6	1383.6	60.6	1054.0	352.5	17477.9	609.4
May	33671.6	11267.6	2622.7	868.8	1753.9	0.0	1114.9	354.7	17702.1	609.5
Jun	33365.6	11689.1	1756.5	540.4	1216.1	0.0	1111.0	355.2	17843.6	610.3
Jul	34557.9	11464.9	2868.4	1369.1	1499.3	0.0	1106.9	355.2	18152.2	610.3
Aug	37153.2	12682.1	4008.6	2364.9	1643.6	0.0	1107.2	359.0	18380.3	616.0
Sep	37799.4	13965.0	3067.2	1324.6	1742.6	0.0	1107.5	406.8	18615.6	637.2
Oct	40263.1	15993.1	3328.7	1287.6	2041.2	0.0	1107.7	406.8	18789.6	637.2
Nov	44522.1	18823.3	4194.5	1878.9	2315.6	0.0	1108.1	415.4	19322.9	658.0
Dec	45506.8	21139.9	2793.5	1702.5	1091.0	0.0	1184.0	49.6	19753.1	586.7
2010										
Jan	42748.3	17597.9	3239.5	1828.4	1411.1	0.0	1110.6	50.4	20738.2	11.7
Feb	45833.5	17585.3	6126.1	4688.7	1437.4	0.0	1110.8	50.8	20948.8	11.7
Mar	48480.5	19521.7	3576.0	1910.2	1665.8	0.0	1141.7	50.5	23582.7	607.8
Apr	46496.9	16919.0	3335.6	1719.2	1616.4	0.0	1143.5	50.5	24441.0	607.2
May	45422.3	16059.3	3039.5	1786.5	1252.9	0.0	616.2	50.5	24523.5	1133.3
Jun	45442.3	15472.1	2804.7	1292.3	1512.4	0.0	612.3	50.5	25177.3	1325.4

*) Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

TABLE 8. CONTINUED
Deposit Money Banks

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Credit from RMA	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2000	11518.7	2669.5	5815.4	180.9	0.0	0.0	0.0	631.2	0.0	756.1	1465.7
2001	13112.9	3238.2	5628.3	239.3	973.4	973.4	0.0	1287.8	0.0	958.0	787.9
2002	16155.2	5322.8	6260.8	471.5	0.0	0.0	0.0	1415.4	0.0	1194.3	1490.4
2003*)	16964.0	4967.5	6029.8	1046.3	0.0	0.0	0.0	1950.9	0.0	1637.7	1331.7
2004	19532.3	5983.1	7957.0	588.7	0.0	0.0	0.0	1829.5	0.0	1823.7	1350.4
2005	21879.2	6565.2	9096.7	502.8	0.0	0.0	0.0	2300.1	0.0	2029.4	1384.9
2006	26484.0	9790.9	11386.5	731.9	0.0	0.0	0.0	0.0	0.0	2272.7	2302.1
2007	28621.0	14245.8	9243.7	951.4	0.0	0.0	0.0	0.0	0.0	2581.1	1598.9
2008											
Jan	26530.3	11410.4	9690.0	936.7	0.0	0.0	0.0	0.0	0.0	2464.9	2028.4
Feb	10700.1	2347.9	4998.8	393.4	0.0	0.0	0.0	0.0	0.0	1127.7	1832.4
Mar	28304.1	12315.9	9940.8	1086.0	0.0	0.0	0.0	0.0	0.0	2615.7	2345.7
Apr	28417.9	12678.8	9657.0	1045.8	0.0	0.0	0.0	0.0	0.0	2621.2	2415.0
May	27834.1	12831.9	9668.2	957.0	0.0	0.0	0.0	0.0	0.0	2621.9	1755.1
Jun	27279.9	10751.6	10422.1	966.2	0.0	0.0	0.0	0.0	0.0	2703.8	2436.3
Jul	29401.1	12613.6	11528.4	1161.4	0.0	0.0	0.0	0.0	0.0	2762.9	1334.7
Aug	29994.6	12448.6	11609.9	1215.0	0.0	0.0	0.0	0.0	0.0	2801.6	1919.4
Sep	31602.1	16891.5	12123.3	872.3	0.0	0.0	0.0	0.0	0.0	3038.1	-1323.0
Oct	33000.5	16405.2	12336.4	794.1	0.0	0.0	0.0	0.0	0.0	3065.7	399.2
Nov	34010.2	15346.9	12554.9	1114.7	0.0	0.0	0.0	0.0	0.0	3005.7	1988.0
Dec	35349.4	12394.3	14081.4	1069.5	0.0	0.0	0.0	0.0	0.0	3326.4	4477.8
2009											
Jan	32590.7	13164.5	13286.1	1139.8	0.0	0.0	0.0	0.0	0.0	3084.0	1916.3
Feb	33264.9	12955.1	12871.1	1182.1	0.0	0.0	0.0	0.0	0.0	3094.7	3162.0
Mar	33572.8	14133.4	12555.1	1145.4	0.0	0.0	0.0	0.0	0.0	2877.5	2861.3
Apr	33605.0	14392.0	12361.7	1039.3	0.0	0.0	0.0	0.0	0.0	2899.0	2913.0
May	33671.6	14335.2	12635.6	1086.5	0.0	0.0	0.0	0.0	0.0	3004.7	2609.6
Jun	33365.6	13833.2	12628.8	1110.9	0.0	0.0	0.0	0.0	0.0	3214.0	2578.6
Jul	34557.9	13809.7	13423.0	1333.3	0.0	0.0	0.0	0.0	0.0	3303.9	2688.0
Aug	37153.2	16024.2	13340.9	1356.7	0.0	0.0	0.0	0.0	0.0	3347.0	3084.5
Sep	37799.4	14867.3	16045.3	1226.5	0.0	0.0	0.0	0.0	0.0	3392.0	2268.3
Oct	40263.1	15342.8	18027.0	1248.6	0.0	0.0	0.0	0.0	0.0	3334.7	2309.9
Nov	44522.1	15698.0	21327.0	1389.6	0.0	0.0	0.0	0.0	0.0	3551.7	2555.8
Dec	45506.8	17642.7	20262.4	977.6	0.0	0.0	0.0	0.0	0.0	3783.4	2840.8
2010											
Jan	42748.3	15527.0	19496.7	1121.8	0.0	0.0	0.0	0.0	0.0	3764.2	2838.5
Feb	45833.5	18401.0	19748.8	1209.1	0.0	0.0	0.0	0.0	0.0	3683.5	2791.2
Mar	48480.5	18671.7	19376.1	1235.3	349.6	0.0	349.6	0.0	1155.0	5120.8	2571.9
Apr	46496.9	17048.5	19231.1	1188.2	349.6	0.0	349.6	0.0	1155.0	5512.0	2012.5
May	45422.3	18123.8	17335.4	1445.2	345.2	0.0	345.2	0.0	1155.0	5464.9	1552.9
Jun	45442.3	17151.2	17939.0	1301.9	345.2	0.0	345.2	0.0	1150.0	5707.0	1847.8

(1) Demand Deposits include Saving Deposits. (*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately and are not included in Other Liabilities anymore.

TABLE 9. BANK OF BHUTAN LIMITED-MONEY AND BANKING STATISTICS

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2000	7813.5	4134.0	2495.2	2070.5	424.6	50.0	332.6	121.7	680.0	
2001	9137.7	4342.5	3027.0	2074.7	952.3	250.0	315.2	110.0	1093.0	
2002	11300.5	4555.6	4189.8	3002.6	1187.2	853.8	252.0	110.2	1339.2	
2003*)	11602.3	4900.7	3937.9	1978.8	1959.1	200.0	631.5	153.3	1530.9	248.0
2004	13013.2	5386.2	3552.9	2196.5	1356.4	1079.4	718.1	128.2	1996.0	152.5
2005	14404.5	7565.9	3009.8	1869.8	1140.0	200.0	652.2	101.8	2642.5	232.4
2006	16930.9	7647.5	4320.0	3136.3	1183.7	0.0	633.5	135.3	3660.4	534.2
2007	18431.2	10139.2	2437.7	1205.6	1232.1	0.0	580.3	375.8	4333.9	564.3
2008										
Jan	15973.7	8164.9	1973.5	801.0	1172.5	0.0	542.8	334.9	4399.5	558.0
Feb	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mar	17587.5	9891.7	1355.7	679.1	676.6	0.0	571.6	277.6	4728.4	762.7
Apr	17187.1	9545.1	1177.0	508.8	668.2	0.0	543.1	406.7	4957.2	558.0
May	16670.3	9052.0	1113.1	605.4	507.6	0.0	543.1	353.7	5050.3	558.0
Jun	15337.5	7625.1	966.0	476.8	489.2	0.0	571.1	70.7	5540.4	564.2
Jul	16966.1	8727.1	998.9	449.4	549.6	149.7	535.0	322.6	5674.7	558.0
Aug	16651.6	8472.2	750.5	373.6	376.9	0.0	535.0	341.6	5994.4	558.0
Sep	17819.5	8523.7	1367.7	840.3	527.4	0.0	682.3	421.4	6250.7	573.6
Oct	19084.0	9723.8	1076.5	628.8	447.7	0.0	549.8	393.3	6773.7	567.0
Nov	20177.9	10553.0	1122.9	815.3	307.6	0.0	535.1	372.8	7032.2	561.9
Dec	19645.0	9387.2	1690.5	888.3	802.2	0.0	527.0	358.3	7130.5	551.5
2009										
Jan	17363.0	7051.4	1553.3	667.6	885.7	0.0	527.0	354.8	7329.0	547.5
Feb	17571.9	7277.6	1464.3	515.0	949.3	0.0	527.0	355.6	7377.0	570.4
Mar	17663.7	7364.9	1241.2	453.5	787.7	0.0	527.0	349.1	7575.0	606.5
Apr	18794.9	8568.6	1089.8	718.7	371.1	0.0	527.0	344.9	7658.9	605.7
May	19135.5	8442.3	1419.3	817.4	601.9	0.0	527.0	347.2	7794.0	605.7
Jun	17906.7	7780.5	777.7	396.4	381.3	0.0	527.0	347.6	7867.4	606.5
Jul	18746.5	7591.0	1680.7	1171.6	509.1	0.0	527.0	347.6	7993.6	606.5
Aug	21029.0	8840.3	2617.5	2122.2	495.3	0.0	527.0	351.4	8080.7	612.2
Sep	21874.4	10745.2	1387.4	1025.5	361.9	0.0	527.0	399.2	8182.1	633.5
Oct	21874.4	10745.2	1387.4	1025.5	361.9	0.0	527.0	399.2	8182.1	633.5
Nov	23850.6	11884.5	1948.5	1473.5	475.1	0.0	527.0	407.8	8428.4	654.3
Dec	24905.4	13306.6	1640.9	1235.0	405.9	0.0	605.7	42.1	8727.1	583.0
2010										
Jan	22942.8	10557.7	2272.4	1625.8	646.6	0.0	527.0	42.8	9535.0	8.0
Feb	26066.8	10731.9	5159.9	4517.4	642.5	0.0	527.0	43.2	9596.9	8.0
Mar	23544.9	10974.0	2300.3	1743.1	557.2	0.0	605.5	42.1	9019.1	604.1
Apr	21025.5	8813.2	1931.0	1442.7	488.3	0.0	607.3	42.1	9028.6	603.5
May	22299.6	9831.3	2202.7	1649.4	553.3	0.0	80.0	42.1	9013.9	1129.6
Jun	21730.3	9938.3	1699.6	958.9	740.7	0.0	75.6	42.1	8853.6	1121.1

*) Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

TABLE 9. CONTINUED
Bank of Bhutan Limited

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2000	7813.5	1998.1	3744.7	158.7	0.0	0.0	0.0	330.1	0.0	513.8	1068.0
2001	9137.7	2554.8	3407.8	209.3	973.4	973.4	0.0	731.6	0.0	654.7	606.2
2002	11300.5	4672.4	3203.2	441.9	0.0	0.0	0.0	775.5	0.0	865.8	1341.8
2003*)	11602.3	4093.8	3519.8	1002.1	0.0	0.0	0.0	924.9	0.0	937.7	1124.1
2004	13013.2	4974.7	4226.1	507.6	0.0	0.0	0.0	988.7	0.0	1081.1	1234.9
2005	14404.5	5505.0	4934.6	348.6	0.0	0.0	0.0	1348.8	0.0	1192.5	1075.0
2006	16930.9	7671.3	5366.3	411.4	0.0	0.0	0.0	0.0	0.0	1353.6	2128.3
2007	18431.2	11718.0	4736.7	600.0	0.0	0.0	0.0	0.0	0.0	1456.0	-79.5
2008											
Jan	15973.7	9135.4	4809.2	609.3	0.0	0.0	0.0	0.0	0.0	1339.0	80.7
Feb	15222.2	9610.2	5612.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mar	17587.5	9764.4	4790.1	640.5	0.0	0.0	0.0	0.0	0.0	1487.3	905.3
Apr	17187.1	10185.0	3982.9	591.6	0.0	0.0	0.0	0.0	0.0	1491.7	935.8
May	16670.3	10355.2	3999.6	495.4	0.0	0.0	0.0	0.0	0.0	1492.8	327.3
Jun	15337.5	8308.1	4081.0	467.4	0.0	0.0	0.0	0.0	0.0	1573.9	907.1
Jul	16966.1	10148.2	4070.7	635.8	0.0	0.0	0.0	0.0	0.0	1574.6	536.7
Aug	16651.6	9903.1	4081.1	620.9	0.0	0.0	0.0	0.0	0.0	1580.5	466.0
Sep	17819.5	13952.2	4085.9	579.1	0.0	0.0	0.0	0.0	0.0	1688.0	-2485.7
Oct	19084.0	13412.1	3926.0	517.6	0.0	0.0	0.0	0.0	0.0	1692.5	-464.3
Nov	20177.9	12149.0	3903.1	829.6	0.0	0.0	0.0	0.0	0.0	1697.6	1598.5
Dec	19645.0	9271.4	4218.5	810.1	0.0	0.0	0.0	0.0	0.0	1808.2	3536.7
2009											
Jan	17363.0	10328.8	4201.9	842.0	0.0	0.0	0.0	0.0	0.0	1657.2	333.1
Feb	17571.9	9908.1	3559.7	829.7	0.0	0.0	0.0	0.0	0.0	1678.8	1595.6
Mar	17663.7	10438.8	3860.9	733.4	0.0	0.0	0.0	0.0	0.0	1768.0	862.6
Apr	18794.9	11184.8	3517.5	630.8	0.0	0.0	0.0	0.0	0.0	1807.7	1654.0
May	19135.5	11138.3	3525.8	678.3	0.0	0.0	0.0	0.0	0.0	1850.9	1942.1
Jun	17906.7	10438.3	3408.3	655.9	0.0	0.0	0.0	0.0	0.0	1941.4	1462.8
Jul	18746.5	10653.2	3628.3	833.5	0.0	0.0	0.0	0.0	0.0	2011.2	1620.3
Aug	21029.0	11861.3	3553.8	842.5	0.0	0.0	0.0	0.0	0.0	2010.4	2761.1
Sep	21874.4	11178.7	4140.2	692.2	0.0	0.0	0.0	0.0	0.0	2107.2	3756.1
Oct	21874.4	11178.7	4139.7	692.2	0.0	0.0	0.0	0.0	0.0	1890.6	3973.2
Nov	23850.6	11674.9	4280.4	834.8	0.0	0.0	0.0	0.0	0.0	2132.6	4927.9
Dec	24905.4	13774.4	4352.3	654.7	0.0	0.0	0.0	0.0	0.0	2172.8	3951.2
2010											
Jan	22942.8	11558.1	4329.1	795.7	0.0	0.0	0.0	0.0	0.0	2165.9	4094.0
Feb	26066.8	14571.9	4256.3	835.4	0.0	0.0	0.0	0.0	0.0	2190.2	4213.0
Mar	23544.9	11566.3	4603.6	822.7	0.0	0.0	0.0	0.0	0.0	2329.1	4223.1
Apr	21025.5	10959.8	4451.3	799.1	0.0	0.0	0.0	0.0	0.0	2411.8	2403.5
May	22299.6	12981.2	4391.6	1025.5	0.0	0.0	0.0	0.0	0.0	2459.6	1441.8
Jun	21730.3	11966.9	4670.4	918.2	0.0	0.0	0.0	0.0	0.0	2516.8	1657.9

(*) Between 1994-2000, Rupee Liabilities were consolidated under Other Liabilities. From January 2001 onwards, Rupee Liabilities are shown separately and are not included in Other Liabilities anymore.

TABLE 10. BHUTAN NATIONAL BANK LIMITED- MONEY AND BANKING STATISTICS

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2000	3705.3	535.5	2221.0	1552.9	668.1	0.0	0.0	5.0	943.8	
2001	3975.2	581.1	2053.6	1088.3	965.3	120.0	0.0	7.4	1213.1	
2002	4854.7	1917.8	1115.2	651.0	464.3	120.0	0.0	7.6	1694.1	
2003*)	5361.7	1441.8	966.0	609.8	356.2	121.9	471.1	73.8	2179.0	108.2
2004	6519.1	1221.9	773.9	540.4	233.4	864.4	590.7	7.6	2966.8	93.8
2005	7474.7	1857.9	1007.6	370.1	637.5	120.0	576.1	7.6	3818.6	86.9
2006	9553.1	2210.9	1707.6	448.9	1258.7	0.0	635.2	7.6	4988.0	3.7
2007	10189.8	1595.5	790.8	265.1	525.8	0.0	608.5	7.6	7183.6	3.7
2008										
Jan	10556.7	1942.0	595.9	248.6	347.2	0.0	609.0	7.6	7398.6	3.7
Feb	10700.1	1824.2	593.1	250.8	342.2	0.0	609.4	7.6	7662.1	3.7
Mar	10716.6	1361.0	850.9	446.9	404.0	0.0	609.9	7.6	7883.5	3.7
Apr	11230.7	1778.0	721.2	389.5	331.7	0.0	661.1	7.6	8059.1	3.7
May	11163.8	1671.0	680.8	329.1	351.7	0.0	610.8	7.6	8189.9	3.7
Jun	11942.4	2248.1	828.6	297.4	531.2	0.0	597.2	7.6	8257.2	3.7
Jul	12435.0	2512.0	949.3	318.2	631.1	0.0	598.5	7.6	8363.9	3.7
Aug	13343.0	3425.9	825.9	268.6	557.3	0.0	599.8	7.6	8480.0	3.7
Sep	13782.6	3588.6	797.3	115.3	682.1	0.0	600.2	7.6	8785.1	3.7
Oct	13916.5	3694.4	668.8	133.2	535.7	73.6	527.0	7.6	8941.3	3.7
Nov	13832.3	3393.7	810.5	284.7	525.8	74.0	527.0	7.6	9015.8	3.7
Dec	15704.4	5232.4	754.5	290.9	463.6	59.3	527.0	7.6	9119.9	3.7
2009										
Jan	15227.6	4471.3	886.5	233.7	652.9	59.6	527.0	7.6	9271.9	3.7
Feb	15693.0	4739.2	1016.4	317.7	698.7	59.9	527.0	7.6	9339.1	3.7
Mar	15909.0	4614.7	1129.6	296.5	833.1	61.3	527.0	7.6	9565.2	3.7
Apr	14810.1	3182.8	1209.4	196.9	1012.5	60.6	527.0	7.6	9819.0	3.7
May	14536.1	2825.3	1203.4	51.5	1152.0	0.0	587.9	7.6	9908.1	3.7
Jun	15458.9	3908.6	978.8	144.0	834.8	0.0	584.0	7.6	9976.2	3.7
Jul	15811.4	3873.9	1187.7	197.6	990.2	0.0	579.9	7.6	10158.6	3.7
Aug	16124.1	3841.8	1391.1	242.8	1148.4	0.0	580.2	7.6	10299.7	3.7
Sep	15925.0	3219.8	1679.8	299.1	1380.7	0.0	580.5	7.6	10433.5	3.7
Oct	18388.7	5247.9	1941.3	262.0	1679.2	0.0	580.7	7.6	10607.5	3.7
Nov	20671.6	6938.8	2246.0	405.4	1840.6	0.0	581.1	7.6	10894.5	3.7
Dec	20601.4	7833.2	1152.6	467.5	685.1	0.0	578.3	7.6	11026.0	3.7
2010										
Jan	19805.5	7040.2	967.1	202.5	764.6	0.0	583.6	7.6	11203.3	3.7
Feb	19766.7	6853.5	966.3	171.3	795.0	0.0	583.8	7.6	11351.9	3.7
Mar	21890.3	8528.7	1275.7	167.1	1108.7	0.0	536.3	7.6	11538.3	3.7
Apr	20957.4	7493.5	1289.4	165.7	1123.7	0.0	536.2	7.6	11626.9	3.7
May	18133.8	5512.1	750.0	53.7	696.3	0.0	536.2	7.6	11324.2	3.7
Jun	18351.8	4911.9	969.5	207.7	761.8	0.0	536.7	7.6	11922.4	3.7

*) Note: Starting from January 2003 onwards, a major reclassification has been carried out in the accounts of all the economic sectors. Data prior to 2003 cannot always be directly compared with the subsequent data, because of a break in continuity.

TABLE 10. CONTINUED
Bhutan National Bank Limited

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits (1)	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
2000	3705.3	671.3	2070.7	22.2	0.0	0.0	0.0	301.1	0.0	242.2	397.8
2001	3975.2	683.4	2220.6	30.0	0.0	0.0	0.0	556.2	0.0	303.3	181.7
2002	4854.7	650.4	3057.6	29.6	0.0	0.0	0.0	640.0	0.0	328.5	148.6
2003	5361.7	873.8	2510.0	44.3	0.0	0.0	0.0	1026.0	0.0	700.0	207.6
2004	6519.1	1008.3	3730.9	81.1	0.0	0.0	0.0	840.7	0.0	742.6	115.5
2005	7474.7	1060.0	4162.1	154.2	0.0	0.0	0.0	951.3	0.0	836.9	310.1
2006	9553.1	2119.6	6020.2	320.5	0.0	0.0	0.0	0.0	0.0	919.1	173.7
2007	10189.8	2528.0	4507.1	351.4	0.0	0.0	0.0	0.0	0.0	1125.1	1678.2
2008											
Jan	10556.7	2277.6	4880.7	327.4	0.0	0.0	0.0	0.0	0.0	1125.9	1945.0
Feb	10700.1	2348.0	4998.8	393.4	0.0	0.0	0.0	0.0	0.0	1127.7	1832.3
Mar	10716.6	2553.1	5150.6	445.5	0.0	0.0	0.0	0.0	0.0	1128.4	1438.9
Apr	11230.7	2495.1	5674.1	454.1	0.0	0.0	0.0	0.0	0.0	1129.5	1477.8
May	11163.8	2478.1	5668.6	461.6	0.0	0.0	0.0	0.0	0.0	1129.1	1426.4
Jun	11942.4	2445.0	6341.0	498.8	0.0	0.0	0.0	0.0	0.0	1129.8	1527.7
Jul	12435.0	2467.2	7457.7	525.6	0.0	0.0	0.0	0.0	0.0	1188.3	796.1
Aug	13343.0	2547.7	7528.8	594.1	0.0	0.0	0.0	0.0	0.0	1221.1	1451.2
Sep	13782.6	2941.7	8037.4	293.1	0.0	0.0	0.0	0.0	0.0	1350.1	1160.2
Oct	13916.5	2996.4	8410.4	276.4	0.0	0.0	0.0	0.0	0.0	1373.2	860.2
Nov	13832.3	3200.7	8651.7	285.1	0.0	0.0	0.0	0.0	0.0	1308.1	386.8
Dec	15704.4	3125.8	9862.9	259.4	0.0	0.0	0.0	0.0	0.0	1518.1	938.2
2009											
Jan	15227.6	2838.4	9084.1	297.9	0.0	0.0	0.0	0.0	0.0	1426.8	1580.5
Feb	15693.0	3049.2	9311.4	352.4	0.0	0.0	0.0	0.0	0.0	1415.9	1564.1
Mar	15909.0	3695.1	8694.2	412.0	0.0	0.0	0.0	0.0	0.0	1109.5	1998.3
Apr	14810.1	3205.4	8844.1	408.5	0.0	0.0	0.0	0.0	0.0	1091.3	1260.8
May	14536.1	3195.3	9109.8	408.2	0.0	0.0	0.0	0.0	0.0	1153.7	669.0
Jun	15458.9	3393.0	9220.6	455.0	0.0	0.0	0.0	0.0	0.0	1272.5	1117.7
Jul	15811.4	3154.8	9794.7	499.8	0.0	0.0	0.0	0.0	0.0	1292.8	1069.4
Aug	16124.1	4160.7	9787.1	514.2	0.0	0.0	0.0	0.0	0.0	1336.5	325.6
Sep	15925.0	3686.8	11905.1	534.2	0.0	0.0	0.0	0.0	0.0	1284.9	-1486.1
Oct	18388.7	4162.5	13887.4	556.4	0.0	0.0	0.0	0.0	0.0	1444.1	-1661.6
Nov	20671.6	4021.2	17046.7	554.8	0.0	0.0	0.0	0.0	0.0	1419.1	-2370.2
Dec	20601.4	3866.8	15910.1	322.9	0.0	0.0	0.0	0.0	0.0	1610.6	-1108.9
2010											
Jan	19805.5	3967.0	15167.7	326.1	0.0	0.0	0.0	0.0	0.0	1598.3	-1253.6
Feb	19766.7	3827.4	15492.5	373.7	0.0	0.0	0.0	0.0	0.0	1493.2	-1420.2
Mar	21890.3	6919.1	14324.2	412.6	0.0	0.0	0.0	0.0	0.0	1615.3	-1380.9
Apr	20957.4	5410.7	13680.8	389.1	0.0	0.0	0.0	0.0	0.0	1613.9	-137.1
May	18133.8	4300.9	11833.2	419.7	0.0	0.0	0.0	0.0	0.0	1522.4	57.6
Jun	18351.8	4106.0	12128.5	383.1	0.0	0.0	0.0	0.0	0.0	1722.3	11.9

(1) Demand Deposits include Saving Deposits.-In January 1997, the Unit Trust of Bhutan was converted to Bhutan National Bank (the second commercial bank in the country).

**TABLE 11. BHUTAN DEVELOPMENT FINANCE CORPORATION LIMITED(*)
MONEY AND BANKING STATISTICS**

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2010										
Mar	3045.2	19.0	0.0	0.0	0.0	0.0	0.0	0.9	3025.3	0.0
Apr	3127.3	34.9	0.0	0.0	0.0	0.0	0.0	0.9	3091.5	0.0
May	3235.0	34.6	0.0	0.0	0.0	0.0	0.0	0.9	3199.6	0.0
Jun	3352.0	73.4	0.0	0.0	0.0	0.0	0.0	0.9	3277.8	0.0

(*) Reports on the new deposit taking institutions in the financial sector are recorded w.e.f March 2010.

**TABLE 11. CONTINUED
BHUTAN DEVELOPMENT FINANCE CORPORATION LIMITED**

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2010											
Mar	3045.2	186.3	448.3	0.0	349.6	0.0	349.6	0.0	1155.0	1176.4	-270.3
Apr	3127.3	192.3	453.8	0.0	349.6	0.0	349.6	0.0	1155.0	1163.9	-187.4
May	3235.0	215.8	454.8	0.0	345.2	0.0	345.2	0.0	1155.0	1160.8	-96.5
Jun	3352.0	246.9	459.3	0.0	345.2	0.0	345.2	0.0	1150.0	1134.4	16.2

TABLE 12. DRUK PUNJAB NATIONAL BANK LIMITED- MONEY AND BANKING STATISTICS(*)

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2010										
Apr	1058.6	489.6	113.2	108.9	4.3	0.0	0.0	0.0	455.8	0.0
May	1227.5	512.5	83.2	80.6	2.6	0.0	0.0	0.0	631.7	0.0
Jun	1290.1	384.7	82.1	73.1	9.0	0.0	0.0	0.0	622.7	200.5

(*) Reports on the new deposit taking institutions in the financial sector are recorded w.e.f April 2010.

TABLE 12.CONTINUED
Druk PNB Bank Limited

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee*	Others				
2010											
Apr	1058.6	385.6	557.2	0.0	0.0	0.0	0.0	0.0	0.0	192.4	-76.6
May	1227.5	533.3	569.3	0.0	0.0	0.0	0.0	0.0	0.0	192.0	-67.1
Jun	1290.1	714.2	584.0	0.7	0.0	0.0	0.0	0.0	0.0	202.0	-210.9

TABLE 13. TBANK LIMITED -MONEY AND BANKING STATISTICS (*)

Millions of Ngultrum

End of Period	Assets									
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on NMFIs
			Total	Rupee	Others					
2010										
Apr	328.1	87.8	2.0	2.0	0.1	0.0	0.0	0.0	238.3	0.0
May	526.3	168.8	3.5	2.8	0.7	0.0	0.0	0.0	354.0	0.0
Jun	718.1	163.8	53.5	52.6	0.9	0.0	0.0	0.0	500.8	0.0

(*) Reports on the new deposit taking institutions in the financial sector are recorded w.e.f April 2010.

TABLE 13. CONTINUED
TBank Limited Liabilities

Millions of Ngultrum

End of Period	Liabilities										
	Total	Demand Deposits	Time Deposits	Foreign Currency Deposits	Foreign Liabilities			Govt. Deposits	Domestic Borrowings	Capital Accounts	Other Items (Net)
					Total	Rupee	Others				
2010											
Apr	328.1	100.1	88.0	0.0	0.0	0.0	0.0	0.0	0.0	129.9	10.1
May	526.3	92.6	86.4	0.0	0.0	0.0	0.0	0.0	0.0	130.1	217.1
Jun	718.1	117.2	96.8	0.0	0.0	0.0	0.0	0.0	0.0	131.5	372.6

TABLE 14. ROYAL INSURANCE CORPORATION OF BHUTAN LIMITED - FINANCIAL STATISTICS

Millions of Ngultrum

End of Period	Assets										
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on DMBs	Claims On NMFIS
			Total	Rupee	Others						
2000	956.9	45.5	52.1	51.0	1.1	17.3	842.1	0.0	0.0	0.0	
2001	1077.4	30.6	55.4	50.0	5.4	17.3	974.0	0.0	0.0	0.0	
2002	1259.1	44.2	8.7	2.7	6.0	18.2	1138.0	50.0	0.0	0.0	
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2003*)	1468.7	131.7	4.9	0.1	4.8	0.0	0.0	25.2	1225.8	78.1	3.0
2004	1428.4	47.6	3.6	0.1	3.5	0.0	0.0	20.8	1345.2	8.1	3.0
2005	1657.6	47.1	9.6	0.1	9.5	0.0	0.0	14.9	1574.9	8.1	3.0
2006	1773.0	71.0	10.7	0.0	10.6	0.0	0.0	18.2	1611.9	58.1	3.0
2007	2030.7	98.6	7.5	0.0	7.5	0.0	0.0	37.3	1876.3	8.1	3.0
2008											
Jan	2062.6	96.5	6.6	0.0	6.6	0.0	0.0	37.3	1911.1	8.1	3.0
Feb	2097.1	111.3	6.2	0.0	6.1	0.0	0.0	37.5	1931.0	8.1	3.0
Mar	2404.2	384.6	6.1	0.0	6.0	0.0	0.0	37.7	1964.7	8.1	3.0
Apr	2427.2	373.1	13.1	0.0	13.1	0.0	0.0	37.8	1992.0	8.1	3.0
May	2451.8	375.4	13.1	0.0	13.1	0.0	0.0	38.2	2014.0	8.1	3.0
Jun	2323.5	120.0	14.0	0.0	14.0	0.0	0.0	38.2	2010.1	138.1	3.0
Jul	2311.7	137.8	15.0	0.0	14.9	0.0	0.0	38.4	2109.4	8.1	3.0
Aug	2326.5	128.1	15.0	0.0	14.9	0.0	0.0	38.3	2132.8	9.4	3.0
Sep	2308.7	136.5	9.2	0.0	9.1	0.0	0.0	45.3	2105.4	9.4	3.0
Oct	2399.1	136.6	17.6	0.0	17.5	0.0	0.0	45.6	2147.0	49.4	3.0
Nov	2413.9	149.3	28.1	0.0	28.1	0.0	0.0	45.8	2178.3	9.4	3.0
Dec	2600.7	332.9	31.1	0.0	31.1	0.0	0.0	46.1	2178.1	9.4	3.0
2009											
Jan	2497.9	145.7	31.1	0.0	31.1	0.0	0.0	46.4	2262.2	9.4	3.0
Feb	2560.7	156.6	32.2	0.0	32.2	0.0	0.0	46.7	2312.7	9.4	3.0
Mar	2547.6	74.8	32.2	0.0	32.2	0.0	0.0	47.0	2381.1	9.4	3.0
Apr	2713.7	143.4	33.6	0.0	33.5	0.0	0.0	49.0	2475.2	9.4	3.0
May	2725.8	119.2	33.6	0.0	33.5	0.0	0.0	47.6	2513.0	9.4	3.0
Jun	2754.0	104.0	33.6	0.0	33.5	0.0	0.0	47.9	2556.2	9.4	3.0
Jul	2815.7	104.8	36.8	0.0	36.7	0.0	0.0	48.2	2613.5	9.4	3.0
Aug	3302.4	521.5	37.0	0.0	37.0	0.3	0.0	48.5	2682.7	9.4	3.0
Sep	3282.2	414.2	36.9	0.0	36.8	0.3	0.0	57.1	2761.3	9.4	3.0
Oct	3247.4	206.5	155.3	110.0	45.2	0.3	0.0	45.8	2827.1	9.4	3.0
Nov	3244.9	177.1	37.1	0.0	37.1	0.3	0.0	45.1	2862.9	119.4	3.0
Dec	3328.9	313.7	30.0	0.0	30.0	0.3	0.0	43.7	2928.8	9.4	3.0
2010											
Jan	3377.9	56.8	35.0	0.0	35.0	0.4	0.0	44.0	3029.3	209.4	3.0
Feb	3426.1	6.2	35.0	0.0	35.0	0.8	0.2	44.3	3127.2	209.4	3.0
Mar	3529.1	162.3	30.0	0.0	30.0	9.9	0.2	43.4	3231.0	49.4	3.0
Apr	3713.5	210.3	36.5	0.0	36.5	44.3	0.2	43.7	3336.2	39.4	3.0
May	4246.0	544.9	36.5	0.0	36.5	57.3	0.2	44.0	3520.7	39.4	3.0
Jun	4899.2	687.0	7.5	0.0	7.5	63.0	0.2	44.3	3599.8	494.4	3.0

TABLE 14. CONTINUED

Royal Insurance Corporation of Bhutan Limited

Millions of Ngultrum

End of Period	Liabilities								
	Total	General Insurance Reserve Fund	Life Fund	GEPF Fund	Group Insurance Fund	Credit from DMBs	Credit from NBFIs	Capital Accounts	Other Items (Net)
2000	956.9	0.0	45.0	509.4	120.0	90.0		408.6	-216.1
2001	1077.4	0.0	44.1	360.2	153.3	595.0		156.8	-232.0
2002	1259.1	0.0	55.8	47.8	168.0	673.6		193.6	120.3
2003*)	1468.7	0.0	71.6	65.9	188.6	186.3	450.0	269.4	236.9
2004	1428.4	0.0	87.2	73.8	210.7	94.5	400.0	306.4	255.7
2005	1657.6	0.0	116.9	93.8	233.2	170.5	350.0	373.0	320.2
2006	1773.0	0.0	153.6	117.7	253.9	172.4	300.0	445.1	330.3
2007	2030.7	0.0	199.0	141.4	303.8	0.0	480.0	531.5	375.1
2008									
Jan	2062.6	0.0	207.1	150.8	160.0	0.0	480.0	560.1	504.6
Feb	2097.1	0.0	207.2	151.9	220.4	0.0	480.0	569.0	468.4
Mar	2404.2	0.0	216.7	154.1	168.2	0.0	780.0	553.1	532.0
Apr	2427.2	0.0	223.8	157.6	174.9	0.0	780.0	533.8	557.0
May	2451.8	0.0	234.1	158.6	179.3	0.0	780.0	561.6	538.3
Jun	2323.5	0.0	230.5	164.1	176.6	0.0	780.0	569.1	403.3
Jul	2311.7	0.0	237.5	167.6	179.6	0.0	780.0	471.2	475.8
Aug	2326.5	0.0	243.2	169.6	203.1	0.0	780.0	579.2	351.3
Sep	2308.7	0.0	249.6	172.1	190.8	0.0	780.0	590.7	325.5
Oct	2399.1	0.0	261.8	177.1	197.6	0.0	780.0	609.9	372.8
Nov	2413.9	0.0	534.9	179.2	524.4	0.0	780.0	627.0	-231.6
Dec	2600.7	0.0	261.4	183.4	206.1	0.0	780.0	644.1	525.7
2009									
Jan	2497.9	0.0	561.2	196.3	288.3	0.0	757.0	693.2	2.0
Feb	2560.7	0.0	271.3	200.2	233.1	0.0	757.0	679.1	420.0
Mar	2547.6	0.0	275.7	197.1	212.7	0.0	757.0	687.0	418.1
Apr	2713.7	0.0	578.4	207.4	590.1	0.0	757.0	658.4	-77.6
May	2725.8	0.0	290.2	209.4	216.1	0.0	757.0	661.9	591.1
Jun	2754.0	0.0	299.5	211.3	223.4	0.0	757.0	719.1	543.7
Jul	2815.7	0.0	307.8	213.0	227.7	757.0	0.0	627.6	682.6
Aug	3302.4	0.0	315.5	214.4	229.7	0.0	0.0	681.3	1861.5
Sep	3282.2	0.0	320.2	214.5	235.5	0.0	1257.0	714.3	540.6
Oct	3247.4	0.0	334.4	214.8	241.4	0.0	1207.0	704.4	545.3
Nov	3244.9	0.0	339.2	234.8	242.9	0.0	1207.0	726.5	494.5
Dec	3328.9	0.0	342.3	233.1	433.7	0.0	1184.0	799.8	336.0
2010									
Jan	3377.9	0.0	658.3	250.5	239.7	0.0	1184.0	774.8	270.7
Feb	3426.1	0.0	334.3	251.0	221.0	0.0	1184.0	720.7	715.1
Mar	3529.1	0.0	360.9	272.9	654.0	1284.0	0.0	685.7	271.6
Apr	3713.5	0.0	376.6	270.7	262.2	0.0	1384.0	694.2	725.8
May	4246.0	0.0	386.6	274.3	262.6	0.0	1484.1	741.8	1096.5
Jun	4899.2	0.0	400.1	281.1	271.5	400.0	1707.8	825.0	1013.8

TABLE 15 . BHUTAN INSURANCE LIMITED-FINANCIAL STATISTICS (*)

Millions of Ngultrum

End of Period	Assets										
	Total	Reserves	Foreign Assets			Claims on Govt.	Claims on Govt. Corps.	Claims on Joint Corps.	Claims on Private Sector	Claims on DMBs	Claims On NMFIS
			Total	Rupee	Others						
2010											
Apr	139.3	46.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0
May	144.6	51.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0
Jun	164.4	71.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	93.0	0.0

(*) Reports on the new Non Banking Financial Institutions are recorded w.e.f April 2010.

**TABLE 15. CONTINUED
BHUTAN INSURANCE LIMITED**

Millions of Ngultrum

End of Period	Liabilities								
	Total	General Insurance Reserve Fund	Life Fund	GEPF Fund	Group Insurance Fund	Credit from DMBs	Credit from NBFIs	Capital Ac-counts	Other Items (Net)
2010									
Apr	139.3	0.0	0.0	0.0	0.0	0.0	0.0	132.5	6.8
May	144.6	0.0	0.0	0.0	0.0	0.0	0.0	136.8	7.8
Jun	164.4	0.0	0.0	0.0	0.0	0.0	0.0	153.9	10.5

TABLE 16. AUCTIONS/TAP SALES OF RMA BILLS(*)/ GOVERNMENT TREASURY BILLS

Auction/Tap Sale No.	Auction/Tap Sale date	Maturity in Days	Bids, millions of Nu.		Discount Rate (%)
			Received	Accepted	
R127	31-Mar-04	91	200.0	100.0	3.5
R128	28-Apr-04	91	100.0	100.0	3.5
R 131	28-Jul-04	91	100.0	100.0	3.5
R 132	25-Aug-04	91	100.0	100.0	3.5
R134	27-Oct-04	91	100.0	100.0	3.5
R135	24-Nov-04	91	100.0	100.0	3.5
R137	26-Jan-05	91	100.0	100.0	3.5
R138	23-Feb-05	91	100.0	100.0	3.5
R141	25-May-05	91	100.0	100.0	3.5
R142	29-Jun-05	91	100.0	100.0	3.5
R145	28-Sep-05	91	100.0	100.0	3.5
R147	30-Nov-05	91	100.0	100.0	3.5
R150	22-Feb-06	91	100.0	100.0	3.5
R152	26-Apr-06	91	100.0	100.0	3.5
R154	28-Jun-06	91	100.0	100.0	3.5
R156	30-Aug-06	91	100.0	100.0	3.5
R158	25-Oct-06	91	100.0	100.0	3.5
R161	31-Jan-07	91	100.0	100.0	3.5
R164	26-Apr-07	91	100.0	100.0	3.5
R166	27-Jun-07	91	100.0	100.0	3.5
R168	5-Sep-07	91	3442.0	1000.0	5.0
R169	25-Sep-07	30	2206.0	1000.0	5.0
R170	30-Oct-07	30	1000.0	1000.0	5.0
R171	3-Dec-07	30	1000.0	999.0	5.0
R172	12-Dec-07	91	1000.0	1000.0	5.0
R173	15-Jan-08	91	2371.0	1000.0	5.0
R174	18-Mar-08	91	2371.0	1000.0	5.0
R175	22-Apr-08	90	1912.0	1000.0	5.0
R176	24-Jun-08	90	2537.6	1000.0	5.0
R177	24-Jul-08	90	2062.1	1000.0	5.0
R178	14-Aug-08	90	1871.2	1000.0	6.0
R179	25-Sep-08	90	3403.4	1000.0	6.0
R180	25-Nov-08	90	4450.4	1000.0	6.0
R181	8-Jan-09	90	3423.3	1000.0	6.0
R182	14-Apr-09	90	3437.4	1000.0	6.0
R183	4-Jun-09	90	3448.2	1000.0	6.0
R184	8-Sep-09	30	4774.5	1000.0	4.5
R185	14-Oct-09	30	4282.4	1000.0	4.5
R201**	14-Dec-09	91	5287.4	2000.0	2.5
R202	17-Mar-10	90	3003.0	1500.0	2.0
R203	8-Jul-10	90	2730.0	1000.0	2.8

(*) Starting from October 29, 2001, Auctions were discontinued and Tap Sales were introduced.

N.B:** The issue of RMA Bills has been discontinued w.e.f. December 14, 2009 and has been replaced by the issue of RGOB Treasury Bills thereafter.

TABLE 17. CONTINUED
Financial Sector Investment By Economic Activity

Millions of Ngultrum

End of June

Economic Sector/Source	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Trade & Commerce	512.3	719.3	960.0	1,395.3	1,466.3	1,766.7	2,194.9	3,390.7	4,231.3	4,761.7
BOBL	249.9	296.9	338.0	478.9	567.0	668.3	712.6	1,004.1	975.4	735.3
RICBL	118.0	152.0	317.8	488.5	390.7	408.0	492.2	655.9	816.6	1,083.8
BDFCL	3.7	58.2	81.5	116.0	57.9	87.7	138.8	250.1	297.0	366.8
BNBL	140.7	212.3	222.6	311.9	450.7	602.6	851.2	1,480.6	2,142.3	2,359.1
TBANK										2.4
DPNB										214.2
BIL										-
Transport	712.0	729.2	795.7	771.7	811.6	828.8	942.6	1,168.7	1,515.2	2,298.7
BOBL	404.2	411.4	462.8	447.5	437.2	430.3	428.7	458.6	610.9	682.8
RICBL	160.9	151.2	120.2	68.2	87.0	91.2	127.1	156.8	278.7	619.8
BDFCL	24.0	12.5	11.2	12.0	26.9	29.6	83.0	115.3	128.1	213.6
BNBL	122.9	154.2	201.5	244.0	260.5	277.7	303.8	438.1	497.5	680.1
TBANK										35.3
DPNB										67.1
BIL										-
Personal & Other Loans*)	1,628.1	1,141.0	2,507.1	1,439.3	3,546.6	2,504.6	3,364.9	4,889.6	7,077.4	9,521.7
BOBL	1,002.8	372.7	1,683.9	436.8	1,494.6	1,059.4	1,489.6	2,094.7	3,639.7	4,399.6
RICBL	124.1	156.1	46.0	44.1	218.6	217.6	187.4	280.9	379.3	489.3
BDFCL	181.3	202.8	250.3	266.0	333.3	334.0	523.1	654.1	872.7	1,344.0
BNBL	319.8	409.3	526.9	692.4	1,500.0	893.5	1,164.8	1,859.9	2,185.7	2,727.2
TBANK										220.6
DPNB										341.1
BIL										-
Total	4,558.3	4,906.7	7,441.4	7,489.0	10,620.6	11,298.0	14,486.9	18,923.6	24,256.7	29,775

*) Includes Services and Tourism.

TABLE 18. SUMMARY OF THE CONSUMER PRICE INDEX (*)

Third Quarter of 2003 = 100

Item	Weight in percent %	Period												
		2007			2008				2009				2010	
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Index												
Food	31.7	125.52	124.73	125.30	129.10	140.98	140.35	140.12	140.51	150.38	154.21	155.06	157.83	160.75
Non-food	68.3	121.64	121.73	121.55	122.82	130.38	131.19	131.19	130.71	131.83	131.46	131.92	133.84	139.39
Total	100.0	122.87	122.68	122.74	124.81	133.74	134.09	134.02	133.81	137.70	138.67	139.25	141.14	146.15
		Percentage change on the previous year												
Food	31.7	9.50	8.43	8.84	10.99	12.32	12.52	11.75	8.84	6.67	9.88	10.74	12.33	6.90
Non-food	68.3	4.31	4.22	2.95	3.78	7.19	7.77	7.74	6.42	1.11	0.21	0.73	2.39	5.73
Total	100.0	5.94	5.54	4.78	6.03	8.85	9.30	9.04	7.21	2.96	3.42	4.05	5.70	6.14
PPN	1.00	0.81	0.82	0.81	0.80	0.75	0.75	0.75	0.75	0.73	0.72	0.72	0.71	0.68

Source : National Statistics Bureau. -(*) The new index refers to the average prices during the respective quarters. However, prior to Q3, 2003, no quarterly price indices were calculated and, therefore, for Q3 and Q4, 2003, and Q1 and Q2, 2004, year-on-year rates of change of the CPI cannot be computed. The indices prior to Q3, 2003 represent half-yearly averages. The quarterly index and the half-yearly index cannot be directly compared because of a different periodicity and a considerable break in continuity (i.e., the expenditure basket has been completely changed). -1) 2003 Household Income and Expenditure Survey. Includes rent.

TABLE 19. INDIAN WHOLESALE PRICE INDEX OF ALL COMMODITIES

1993-94 = 100

Period	Year												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Index												
January	134.8	140.9	145.9	158.6	161.0	167.8	178.7	188.6	196.6	208.8	218.2	228.9	250.5
February	134.2	141.4	146.4	158.6	160.8	169.4	179.8	188.8	196.4	208.9	219.9	227.6	250.5
March	134.4	141.7	149.5	159.1	161.9	171.6	179.8	189.4	196.8	209.8	225.5	228.2	253.4
April	136.9	142.4	151.7	159.9	162.3	173.1	180.9	191.6	199.0	211.5	228.5	231.5	257.5
May	138.2	142.8	151.8	160.3	162.8	173.4	182.1	192.1	201.3	212.3	231.1	234.3	258.1
June	139.8	143.3	152.7	160.8	164.7	173.5	185.2	193.2	203.1	212.3	237.4	235.0	259.8
July	140.9	143.7	153.1	161.2	165.6	173.4	186.6	194.6	204.0	213.6	240.0	238.4	
August	140.6	144.6	153.4	161.7	167.1	173.7	188.4	195.3	205.3	213.8	241.2	240.8	
September	140.8	145.3	154.7	161.7	167.4	175.6	189.4	197.2	207.8	215.1	241.5	242.6	
October	142.0	146.9	157.9	162.5	167.5	176.1	188.9	197.8	208.7	215.2	239.0	242.5	
November	142.6	147.0	158.2	162.3	167.8	176.9	190.2	198.2	209.1	215.9	234.2	247.2	
December	142.1	146.1	158.2	161.8	167.2	176.8	188.8	197.2	208.4	216.4	229.8	246.5	
	Percentage change on the previous year												
January	5.1	4.5	3.5	8.7	1.5	4.2	6.5	5.5	4.2	6.2	4.5	4.9	9.4
February	4.2	5.4	3.5	8.3	1.4	5.3	6.1	5.0	4.0	6.4	5.3	3.5	10.1
March	4.3	5.4	5.5	6.4	1.8	6.0	4.8	5.3	3.9	6.6	7.5	1.2	11.0
April	4.6	4.0	6.5	5.4	1.5	6.7	4.5	5.9	3.9	6.3	8.0	1.3	11.2
May	5.7	3.3	6.3	5.6	1.6	6.5	5.0	5.5	4.8	5.5	8.9	1.4	10.2
June	6.4	2.5	6.6	5.3	2.4	5.3	6.7	4.3	5.1	4.5	11.8	-1.0	10.6
July	7.1	2.0	6.5	5.3	2.7	4.7	7.6	4.3	4.8	4.7	12.4	-0.7	
August	6.5	2.8	6.1	5.4	3.3	3.9	8.5	3.7	5.1	4.1	12.8	-0.2	
September	5.9	3.2	6.5	4.5	3.5	4.9	7.9	4.1	5.4	3.5	12.3	0.5	
October	6.5	3.5	7.5	2.9	3.1	5.1	7.3	4.7	5.5	3.1	11.1	1.5	
November	7.1	3.1	7.6	2.6	3.4	5.4	7.5	4.2	5.5	3.3	8.5	5.6	
December	6.3	2.8	8.3	2.3	3.3	5.7	6.8	4.4	5.7	3.8	6.2	7.3	

Source: Reserve Bank of India.

TABLE 20. OVERALL BALANCE OF PAYMENTS ESTIMATES

Millions of Ngultrum

Item	Period									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10(p)
A. Current Account	-1,979.0	-3,893.6	-6,597.5	-5,519.3	-10,487.4	-1,695.7	6,417.2	-1,080.2	-948.7	-8,754.9
Exports, c.i.f	4,615.8	4,994.8	5,405.9	7,157.5	9,457.1	13,959.8	25,333.8	24,170.8	24,657.5	25,401.8
Imports, c.i.f	-8,675.0	-9,790.2	-9,886.9	-11,923.5	-20,556.0	-19,456.5	-23,271.9	-27,092.4	-28,980.0	-39,340.0
Trade Balance	-4,059.1	-4,795.5	-4,481.0	-4,766.0	-11,099.0	-5,496.7	2,061.8	-2,921.6	-4,322.4	-13,938.2
Services	20.8	-815.3	-3,200.0	-2,213.4	-1,753.1	-573.0	137.0	-1,562.6	-903.4	-1,015.2
Credit	1,122.1	1,085.3	977.9	1,252.3	1,894.9	2,313.8	2,661.2	2,206.9	2,700.0	3,205.3
Debit	-1,101.3	-1,900.6	-4,177.8	-3,465.7	-3,647.9	-2,886.8	-2,524.2	-3,769.5	-3,603.4	-4,220.5
Income	118.1	-237.1	-544.8	-739.6	-707.7	-312.5	-7.3	-1,310.1	-1,749.4	-2,653.3
Credit	803.8	523.1	561.4	436.3	537.2	813.3	1,161.9	1,419.9	1,012.6	761.0
Debit	-685.6	-760.2	-1,106.3	-1,175.9	-1,244.9	-1,125.8	-1,169.1	-2,730.0	-2,762.0	-3,414.3
Current Transfers	1,941.2	1,954.2	1,628.3	2,199.7	3,072.3	4,686.5	4,225.6	4,714.1	6,026.6	8,851.8
Credit	3,864.1	4,223.2	4,146.7	4,442.3	5,492.8	7,313.7	6,533.7	6,780.2	7,730.8	10,414.7
<i>Of which, Budgetary Grants</i>	<i>3,711.0</i>	<i>3,799.6</i>	<i>3,503.4</i>	<i>4,264.7</i>	<i>5,033.0</i>	<i>6,424.7</i>	<i>6,000.9</i>	<i>5,935.4</i>	<i>6,575.1</i>	<i>8,909.0</i>
Debit	-1,922.8	-2,269.0	-2,518.4	-2,242.5	-2,420.5	-2,627.2	-2,308.1	-2,066.2	-1,704.3	-1,562.9
B. Capital and Financial Account	3,430.3	5,460.1	10,864.5	10,258.5	8,016.4	5,847.1	5,095.5	5,650.7	5,065.2	7,016.5
Capital Transfers*	2,001.7	2,512.7	6,219.0	5,072.0	4,586.4	1,751.5	1,111.8	635.5	1,413.2	3,719.5
Foreign Direct Investment	0.0	101.2	117.9	157.0	401.5	273.9	3,238.1	1,198.3	710.8	534.6
Portfolio Investment	-881.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	2,310.0	2,846.2	4,527.5	5,029.5	3,028.6	3,821.6	745.5	3,816.9	2,941.1	2,762.3
<i>o/w foreign aid (RGOB loans, n</i>	<i>2,310.0</i>	<i>2,846.2</i>	<i>4,527.5</i>	<i>4,666.2</i>	<i>2,939.4</i>	<i>3,474.7</i>	<i>783.3</i>	<i>1,015.0</i>	<i>4,193.3</i>	<i>2,215.2</i>
<i>o/w Other loans, net</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>363.3</i>	<i>89.2</i>	<i>347.0</i>	<i>-37.8</i>	<i>2,801.9</i>	<i>-1,252.2</i>	<i>547.1</i>
C. Net Errors and Omissions	-1,215.2	-323.8	-1,653.4	-4,369.1	1,552.4	1,057.7	-6,091.4	-2,613.4	1,578.3	6,139.8
D. Overall Balance	236.2	1,242.7	2,613.6	370.1	-918.6	5,209.1	5,421.2	1,957.0	5,694.8	4,401.4

TABLE 21. BALANCE OF PAYMENTS ESTIMATES WITH INDIA

Millions of Ngultrum

Item	Period									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 (p)
A. Current Account	-1906.3	-3137.0	-7110.2	-5707.7	-5253.9	-2344.6	5882.1	-142.4	-1098.8	-4002.6
Exports, f.o.b.	4377.0	4700.5	5095.3	6768.8	8661.1	10610.5	20911.0	21721.8	23250.6	23383.5
Imports, c.i.f.	-7031.3	-7788.8	-9006.6	-10589.5	-12262.3	-13781.1	-16463.4	-21749.7	-23529.2	-28317.2
Of which, Tala	-1363.7	-568.1	-1786.6	-2073.4	-1653.4	-1341.7	-23.4	-91.6	-7.7	
Of which, Punatsangchhu									-33.7	-36.7
Trade Balance	-2654.3	-3088.3	-3911.3	-3820.7	-3601.2	-3170.7	4447.6	-27.8	-278.6	-4933.6
Services	-321.4	-1122.4	-3062.4	-2487.2	-2610.6	-1654.1	-1203.6	-2425.2	-2241.7	-2525.2
Credit	121.1	139.4	162.1	178.1	253.9	443.9	455.9	416.5	422.7	424.9
Debit	-442.5	-1261.8	-3224.5	-2665.3	-2864.6	-2098.0	-1659.5	-2841.8	-2664.4	-2950.1
Income	-381.4	-490.4	-658.2	-806.4	-938.3	-701.0	-642.0	-1849.7	-2569.4	-2949.8
Credit	247.1	195.5	362.9	249.3	181.5	255.0	112.5	270.9	72.5	18.8
Debit	-628.5	-685.9	-1021.1	-1055.8	-1119.8	-955.9	-754.5	-2120.5	-2641.8	-2968.7
Current Transfers	1450.9	1564.1	521.6	1406.6	1896.2	3181.2	3280.1	4160.3	3990.9	6406.0
Credit	2653.5	2905.6	1459.9	2324.7	2958.7	4186.9	4419.2	5406.5	5314.0	7745.2
<i>Of which, Budgetary Grants</i>	<i>2551.2</i>	<i>2531.0</i>	<i>886.6</i>	<i>2287.2</i>	<i>2628.0</i>	<i>3417.2</i>	<i>4024.3</i>	<i>4671.1</i>	<i>4394.9</i>	<i>6439.5</i>
Debit	-1202.6	-1341.5	-938.3	-918.0	-1062.6	-1005.7	-1139.1	-1246.2	-1323.1	-1339.2
B. Capital and Financial Account	3709.6	4375.9	9335.1	8330.6	6439.5	4076.3	1112.8	3358.5	3420.0	5256.0
Capital Transfers ¹⁾	2001.7	2512.7	6219.0	5072.0	4586.4	1751.5	1111.8	635.5	1413.2	3719.5
Foreign Direct Investment	0.0	0.0	0.0	0.0	0.0	0.0	31.3	18.2	55.2	198.8
Portfolio Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	1707.9	1863.2	3116.0	3258.6	1853.1	2324.8	-30.3	2704.9	1951.5	1337.6
<i>o/w Foreign Aid (RGOB Loans, net)</i>	<i>1707.9</i>	<i>1863.2</i>	<i>3116.0</i>	<i>3258.6</i>	<i>1853.1</i>	<i>2324.8</i>	<i>-30.3</i>	<i>482.6</i>	<i>3163.1</i>	<i>794.2</i>
<i>o/w Other Loans</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>2222.3</i>	<i>-1211.6</i>	<i>543.4</i>
C. Net Errors and Omissions	-1358.0	-1126.9	-2558.5	-1590.2	-1970.1	-2182.3	-9353.0	-3071.2	-2607.6	-502.9
D. Overall Balance	445.4	112.0	-333.7	1032.7	-784.6	-450.6	-2358.1	144.9	-286.4	750.5

TABLE 22. BALANCE OF PAYMENTS ESTIMATES WITH COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

Item	Period									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10(p)
A. Current Account	-72.7	-756.6	512.8	188.4	-5,233.5	648.8	535.1	-937.8	150.1	-4,752.3
Exports, c.i.f	238.9	294.3	310.6	388.6	795.9	3,349.3	4,422.8	2,449.0	1,406.9	2,018.2
Imports, c.i.f	-1,643.7	-2,001.4	-880.3	-1,334.0	-8,293.7	-5,675.4	-6,808.5	-5,342.7	-5,450.7	-11,022.8
Trade Balance	-1,404.8	-1,707.1	-569.7	-945.4	-7,497.8	-2,326.1	-2,385.8	-2,893.8	-4,043.8	-9,004.6
Services	342.2	307.1	-137.6	273.8	857.6	1,081.1	1,340.6	862.6	1,338.3	1,510.0
Credit	1,001.0	945.9	815.7	1,074.2	1,641.0	1,869.9	2,205.3	1,790.4	2,277.3	2,780.4
Debit	-658.9	-638.8	-953.3	-800.4	-783.4	-788.8	-864.7	-927.7	-939.0	-1,270.4
Income	499.5	253.3	113.4	66.8	230.6	388.5	634.8	539.6	819.9	296.5
Credit	556.7	327.6	198.5	187.0	355.7	558.3	1,049.4	1,149.1	940.1	742.2
Debit	-57.2	-74.3	-85.2	-120.1	-125.1	-169.8	-414.6	-609.5	-120.2	-445.6
Current Transfers	490.4	390.1	1,106.7	793.1	1,176.1	1,505.3	945.5	553.8	2,035.7	2,445.7
Credit	1,210.6	1,317.6	2,686.8	2,117.6	2,534.0	3,126.9	2,114.5	1,373.8	2,416.9	2,669.5
<i>Of which, Budgetary Grants</i>	<i>1,159.8</i>	<i>1,268.6</i>	<i>2,616.8</i>	<i>1,977.5</i>	<i>2,405.0</i>	<i>3,007.5</i>	<i>1,976.6</i>	<i>1,264.3</i>	<i>2,180.2</i>	<i>2,469.5</i>
Debit	-720.2	-927.5	-1,580.1	-1,324.5	-1,357.9	-1,621.5	-1,169.0	-820.0	-381.1	-223.8
B. Capital and Financial Account	-279.3	1,084.2	1,529.4	471.0	120.0	1,770.8	4,014.0	2,310.3	1,700.4	1,959.3
Capital Transfers*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign Direct Investment	0.0	101.2	117.9	157.0	401.5	273.9	3,238.1	1,198.3	710.8	534.6
Portfolio Investment	-881.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	602.1	983.0	1,411.5	314.0	-281.5	1,496.8	775.8	1,112.1	989.6	1,424.8
<i>o/w foreign aid (RGOB loans, net)</i>	<i>602.1</i>	<i>983.0</i>	<i>1,411.5</i>	<i>1,407.6</i>	<i>1,086.2</i>	<i>1,149.9</i>	<i>813.6</i>	<i>532.4</i>	<i>1,030.2</i>	<i>1,421.0</i>
<i>o/w Other loans, net</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>363.3</i>	<i>89.2</i>	<i>347.0</i>	<i>-37.8</i>	<i>579.6</i>	<i>-40.5</i>	<i>3.7</i>
C. Net Errors and Omissions	142.8	803.1	905.1	-1,322.0	4,979.4	3,240.1	3,230.3	439.6	4,130.7	6,443.9
D. Overall Balance	-209.2	1,130.7	2,947.3	-662.6	-134.1	5,659.7	7,779.3	1,812.2	5,981.2	3,650.9

TABLE 23. GROSS INTERNATIONAL RESERVES (*)

Item	Year							
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Millions of Indian Rupees							
1. Rupee reserves	3330.2	4362.8	3578.3	3127.7	769.6	914.4	628.1	1378.6
Royal Monetary Authority of Bhutan	863.6	1822.4	2069.7	1507.4	136.3	191.4	118.4	137.3
Bank of Bhutan	1734.4	1988.3	1079.4	938.9	387.4	435.8	373.0	923.0
Bhutan National Bank	732.1	552.1	429.1	681.4	245.9	287.3	136.7	196.3
Tbank Limited								50.0
Druk PNB Limited								72.1
	Millions of US Dollars							
2. Convertible currency reserves	302.0	287.4	281.3	418.5	589.5	633.9	759.6	828.8
Royal Monetary Authority of Bhutan	244.6	249.0	250.5	372.3	510.7	610.6	734.9	797.5
Bank of Bhutan	39.6	31.3	21.0	29.6	47.3	11.2	7.6	15.4
Bhutan National Bank	17.7	7.0	9.9	16.5	31.5	12.1	17.0	15.8
Tbank Limited								0.0
Druk PNB Limited								0.2
3. Total Reserves (1+2)	373.3	383.3	363.4	486.4	608.4	655.3	772.7	858.4
4. Exchange Rates	46.72	45.51	43.58	46.06	40.77	42.82	47.77	46.56
	Months of Imports							
5. Total reserves	21.16	17.55	9.25	13.82	12.79	12.43	15.29	12.19
Rupee reserves	4.44	4.94	3.50	2.72	0.56	0.50	0.32	0.58
Convertible currency reserves	192.32	117.64	17.74	40.75	42.37	60.97	79.89	42.02

(*) Includes reserve tranche position in the Fund. From March 2004, the definition of Gross International Reserves has been revised and backtracked to exclude RICBL's Rupee and Convertible Currency reserves. From the second quarter of 2010, data includes that of the newly established commercial banks. Note: Months of imports are calculated using gross international reserves and merchandise import figures (and excluding services). RMA convertible currency reserves for 2004/05 onwards have been revised due to changes in classification as of May 2005. Trade figures for the last two years have been revised affecting the import cover of reserves.

TABLE 24A. COMPOSITION OF IMPORTS FROM INDIA

Millions of Ngultrum

SI	IMPORT CATEGORY	2005	2006	2007	2008	2009	Share of Total in % (2009)
1	Live Animals & Animal Products	567.8	629.3	682.5	776.4	984.9	5.0
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	725.1	839.6	976.7	1,121.5	1,290.3	6.5
3	Animal or Vegetable Fats & Oils	230.1	311.8	365.2	480.7	407.7	2.1
4	Processed Foods & Beverages	752.3	765.7	763.1	822.5	1,009.8	5.1
5	Mineral Products inc. oils & fuels	2,746.4	3,221.0	3,790.4	4,933.5	4,996.8	25.2
6	Products of Chemical & Allied Industries	596.2	679.1	626.8	750.9	821.2	4.1
6.1	<i>Medicine / Pharmaceutical Products</i>	62.5	159.8	92.3	132.7	131.4	0.7
7	Plastic & Rubber Products	368.2	458.5	473.8	458.7	557.5	2.8
8	Wood and Wood pulp products	353.1	376.2	561.5	823.2	1,126.5	5.7
8.1	<i>Wood and Wood Products</i>	120.0	119.0	272.8	516.5	684.8	3.5
8.2	<i>Wood Pulp Products</i>	233.1	257.3	288.7	306.7	441.8	2.2
9	Textiles, Footwear & Hats/Headgear	224.1	239.8	251.0	251.7	286.9	1.4
10	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	191.2	260.3	317.4	305.7	356.2	1.8
10.1	<i>Ceramic Products</i>	78.3	121.8	129.5	111.3	142.3	0.7
11	Pearls and Products of Precious/Semi-precious Metal & Stones	162.4	40.6	760.9	0.7	1.4	0.0
12	Base Metals and Articles of Base Metal	2,507.4	2,002.8	1,955.0	2,948.3	3,270.8	16.5
13	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	2,322.1	2,272.4	2,270.3	2,066.6	2,420.1	12.2
13.1	<i>Magnetic Discs & Media</i>	3.8	3.6	4.7	2.5	22.1	0.1
14	Transport Vehicles & Aircraft and Engines & Parts	550.3	639.1	1,060.1	1,322.0	1,953.2	9.8
15	Optical, Photographic, Cinematographic & Measuring Equipment	385.8	185.8	101.9	131.1	162.1	0.8
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.5	0.0	0.1	0.0	0.0	0.0
17	Miscellaneous Manufactured Products	111.9	132.0	143.0	146.2	195.2	1.0
	TOTAL	12,795.1	13,053.9	15,099.5	17,339.5	19,840.8	100.0

TABLE 24B. COMPOSITION OF EXPORTS TO INDIA

Millions of Ngultrum

SI	EXPORT CATEGORY	2005	2006	2007	2008	2009	Share of Total in % (2009)
1	Live Animals & Animal Products	2.4	10.8	13.4	0.2	4.3	0.0
1.1	Raw Hides & Skins	1.1	1.6	0.6	0.1	-	0.0
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	243.3	276.7	307.1	241.7	606.7	2.7
2.1	Potatoes	120.1	138.5	149.9	119.8	401.9	1.8
3	Animal or Vegetable Fats & Oils	224.5	1,448.3	1,875.3	605.3	3.9	0.0
3.1	Palm Oil	194.8	1,380.5	481.6	-	0.1	0.0
4	Processed Foods & Beverages	389.2	413.9	368.0	276.3	318.9	1.4
5	Mineral Products inc. oils & fuels	983.5	1,587.1	1,809.1	2,161.6	2,519.0	11.2
6	Electricity	3,439.9	4,982.0	10,034.3	11,032.6	10,072.5	44.9
7	Products of Chemical & Allied Industries	714.0	587.0	783.3	893.6	1,050.9	4.7
8	Plastic & Rubber Products	292.6	246.6	275.7	214.1	308.4	1.4
9	Wood and Wood Pulp Products	314.7	257.7	305.6	306.6	323.2	1.4
9.1	Wood Pulp Products	4.3	3.5	2.6	7.1	9.9	0.0
10	Textiles, Footwear & Hats/Headgear	787.2	476.4	444.9	291.0	66.5	0.3
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	14.7	24.9	113.1	122.3	80.6	0.4
12	Base Metals and Articles of Base Metal	2,491.1	4,098.2	6,302.2	5,250.9	7,012.7	31.3
13	Machinery, Mechanical Appliances & Electrical Equipment and Parts	34.0	51.8	60.0	52.0	8.9	0.0
14	Transport Vehicles & Aircraft and Engines & Parts	16.3	0.6	-	-	-	-
15	Optical, Photographic, Cinematographic & Measuring Equipment	-	0.3	0.6	0.1	-	-
16	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	-	0.2	0.0	0.0	-	-
17	Miscellaneous Manufactured Products	22.4	25.5	31.1	31.8	39.1	0.2
	TOTAL	9,969.8	14,488.0	22,723.7	21,480.0	22,415.5	100.0

Note: Electricity exports for 2002 and 2003 are taken from Chukha and Kurichhu sales for that year.

Source: Department of Revenue & Customs.

TABLE 25A. COMPOSITION OF IMPORTS FROM COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

SI	IMPORT CATEGORY	2005	2006	2007	2008	2009	Share of Total in % (2009)
1	Live Animals & Animal Products	2.4	2.1	3.2	12.8	7.8	0.1
2	Vegetables, Fruits, Nuts, Coffee, Tea, Spices, Cereals, Grains & Seeds	20.9	7.0	14.2	10.4	4.7	0.1
3	Animal or Vegetable Fats & Oils	93.3	1285.4	1689.8	485.5	6.4	0.1
3.1	<i>Palm Oil (Crude & Other)</i>	28.6	1212.0	1580.0	483.6	5.8	0.1
4	Processed Foods & Beverages *)	151.2	153.3	164.9	179.7	151.3	2.7
5	Mineral Products inc. oils & fuels	16.2	38.2	48.4	94.7	63.1	1.1
6	Products of Chemical & Allied Industries	125.8	114.7	105.5	158.2	149.7	2.6
6.1	<i>Medicines / Pharmaceutical Products</i>	50.5	55.9	35.1	40.8	18.2	0.3
7	Plastic & Rubber Products	240.4	276.5	257.8	353.7	282.6	5.0
8	Wood and Wood Products	13.3	22.8	17.7	44.7	5.0	0.1
9	Wood Pulp Products	44.5	30.4	97.8	153.2	53.3	0.9
10	Textiles, Footwear & Hats/Headgear	555.9	449.9	259.6	388.5	97.2	1.7
11	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	10.4	13.4	9.6	36.8	14.9	0.3
11.1	<i>Ceramic Products</i>	3.4	6.0	4.7	25.3	4.9	0.1
12	Pearls and Products of Precious/Semi-precious Metal & Stones	13.8	3.6	0.0	109.5	136.7	2.4
13	Base Metals and Articles of Base Metal	837.6	1782.6	2102.9	827.9	1134.8	20.0
14	Machinery, Mechanical/Electrical Appliances & Equipment and Parts	1577.3	1309.4	1393.4	2084.8	2810.7	49.5
14.1	<i>Magnetic Discs & Media (recorded/unrecorded)</i>	0.6	17.0	1.6	34.7	18.5	0.3
15	Transport Vehicles & Aircraft and Engines & Parts	425.8	264.3	377.8	865.7	495.2	8.7
16	Optical, Photographic, Cinematographic & Measuring Equipment	82.9	173.3	68.5	301.6	157.6	2.8
17	Handicrafts, Works of Art, Collectors' Pieces & Personal Effects	0.1	0.1	2.5	1.0	0.5	0.0
18	Miscellaneous Manufactured Products	28.3	31.1	32.4	47.2	110.7	1.9
	TOTAL	4240.0	5958.1	6646.1	6155.6	5682.2	100.0

TABLE 25B. COMPOSITION OF EXPORTS TO COUNTRIES OTHER THAN INDIA

Millions of Ngultrum

SI	EXPORT CATEGORY	2005	2006	2007	2008	2009	Share of Total in % (2009)
1	Vegetables, Fruits, Tea, Spices, Cereals, Grains & Animal Products	356.8	284.1	284.0	462.0	523.5	33.6
1.1	Oranges	225.5	176.2	160.9	226.5	352.2	22.6
1.2	Apples	68.8	33.7	16.2	24.9	32.7	2.1
1.3	Cardamoms	50.2	48.9	29.6	76.0	49.0	3.1
2	Processed Foods & Beverages	5.3	4.6	8.1	6.7	7.1	0.5
3	Mineral Products inc. oils & fuels	226.2	249.0	270.8	314.4	353.8	22.7
3.1	Limestone & other calcereous stone	57.9	86.2	84.6	125.3	141.8	9.1
3.2	Dolomite	79.0	63.3	20.3	-	74.0	4.7
3.3	Bituminous Coal	43.0	40.3	28.0	18.2	38.0	2.4
4	Products of Chemical & Allied Industries	30.1	3.5	0.6	1.6	0.9	0.1
5	Plastic & Rubber Products	5.4	15.5	10.2	0.1	0.0	0.0
6	Wood and Wood Products	1.5	0.6	0.4	4.5	0.0	0.0
7	Wood Pulp Products	28.6	62.8	13.8	0.6	0.6	0.0
8	Textiles, Footwear & Hats/Headgear	0.2	9.0	16.2	3.3	0.6	0.0
9	Articles of Stone, Plaster, Cement, Asbestos, Ceramics & Glass	0.3	2.0	0.2	0.8	0.7	0.0
10	Articles of Precious/Semi-precious Metals	135.4	11.5	33.5	28.7	0.0	0.0
11	Base Metals and Articles of Base Metal	4.8	12.1	41.2	284.4	49.2	3.2
12	Machinery, Mechanical & Electrical Appliances, Equipment & Parts & Aircraft Parts	619.2	3,628.4	4,452.7	0.3	619.3	39.7
12.1	Recorded or Unrecorded media (discs, tapes, smart cards)	546.8	3,626.7	4,451.3	0.0	619.3	39.7
13	Handicrafts, Works of Art, Philatelic Products & Personal Effects	2.6	0.4	2.9	2.3	1.7	0.1
14	Miscellaneous Manufactured Products	0.0	0.3	0.5	0.8	0.8	0.1
	TOTAL	1416.3	4283.8	5135.3	1110.6	1558.4	139.7

Source: Department of Revenue & Customs.

TABLE 26. DIRECTION OF TRADE *

Millions of Ngultrum

Item	2004	2005	2006	2007	2008	2009
Exports						
India	7,761.6	9,969.8	14,488.0	22,723.7	21,480.0	22,415.5
Bangladesh	410.7	561.8	470.1	469.6	632.4	758.0
Nepal	17.7	44.8	57.4	54.3	195.8	84.8
Hongkong	11.7	685.9	2,866.0	2,764.3	105.3	677.6
Japan	24.4	7.1	8.1	21.2	66.0	2.7
Poland	-	-	-	-	18.8	-
UAE	-	-	-	4.2	17.0	-
United States	4.8	3.8	1.6	15.6	15.1	9.7
China	4.3	0.0	0.0	2.0	12.5	1.6
Maldives					11.4	-
Others	53.7	157.7	938.0	1,858.6	36.4	23.8
Total	8,288.8	11,431.0	18,829.2	27,913.4	22,590.6	23,973.9
Imports						
India	10,193.9	12,795.1	13,053.9	15,099.5	17,339.5	19,840.8
Japan	598.2	648.2	395.9	460.1	1,098.9	558.5
Singapore	420.1	447.2	515.1	1,109.7	964.8	744.0
China	205.3	182.2	281.7	402.7	844.7	487.3
Thailand	349.6	275.5	257.8	224.9	410.8	348.9
South Korea	501.8	247.5	459.4	644.5	286.7	383.8
Germany	4,248.4	200.4	200.3	125.4	285.0	222.7
Indonesia	65.3	240.0	1,331.3	1,306.8	244.3	68.6
Sweden	275.3	99.7	176.7	306.2	240.7	462.4
Malaysia	80.3	174.9	351.8	193.4	207.1	374.5
Others	1,701.4	1,724.4	1,988.1	1,872.2	1,572.7	2,031.5
Total	18,639.5	17,035.1	19,012.0	21,745.4	23,495.1	25,522.9
Share in percent						
Exports						
India	93.6	87.2	76.9	81.4	95.1	93.5
Bangladesh	5.0	4.9	2.5	1.7	2.8	3.2
Nepal	0.2	0.4	0.3	0.2	0.9	0.4
Hongkong	0.1	6.0	15.2	9.9	0.5	2.8
Japan	0.3	0.1	0.0	0.1	0.3	0.0
Poland	-	-	-	-	0.1	-
UAE	-	-	-	0.0	0.1	-
United States	0.1	0.0	0.0	0.1	0.1	0.0
China	0.1	0.0	0.0	0.0	0.1	0.0
Maldives	-	-	-	-	0.1	-
Others	0.6	1.4	5.0	6.7	0.2	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Imports						
India	54.7	75.1	68.7	69.4	73.8	77.7
Japan	3.2	3.8	2.1	2.1	4.7	2.2
Singapore	2.3	2.6	2.7	5.1	4.1	2.9
China	1.1	1.1	1.5	1.9	3.6	1.9
Thailand	1.9	1.6	1.4	1.0	1.7	1.4
South Korea	2.7	1.5	2.4	3.0	1.2	1.5
Germany	22.8	1.2	1.1	0.6	1.2	0.9
Indonesia	0.4	1.4	7.0	6.0	1.0	0.3
Sweden	1.5	0.6	0.9	1.4	1.0	1.8
Malaysia	0.4	1.0	1.9	0.9	0.9	1.5
Others	9.1	10.1	10.5	8.6	6.7	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Revenue and Customs. *By latest year rankings.

TABLE 27. CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (*)

Sector	Creditor	2005/06		2006/07		2007/08		2008/09		2009/10		Total ¹	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
Concessional and Publicly Guaranteed Debt													
Agriculture		0.9		0.8		1.5		2.0		3.0		48.0	
1st Eastern Zone Agricultural Proj.	IFAD	0.000		0.0		0.0		0.0		0.0		3.4	
2nd Eastern Zone Agricultural Proj.	IFAD	0.9		0.8		0.0		0.0		0.0		9.8	
Agri. Marketing Entp. & Promotion Prog.	IFAD	0.0		0.0		1.5		2.0		3.0		7.4	
Communications		14.3		10.7		3.3		6.4		12.3		89.6	
Rural Access Proj.	World Bank	1.9		1.0		0.0		0.0		0.0		11.1	
Urban Development Proj.	World Bank	1.4		0.2		0.0		0.0		0.0		10.4	
Urban Infrastructures Improv. Proj.	ADB	0.7		0.2		0.0		0.0		0.0		5.7	
Road Improvement Project	ADB	1.4		0.8		0.0		0.0		0.0		10.3	
Rural Telecom Net. Expansion Proj.	Govt.of Denmark	8.9		7.4		0.6		0.0		0.0		16.9	
Road Network Project	ADB			0.2		2.7		5.8		10.9		19.6	
Urban Infrastructure Dev. Proj.	ADB			0.8		0.1		0.6		1.4		2.9	
Education		6.6		8.1		8.8		8.0		3.7		72.8	
Second Education Proj.	World Bank	1.3		0.0		0.0		0.0		0.0		13.1	
Basic Skills Dev. Proj.	ADB	0.8		2.0		0.9		0.2		0.0		7.4	
Education Development Proj.	World Bank	4.5		6.1		7.9		7.8		3.7		33.3	
Health		0.0		0.0		0.0		0.0		0.0		10.1	
Financial Sector		0.0		0.0		4.6		11.9		0.3		39.6	
Financial Sector Dev. Program (b)	ADB			0.0		4.4		0.0		0.0		4.4	
Financial Sector Dev. Proj.	ADB			0.0		0.2		0.2		0.3		0.7	
Dev. Policy Financing for Inst. Strengthening	World Bank							11.6		0.0		11.6	
Industry		0.0		0.0		0.0		0.0		0.0		35.9	

TABLE 27. CONTINUED
CONVERTIBLE CURRENCY AND RUPEE LOAN DISBURSEMENTS (*)

In millions of USD and Rupees

Sector	Creditor	2005/06		2006/07		2007/08		2008/09		2009/10		Total ¹	
		USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee	USD	Rupee
Power		7.4	2599.0	2.9	243.9	0.0	619.7	0.0	1745.0	19.2	2376.0	94.3	24566.7
Sustainable Rural Elect. Proj.	ADB	0.6		0.0		0.0		0.0		0.0			9.4
Rural Electrification & Network Exp. Proj.	ADB	4.3		2.3		0.0		0.0		0.0			9.6
Basochhu Hydropower Proj.	Govt. of Austria	0.0		0.0		0.0		0.0		0.0			13.7
Basochhu Hydro. Lower Stage	Govt. of Austria	2.5		0.7		0.0		0.0		0.0			35.7
Green Power Dev. Proj. (Special Operations)	ADB							0.0		14.9			14.9
Dagachhu Hydroelectric Proj.	ADB									4.3			4.3
Chukha Hydropower Proj.	Govt. of India		0.0		0.0		0.0		0.0		0.0		983.6
Kurichhu Hydropower Proj.	Govt. of India		0.0		0.0		0.0		0.0		0.0		2240.0
Tala Hydroelectric Proj.	Govt. of India		2599.0		243.9		139.7		0.0		0.0		16742.1
Punatsangchhu-I Hydroelectric Proj.	Govt. of India						480.0		1745.0		2376.0		4601.0
Other		0.2		1.2		2.1	3250.0	1.0	6590.5	1.6	4756.8	71.2	15532.6
Decentralized Rural Dev. Project	World Bank	0.2		1.2		2.1		1.0		1.6			71.2
Standby Credit Facility - GOI	Govt. of India								3000.0		0.0		3321.8
SBI OD Facility	SBI						3250.0		3590.5		4756.8		11924.8
Total (Concessional and Publicly Guaranteed Debt)		29.3	2599.0	23.7	243.9	20.4	3869.7	29.2	8335.5	40.2	7132.8	461.5	40099.3
Other Loans²		0.0		0.0		0.0		0.0		0.0		32.6	
TOTAL (Publicly + Non-Publicly Guaranteed Debt)		29.3	2599.0	23.7	243.9	20.4	3869.7	29.2	8335.5	40.2	7132.8	494.1	40099.3

1) Total Disbursements are cumulative from 1981/82 - December 2009. 2) Projects listed include those with active disbursements in the past 5 years. 2) Includes private sector debt on non-concessional terms.

TABLE 28. DEBT SERVICING - YEAR WISE EXPENDITURE ON EXTERNAL DEBT , CONVERTIBLE CURRENCY AND RUPEE (*)

Sector	2007/08		2008/09		2009/10	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
Concessional and Publicly Guaranteed Debt						
Agriculture	0.45		0.31		0.36	
	1.10		0.99		1.16	
Small Farm Dev. Proj.	0.05		0.02		0.03	
	0.15		0.15		0.14	
T/gang Mongar Dev. Proj.	0.03		0.03		0.03	
	0.10		0.10		0.09	
Punakha Wangdi Valley Dev. Proj.	0.02		0.02		0.02	
	0.08		0.08		0.07	
1st Eastern Zone Agricultural Proj.	0.04		0.04		0.03	
	0.17		0.05		0.10	
2nd Eastern Zone Agricultural Proj.	0.12		0.04		0.07	
	0.00		0.00		0.16	
Forestry I	0.04		0.04		0.03	
	0.20		0.19		0.18	
Forestry II	0.01		0.00		0.01	
	0.02		0.04		0.04	
Forestry III	0.04		0.04		0.04	
	0.13		0.12		0.11	
Chirang Hill Irrigation Proj.	0.01		0.01		0.01	
	0.01		0.05		0.05	
Highland Livestock Dev. Proj.	0.06		0.04		0.04	
	0.23		0.22		0.21	
Agri. Marketing Entp. & Promotion	0.02		0.03		0.04	
	0.00		0.00		0.00	
Communications	0.55		0.54		0.66	
	2.41		2.53		2.71	
Rural Access Proj.	0.10		0.09		0.09	
	0.00		0.00		0.12	
Urban Development Proj.	0.09		0.08		0.08	
	0.00		0.00		0.11	
Road Works Mechanization Proj.	0.09		0.05		0.05	
	0.24		0.23		0.22	
East West Highway Maintenance	0.05		0.05		0.05	
	0.12		0.11		0.11	
Urban Infrastructures Improv. Proj.	0.07		0.08		0.07	
	0.00		0.13		0.12	
Road Improvement Proj.	0.12		0.12		0.18	
	0.00		0.23		0.44	
Rural Telecom Network Exp. Proj	0.00		0.00		0.00	
	2.05		1.82		1.59	
Road Network Proj.	0.02		0.05		0.11	
	0.00		0.00		0.00	
Urban Infrastructure Dev. Proj.	0.01		0.02		0.02	
	0.00		0.00		0.00	

TABLE 28. CONTINUED, DEBT SERVICING - YEAR WISE EXPENDITURE ON EXTERNAL DEBT , CONVERTIBLE CURRENCY AND RUPEE (*)

Sector	2007/08		2008/09		2009/10	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
Education	0.65		0.56		0.53	
	0.69		1.06		1.31	
Primary Education Proj.	0.03		0.03		0.03	
	0.10		0.19		0.18	
Second Education Proj.	0.18		0.11		0.12	
	0.00		0.30		0.29	
Technical and Voc. Edn. Train. Proj.	0.05		0.05		0.04	
	0.11		0.10		0.10	
Basic Skills Dev. Proj.	0.08		0.08		0.10	
	0.00		0.00		0.31	
Multi Project II	0.09		0.11		0.10	
	0.49		0.46		0.44	
Education Development Proj.	0.23		0.18		0.14	
	0.00		0.00		0.00	
Health	0.12		0.12		0.16	
	0.00		0.37		0.70	
Health Care Reform Program	0.12		0.12		0.16	
	0.00		0.37		0.70	
Financial Sector	0.30		0.21		0.28	
	0.98		0.60		0.65	
Technical Assistance	0.03		0.02		0.02	
	0.12		0.12		0.11	
Multi Project I	0.06		0.02		0.05	
	0.24		0.23		0.22	
Bhutan Dev. Finance Corporation	0.02		0.02		0.02	
	0.05		0.08		0.10	
Financial Sector Dev. Program (a)	0.09		0.04		0.04	
	0.05		0.09		0.09	
Financial Sector Dev. Program (b)	0.03		0.04		0.04	
	0.00		0.00		0.00	
Dev. Finance Loan Proj.	0.05		0.05		0.05	
	0.05		0.09		0.09	
Bhutan Dev. Finance Corporation	0.01		0.00		0.00	
	0.47		0.00		0.00	
Financial Sector Dev. Project	0.00		0.00		0.00	
	0.00		0.00		0.00	
Dev. Policy Financing for Inst. Strengthening			0.00		0.06	
			0.00		0.06	
Industry	0.07		0.05		0.08	
	0.29		0.29		0.28	
Bhutan Calcium Carbide Ltd.	0.06		0.05		0.05	
	0.27		0.26		0.25	
Industrial Estates Dev. Proj.	0.01		0.01		0.01	
	0.02		0.03		0.03	
Gedu Wood Mgf. Corporation	0.00		0.00		0.02	
	0.00		0.00		0.00	
Tala Particle Board Factory Proj.	0.00		0.00		0.00	
	0.00		0.00		0.00	
Bhutan Calcium Carbide Ltd.	0.00		0.00		0.00	
	0.00		0.00		0.00	

TABLE 28. CONTINUED, DEBT SERVICING - YEAR WISE EXPENDITURE ON EXTERNAL DEBT , CONVERTIBLE CURRENCY AND RUPEE (*)

Sector	2007/08		2008/09		2009/10	
	USD	Rupee	USD	Rupee	USD	Rupee
	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal
Power	2.04	1500.83	1.62	1497.56	6.47	1497.56
	1.75	1669.39	1.80	1581.84	2.89	1581.84
Rural Electrification Proj.	0.08		0.08		0.08	
	0.16		0.15		0.14	
Sustainable Rural Elect. Proj.	0.11		0.19		0.18	
	0.24		0.45		0.43	
Rural Electrification & Network Exp	0.12		0.11		0.11	
	0.00		0.00		0.00	
Basochhu Hydropower Proj. (lower)	1.73		1.24		1.08	
	0.00		0.00		1.27	
Basochhu Hydropower Proj. (upper)	0.00		0.00		0.00	
	1.35		1.20		1.05	
Green Power Proj. (Special			0.00		0.19	
			0.00		0.00	
Rural Elect. Proj.			0.00		0.00	
			0.00		0.00	
Dagachhu Hydroelectric Proj.					4.84	
					0.00	
Chukha Hydropower Proj.		3.27		0.00		0.00
		87.55		0.00		0.00
Kurichhu Hydropower Proj.		201.69		201.69		201.69
		186.67		186.67		186.67
Tala Hydroelectric Proj.		1295.86		1295.86		1295.86
		1395.17		1395.17		1395.17
Punatsangchhu-I Hydroelectric Proj.		0.00		0.00		0.00
		0.00		0.00		0.00
Other	0.03	47.69	0.03	100.88	0.06	188.62
	0.00	1027.75	0.00	4561.64	0.00	4213.37
Decentralized Rural Dev. Proj.	0.03		0.03		0.06	
	0.00		0.00		0.00	
Standby Credit Facility - GOI				40.52		149.00
				0.00		0.00
SBI OD Facility		47.69		60.36		39.62
		1,027.75		4561.64		4213.37
Total (Concessional and Publicly Guaranteed Debt)	4.21	1548.52	3.44	1598.43	8.61	1686.17
	7.23	2697.14	7.64	6143.48	9.70	5795.21
Other Loans¹	1.01		0.75		0.22	
	1.76		0.85		1.92	
Loan for purchase of DAC Plane	0.0		0.0		0.0	
	0.0		0.0		0.0	
Bhutan Resorts Corp. Ltd.	1.01		0.75		0.22	
	1.18		0.00		1.00	
Bhutan Ferro Alloys Ltd.	0.00		0.00		0.00	
	0.58		0.85		0.92	
TOTAL (Publicly + Non-Publicly Guaranteed Debt)	5.22	1548.52	4.19	1598.43	8.82	1686.17
	8.99	2697.14	8.49	6143.48	11.62	5795.21
GRAND TOTAL (I+P)	14.21	4245.66	12.68	7741.92	20.44	7481.38

Source: Department of Public Accounts and private sector enterprises. (*) Totals may not add up due to rounding. 1) Includes private sector debt on non-concessional terms.

TABLE 29. RUPEE DEBT INDICATORS

Millions of Indian Rupees

	Year									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Debt Outstanding	5,984.4	7,847.6	10,963.7	14,222.3	16,603.8	18,400.2	18,369.9	18,948.4	21,400.7	22,777.9
Chhukha Hydropower Project	612.9	525.3	437.8	350.2	262.7	175.1	87.6	0.0	0.0	0.0
Tala Hydroelectric Project	3,497.6	5,244.3	8,285.9	11,632.1	14,287.8	16,358.5	16,602.4	15,346.9	13,951.7	12,556.6
Kurichhu Hydropower Project	1,874.0	2,078.0	2,240.0	2,240.0	2,053.3	1,866.7	1,680.0	1,493.3	1,306.7	1,120.0
Punatsangchhu - I Hydropower Project								480.0	2,225.0	4,601.0
Standby Credit Facility - GOI									3,000.0	3,000.0
SBI OD Facility								1,628.1	917.3	1,500.3
Debt Service Payments	121.2	117.1	112.7	108.3	492.3	487.9	483.8	4245.7	7741.9	7481.4
Principal	87.6	87.6	87.6	87.6	274.2	274.2	274.2	2697.1	6143.5	5795.2
Interest	33.7	29.6	25.2	20.8	218.1	213.7	209.6	1548.5	1598.4	1686.2
Debt Service Ratio (%)	2.4	2.2	2.5	2.4	9.4	5.5	2.3	19.2	32.7	31.4
Interest Payments/Export of Goods & Services	0.7	0.6	0.5	0.3	2.4	1.9	1.0	7.0	6.8	7.1
Principal Repayments/Exports of Goods & Services	1.9	1.8	1.7	1.3	3.1	2.5	1.3	12.2	26.0	24.3
Debt Outstanding/GDP (%)	30.3	34.8	42.2	50.0	53.1	51.8	46.4	38.4	39.5	36.9

Source: Department of Public Accounts.

TABLE 30. FOREIGN DEBT INDICATORS FOR CONVERTIBLE CURRENCY LOANS

Millions of US Dollars

Items	Period									
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Debt Outstanding	129.9	345.0	237.6	294.4	302.1	368.8	308.1	349.7	346.4	352.5
Debt Service Payments	3.6	4.0	5.1	6.2	5.9	8.5	12.0	14.3	12.7	20.4
Principal	2.6	2.7	2.9	2.9	2.7	3.5	4.7	9.0	8.5	11.6
Interest	1.0	1.3	2.1	3.3	3.3	5.0	7.3	5.2	4.2	8.8
Debt Service Ratio (%)	15.7	18.7	31.0	22.8	23.5	15.6	8.0	13.5	16.4	19.9
Interest Payments/Convertible Currency Exports of Goods & Services	3.6	5.1	9.1	10.3	6.0	4.3	4.8	5.0	5.4	7.7
Principal Repayments/ Convertible Currency Exports of Goods & Services	9.8	10.5	12.5	9.0	4.9	3.0	3.2	8.6	11.0	10.2
Debt Outstanding/GDP (%)	30.5	73.8	43.8	47.0	43.1	46.5	34.4	28.6	30.6	26.6

Source: Department of Public Accounts & private sector companies.

TABLE 31. SUMMARY OF BUDGETARY OPERATIONS*/

Millions of Ngultrum

	Year						
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 (revised)	2010/11 (estimates)
Total Revenue	6,128.0	7,027.4	10,082.2	12,381.5	16,867.9	15,937.8	15,869.4
Tax	3,382.4	4,124.7	4,266.9	5,238.4	6,482.4	9,411.4	10,140.0
Non-tax	2,683.7	2,778.2	5,815.3	7,107.6	7,566.6	5,958.8	5,676.4
Others	61.9	124.5	0.0	35.5	2,818.9	567.6	53.1
Grants	4,373.1	6,424.7	6,000.9	5,935.4	6,575.1	10,423.4	10,905.1
From India	2,625.0	3,417.2	4,024.3	4,671.1	4,394.9	6,146.2	8,068.2
Others	1,748.1	3,007.5	1,976.6	1,264.3	2,180.2	4,277.2	2,837.0
Total Revenue and Grants	10,501.1	13,452.2	16,083.1	18,316.9	23,443.0	26,361.1	26,774.5
Expenditure (1)	12,893.7	13,770.9	15,795.4	17,913.4	22,350.5	30,451.6	31,579.7
Current	6,170.6	6,672.4	7,691.4	9,725.7	11,061.4	13,837.4	15,154.1
Capital (1)	6,723.0	7098.5	8,104.0	8,187.6	11,289.1	16,614.3	16,425.7
Budget surplus or Deficit (-)	-2,392.6	-318.7	287.7	403.5	1,092.5	-4,090.5	-4,805.2
Financing Transactions (2)	2,392.6	318.7	-287.8	-403.5	-1,092.5	4,090.5	4,805.2
External borrowings (Net of Principal repayments)	739.4	715.5	530.1	-1,143.9	-1,218.7	657.3	1,003.7
Internal borrowings (Net of principal repayments)	1,772.8	-374.2	-175.3	-175.3	126.2	3433.2	3,801.5
Cash and bank balances (3)	31.3	33.0	-642.6	-915.7			
Others	-150.9	-55.6	-				

Source- Dept of Public Accounts (Figures may not add due to rounding). (1) Includes lending to public and joint sector corporations, net of principal repayment (2) Financing transactions by definition must equal the budget deficit or surplus on revenue/grant/expenditure which they finance. Negative financing transactions depicts net repayment of borrowings or increase in cash or bank balances. (3) Includes use + or repayment - of overdraft.

Others: other receipts.

TABLE 32. THE ROYAL SECURITIES EXCHANGE OF BHUTAN LTD., INFORMATION ON LISTED COMPANIES

Company*/ Year of Listing	Reference Year	Paid Up Capital Nu. in Mill.	No. of shareholders	Market Price (Nu)		Market Capitalization Nu. in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
BCCL 1993	2006	100.0	264	6,000	6,000	600.0	23.8	441.9	5,418.7	237.6	25.3	15.0	2.5	0.0
	2007	100.0	264	NA	NA	600.0	46.1	466.5	566.5	46.1	13.0	15.0	2.5	0.1
	2008	100.0	259	800	800	800.0	14.5	470.9	571.0	14.5	55.2	10.0	1.3	0.0
	2009	100.0	259	900	900	900.0	(88.2)	377.2	477.2	(88.2)	(10.2)	-	-	(0.2)
RICBL 1993	2006	96.0	1,614	350.0	300.0	336.0	92.3	349.1	463.6	96.2	3.6	20.0	5.7	0.2
	2007	96.0	1,585	350.0	299.0	336.0	106.3	435.5	553.7	110.8	3.2	25.0	7.1	0.2
	2008	96.0	1,556	500.0	350.0	480.0	119.3	550.0	673.0	124.2	4.0	30.0	6.0	0.2
	2009	240.0	1,556	350.0	100.0	792.0	181.2	583.8	34.0	75.5	4.4	15.0	4.6	0.2
PCAL 1993	2006	226.7	1,482	800.0	650.0	1,586.7	214.9	670.6	395.9	94.8	7.4	75.0	10.7	0.2
	2007	226.7	1,471	800.0	550.0	1,813.3	321.1	787.8	447.5	141.7	5.7	90.0	11.3	0.3
	2008	340.0	1,472	800.0	100.0	2,686.0	293.1	729.5	314.6	86.2	9.2	70.0	8.9	0.3
	2009	340.0	1,462	800.0	600.0	2,550.0	370.2	759.7	323.5	108.9	6.9	100.0	13.3	0.3
BFAL 1995	2006	150.0	46	510.0	100.0	765.0	49.3	304.9	303.3	32.9	15.5	15.0	2.9	0.1
	2007	150.0	46	NA	NA	765.0	1.1	298.0	298.7	0.7	686.7	-	-	-
	2008	150.0	44	550.0	510.0	825.0	278.5	494.0	429.3	185.7	3.0	40.0	7.3	(0.1)
	2009	150.0	44	NA	NA	825.0	90.4	464.4	409.6	60.3	9.1	50.0	9.1	0.2
BBPL 1993	2006	140.0	489	100.0	100.0	140.0	32.3	40.0	128.5	23.0	4.3	15.0	15.0	0.2
	2007	140.0	492	NA	NA	140.0	29.7	62.7	144.8	21.2	4.2	5.0	5.0	0.2
	2008	140.0	491	140.0	140.0	196.0	13.0	67.3	148.0	9.3	15.1	6.0	4.3	0.1
	2009	140.0	491	NA	NA	196.0	33.2	79.5	156.8	23.7	5.9	15.0	10.7	0.2
BTCL 1994	2006	20.9	164	170.0	170.0	35.6	11.2	38.7	284.7	53.6	3.2	20.0	11.8	0.2
	2007	20.9	164	NA	NA	35.6	11.0	52.5	350.5	52.7	3.2	-	-	0.2
	2008	20.9	162	301.0	300.0	63.0	25.3	70.6	437.0	120.6	2.5	30.0	10.0	0.3
	2009	20.9	162	NA	NA	63.0	10.9	81.6	489.5	52.3	5.8	NA	NA	0.1
BDL 1994	2006	14.1	96	100.0	100.0	14.1	(29.8)	-	100.0	(211.5)	(0.5)	-	-	(2.1)
	2007	14.1	96	NA	NA	14.1	(27.0)	-	100.0	(191.7)	(0.5)	-	-	(1.9)
	2008	-	96	NA	NA	14.1	-	-	-	-	-	-	-	-
	2009	-	96	NA	NA	14.1	-	-	-	-	-	-	-	-
DPCL 1995	2006	6.2	71	120.0	100.0	7.5	0.5	-	100.0	8.3	14.5	-	-	0.1
	2007	6.2	71	NA	NA	7.5	(0.2)	-	100.0	(2.9)	(41.6)	-	-	(0.0)
	2008	6.2	71	NA	NA	7.5	1.6	-	100.0	25.0	4.8	-	-	0.3
	2009	6.2	71	NA	NA	7.5	2.7	-	100.0	42.8	2.8	-	-	0.4
DSML 1995	2006	3.8	67	429.0	300.0	16.2	(1.8)	-	100.0	(48.2)	(8.9)	-	-	(0.5)
	2007	3.8	67	429.0	429.0	16.2	0.8	-	100.0	21.4	20.1	-	-	0.2
	2008	3.8	67	NA	NA	16.2	7.1	-	100.0	187.4	2.3	-	-	1.9
	2009	3.8	67	NA	NA	16.2	5.4	4.0	206.1	141.9	3.0	20.0	4.7	0.7

TABLE 32. CONTINUED
THE ROYAL SECURITIES EXCHANGE OF BHUTAN Ltd., INFORMATION ON LISTED COMPANIES

Company*/ Year of Listing	Reference Year	Paid Up Capital Nu. in Mill.	No. of shareholders	Market Price (Nu)		Market Capitalization Nu. in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
BNBL 1996	2006	119.0	4,582	750.0	650.0	773.6	191.8	705.6	692.9	161.1	4.0	100.0	15.4	0.2
	2007	119.0	4,440	805.0	635.0	958.0	249.5	902.7	858.5	209.7	3.8	40.0	5.0	0.2
	2008	355.5	4,357	805.0	100.0	1,422.1	310.3	933.1	362.5	87.3	4.6	28.5	7.1	0.2
	2009	355.5	4,374	500.0	400.0	1,496.7	266.3	1,098.1	408.9	74.9	5.3	28.5	7.1	0.2
BPCL 1997	2006	24.9	129	100.0	100.0	24.9	9.3	24.1	196.8	37.5	2.7	25.0	25.0	0.2
	2007	24.9	129	100.0	100.0	24.9	8.0	32.2	229.0	32.2	3.1	-	-	0.1
	2008	24.9	129	NA	Na	24.9	8.0	33.9	236.1	32.2	3.1	25.0	25.0	0.1
	2009	24.9	128	NA	NA	24.9	11.1	36.3	245.5	44.4	2.3	35.0	35.0	0.2
STCBL 1997	2006	20.0	125	190.0	190.0	38.0	(2.2)	52.5	362.6	(11.0)	(17.3)	-	-	(0.0)
	2007	20.0	125	NA	NA	38.0	(15.8)	36.8	283.8	(78.8)	(2.4)	-	-	(0.3)
	2008	20.0	125	190.0	190.0	38.0	42.8	75.6	477.8	214.0	0.9	20.0	10.5	0.5
	2009	40.0	125	190.0	190.0	38.0	31.0	82.6	306.4	77.5	2.5	10.0	5.3	0.3
DSCL 1998	2006	45.7	1,277	272.0	100.0	124.2	18.6	46.0	200.7	40.7	6.7	35.0	12.9	0.2
	2007	45.7	1,277	300.0	275.0	137.0	17.7	50.0	209.5	38.8	7.7	30.0	10.0	0.2
	2008	45.7	1,276	NA	NA	137.0	35.1	64.5	241.3	76.8	3.9	45.0	15.0	0.3
	2009	45.7	1,279	NA	NA	137.0	60.0	78.9	272.8	131.5	2.3	100.0	33.3	0.5
DPOP	2006	10.0	213	100.0	100.0	10.0	2.9	2.4	124.0	29.0	3.5	15.0	15.0	0.2
	2007	10.0	213	200.0	200.0	20.0	1.9	3.3	133.4	19.4	10.3	10.0	5.0	0.2
	2008	10.0	213	NA	NA	20.0	2.6	4.5	144.5	26.1	7.7	15.0	7.5	0.2
	2009	10.0	213	NA	NA	20.0	7.5	9.0	189.9	75.4	2.7	30.0	15.0	0.4
BBCL 2002	2006	115.0	4,334	220.0	100.0	115.0	9.6	-	100.0	8.4	12.0	-	-	0.1
	2007	Delisted												
EBCC 2005	2006	52.1	1,092	100.0	100.0	52.1	8.0	0.8	101.5	15.3	6.5	16.0	16.0	0.2
	2007	52.1	1,089	140.0	100.0	72.9	9.4	1.8	103.5	18.0	7.8	16.0	11.4	0.2
	2008	52.1	1,082	300.0	140.0	156.3	58.7	18.8	136.2	112.7	2.7	80.0	26.7	0.8
	2009	52.1	1,082	NA	NA	156.3	55.1	58.4	212.0	105.9	2.8	30.0	10.0	0.5

TABLE 32. CONTINUED
THE ROYAL SECURITIES EXCHANGE OF BHUTAN Ltd., INFORMATION ON LISTED COMPANIES

Company*/ Year of Listing	Reference Year	Paid Up Capital Nu. in Mill.	No. of shareholders	Market Price (Nu)		Market Capitalization Nu. in Mill.	Profits Nu. in Mill.	Reserves Nu. in Mill.	Book Value Nu.	Earnings Per Share Nu.	PE Ratio	Dividend (%)	Dividend Yield (%)	Return on Capital (ROC)
				High	Low									
KCL 2007	2007	50.0	253	100.0	100.0	50.0	4.6	90.7	281.5	9.3	10.8	7.0	7.0	0.0
	2008	50.0	233	100.0	100.0	50.0	7.0	93.2	286.4	13.9	7.2	9.0	9.0	0.1
	2009	50.0	233	NA	NA	50.0	10.0	95.2	290.4	20.0	5.0	12.0	12.0	0.1
DWAL 2008	2008	194.0	504	100.0	100.0	167.0	-	-	100.0	-	-	-	-	-
	2009	194.0	507	100.0	100.0	194.0	(24.0)	-	100.0	(12.4)	(8.1)	-	-	(0.1)
JMCL 2008	2008	28.4	426	800.0	100.0	227.4	63.5	68.3	340.3	223.2	3.6	70.0	8.8	0.7
	2009	42.6	418	650.0	100.0	277.3	79.0	103.2	342.1	185.2	3.5	70.0	10.8	0.5
BTL 2008	2008	40.0	288	NA	NA	40.0	8.4	12.8	131.9	20.9	4.8	-	-	0.2
	2009	40.0	289	105.0	105.0	42.0	(7.4)	4.2	110.6	(18.5)	(5.7)	-	-	(0.2)
BIL 2009	2009	100.0	4,432	120.0	100.0	105.0	3.2	4.2	104.3	3.3	32.3	-	-	0.0
DFAL 2009	2009	163.0	366	NA	Na	163.0	(45.9)	-	100.0	(28.2)	(3.6)	-	-	(0.3)

Source: Royal Securities Exchange of Bhutan. Formula used : 1- Book Value = Capital + Reserves/ No. of Shares. 2-EPS = Net Profit/ No. of Shares. 3-PE = Market Price/ EPS. 4-Return on Capital = Net Income/ (Equity + Reserves). 5-Dividend Yield = Dividend X 100/ Book Value Per Share.

(*) BCCL - Bhutan Carbide and Chemicals Ltd.; RICBL-Royal Insurance Corporation of Bhutan; PCAL-Penden Cement Authority Ltd.; BFAL-Bhutan Ferro Alloys Ltd.; BBPL-Bhutan Board Products Ltd.; BTCL-Bhutan Tourism Corporation Ltd.; BDL-Bhutan Dairy Ltd.; DPCL-Druk Petroleum Corporation Ltd.; DSML-Druk Stones and Minerals Export Company Ltd.; BNBL-Bhutan National Bank Ltd.; BPCL-Bhutan Polythene Company Ltd.; STCBL-State Trading Corporation of Bhutan Ltd.; DSCL-Druk Satair Corporation Ltd.; DPOP-Druk Plaster and Chemicals Ltd.; BBCL-Bhutan Beverages Company Ltd. (Delisted in 2007); EBCC-S.D Eastern Bhutan Coal Company Ltd.;KCL-Kuensel Corporation Ltd;DWAL-Druk Wang Alloys Ltd.;JMCL-Jigme Mining Corporation Ltd.; BTL-Bhutan Times Ltd.;BIL-Bhutan Insurance Corporation Ltd.; DFAL-Druk Ferro Alloys Ltd.

TABLE 33. EXCHANGE RATE, NGULTRUM/US DOLLAR

Period Average							
Period	Year						
	2004	2005	2006	2007	2008	2009	2010
Jan	45.46	43.76	44.40	44.33	39.37	48.83	45.96
Feb	45.27	43.68	44.33	44.16	39.73	49.26	46.33
Mar	45.02	43.69	44.48	44.03	40.36	51.23	45.50
Apr	43.93	43.74	44.95	42.15	40.02	50.06	44.50
May	45.25	43.49	45.41	40.78	42.13	48.53	45.81
Jun	45.51	43.58	46.06	40.77	42.82	47.77	46.56
Jul	46.04	43.54	46.46	40.41	42.84	48.48	
Aug	46.34	43.63	46.54	40.82	42.94	48.34	
Sep	46.10	43.92	46.12	40.34	45.56	48.44	
Oct	45.78	44.82	45.47	39.51	48.66	46.72	
Nov	45.13	45.73	44.85	39.44	49.00	46.57	
Dec	43.98	45.64	44.64	39.44	48.63	46.63	
Calendar year average	45.32	44.10	45.31	41.35	43.51	48.41	
Fiscal year average	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	45.41	44.61	44.74	44.19	40.37	47.78	46.65

Source : International Financial Statistics, IMF.

TABLE 34. EXCHANGE RATE, JAPANESE YEN / US DOLLAR

Period Average

Period	Year						
	2004	2005	2006	2007	2008	2009	2010
Jan	106.51	103.94	115.45	120.58	107.66	90.48	91.16
Feb	106.55	104.88	117.89	120.45	107.16	92.50	90.28
Mar	108.62	105.31	117.31	117.28	100.79	98.16	90.52
Apr	107.25	107.36	117.11	118.87	102.54	99.00	93.38
May	112.52	106.91	111.61	120.73	104.14	96.45	91.77
Jun	109.47	108.63	114.53	122.62	106.90	95.56	90.92
Jul	109.36	111.94	115.67	121.59	106.81	95.60	
Aug	110.36	110.72	115.88	116.72	109.28	92.76	
Sep	110.01	111.06	117.01	115.02	106.75	89.74	
Oct	108.92	114.82	118.66	115.74	100.33	91.09	
Nov	104.90	118.41	117.35	111.21	96.68	86.14	
Dec	103.84	118.64	117.13	112.25	91.32	92.12	
Calendar year average	108.19	110.22	116.30	117.76	103.36	124.40	
Fiscal year average (+)	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	110.86	107.04	114.96	118.52	110.14	98.61	91.29

Source : International Financial Statistics, IMF.
 Additional Source: Bank of Japan Website.

TABLE 35. EXCHANGE RATE, EURO/US DOLLAR

Period Average

Period							
	2004	2005	2006	2007	2008	2009	2010
Jan	0.793	0.755	0.826	0.769	0.679	0.755	0.701
Feb	0.791	0.768	0.838	0.765	0.678	0.782	0.731
Mar	0.816	0.758	0.832	0.755	0.644	0.767	0.736
Apr	0.834	0.773	0.815	0.740	0.635	0.758	0.746
May	0.834	0.788	0.783	0.740	0.645	0.734	0.796
Jun	0.824	0.822	0.791	0.745	0.630	0.714	0.819
Jul	0.815	0.831	0.788	0.729	0.634	0.710	
Aug	0.821	0.814	0.781	0.734	0.668	0.701	
Sep	0.819	0.816	0.786	0.720	0.696	0.687	
Oct	0.801	0.832	0.793	0.703	0.752	0.675	
Nov	0.770	0.849	0.776	0.681	0.785	0.671	
Dec	0.748	0.843	0.757	0.686	0.734	0.685	
Calendar year average	0.805	0.804	0.797	0.731	0.682	0.720	
Fiscal year average (+)	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	0.840	0.787	0.822	0.766	0.680	0.732	0.721

Source : International Financial Statistics, IMF.

Additional Source: European Central Bank Website.

IV. ANNEXURES

CHRONOLOGY OF MAJOR FINANCIAL SECTOR DEVELOPMENTS

- In August 1982, the RMA Act was passed by the National Assembly during its fifty-sixth session. With effect from April 1, 1983, the RMA started its actual operations.
- In 1983, the RMA took over the issue of the national currency, the management of external reserves, and foreign exchange operations.
- In 1984, the cash reserve ratio was introduced for the purpose of liquidity control and for prudential purposes.
- In March 1988, the RMA took over the additional function of banker to the Government, by holding the bulk of government deposits, and to provide means for financing the Government, whenever necessary.
- In November 1992, the Financial Institutions Act was passed by the National Assembly to provide the RMA with the legal framework to issue licenses for financial institutions and to regulate, supervise, and inspect their operations.
- The RMA organized the establishment of the Royal Securities Exchange of Bhutan in 1993 to begin a small capital market for the purpose of facilitating public participation in the holding of securities of public and private companies.
- In 1993, RMA discount bills were introduced as an instrument of central bank policy.
- For the purpose of further improving the RMA's liquidity management, the RMA introduced the reserve repurchase in September 1996 as its second debt instrument. The repurchase was rolled over until January 2002, when it was discontinued.
- To enhance competition in the banking sector, the Unit Trust of Bhutan was converted into a full-fledged commercial bank, called Bhutan National Bank in January 1997.
- Until 1997, interest rates on both deposits and advances were directly administered by the RMA, thereby providing insufficient flexibility to financial institutions for setting their rates on the basis of the actual cost of funds. Since this arrangement was not conducive to the long-term growth of the financial sector and the economy, the RMA liberalized interest rates with effect from October 1997, allowing each institution to determine the rates in accordance with the "spread system". The system allowed each institution to determine its own deposit and lending rates, while maintaining an overall interest spread of a maximum of six percentage points. In April 1999, to further encourage competition among FIs, the RMA removed the "spread", liberalizing fully the interest rates on both deposits and advances, permitting more competition and interplay of the market forces.
- In line with the Government's program of liberalizing trade and industrial policies, the RMA Board approved the new Foreign Exchange Regulations 1997, removing various restrictions on foreign exchange transactions. The aim is to eventually move towards current account convertibility.

- Check clearing facilities were established in the country (the first in Thimphu in 1997 and the second in Phuentsholing in 1999), in order to provide an efficient system through which the country's commercial banks could settle their claims against each other for checks and other negotiable demand items. The facilities are also envisaged to enhance the payments and settlement system through the use of negotiable instruments.
- As part of the Financial Sector Reform Program, the Government Employees Provident Fund was transferred in 2000 from the Royal Insurance Corporation of Bhutan (now RICBL) to the newly created National Pension and Provident Fund.
- One of the causes for sluggish credit activity in the country has been the inadequate legal framework for loan recovery and the high collateral requirements. For the purpose of dealing effectively with that problem, the government passed in 1999 the Moveable and Immovable Property Act and the Bankruptcy Act. Furthermore, in order to provide legal support for the check clearing houses and the use of negotiable instruments in the payments and settlement system, the Negotiable Instruments Act was passed in the 78th session of the National Assembly in July 2000.
- In 2002, the RMA made arrangements with the Reserve Bank of India to participate in the auctions of Government of India securities to invest Indian Rupee reserves.
- Following a resolution adopted by the RMA's Board of Directors, a Monetary Operations Committee (MOC) was established in June 2002. On behalf of the Board, the MOC will basically be responsible for the formulation and implementation of policy instruments, the achievement and maintenance of sound conditions in the financial sector, and the management of the country's reserves.
- As part of the RMA's external communication policy, its website was made available in August, 2004.
- With effect of July 1, 2004, a new organization structure for the RMA became operational, being commensurate with the requirements of an effective central bank. Of particular importance is the creation of the positions of Deputy Managing Director I, DMD I, who is responsible for the Operations Department, and Deputy Managing Director II, DMD II, who is responsible for the Policy and Programs Department. For more details, please see *Annex I*.
- For the purposes of streamlining reserve management, a Reserve Management Committee (RMC) was established in May 2005. Apart from the implementation of the investment guidelines approved by the Board and the MOC, the RMC is responsible for advising on the existing currency composition, the asset allocation, and returns on the portfolio by studying the evolving outlook on the international currency markets and the asset market trends.
- On August 24 and December 8, 2004, BNB has opened new branches in Paro and Mongar, respectively and in December 2005, Gelephu extension office was converted into a full-fledged branch.

- To mark the International Day of Micro-credit, the Bhutan Development Finance Corporation Limited launched a new saving scheme for the rural farmers in collaboration with the UNDP, UNCDF and SNV on 6th April 2005.
- The fourth South Asian Insurance Regulators Forum (SAIRF) meeting was hosted by the Royal Monetary Authority of Bhutan on April 10, 2006 in Thimphu. Several dignitaries from India, Nepal and Sri Lanka attended the meeting.
- The NPPF formally came under the purview of the RMA on March 9, 2007.
- In March 2007, the RMA was appointed as the implementing agency for “Strengthening the financial sector through IT investments” under the World Bank Private Sector Development Project.
- In line with the objective of promoting the development of the financial sector in the country, the RMA granted approval to the Bhutan National Bank Limited to open its branches in Wangdue and Bumthang. Its Wangdiphodrang branch office was inaugurated on April 19, 2008 and the Bumthang branch on November 2, 2008.
- To improve its quality of service and enhance customer convenience, the BOBL introduced Sunday banking services from November 30, 2008, providing 7 days services to its customers, while also introducing ATM facilities, internet and mobile banking.
- During 2008, the BOBL has also undertaken major upgrading its stand-alone technology platform to a centralized Core Banking Solutions (CBS) network. As of September 2009, eight branches are already on the Flexcube CBS and the rest of its branches, including 16 manual branches will be online with the CBS technology by the end of 2010. Up-gradation of its technology has enabled the BOBL to introduce convenient delivery channels such as SMS enquiry; the BOBL was also the first bank to introduce internet banking facilities on May 28, 2009 throughout Bhutan.
- In December 2008, the RMA issued in-principle approval (IPA) to two commercial banks (Druk PNB Bank Ltd. and T Bank Ltd.), and an insurance company (Bhutan Insurance Company). The in-principle approval is valid for one year wherein the proposed financial services providers have to fulfill the requirements of the IPA and be ready for commencement of business.
- On August 17, 2009, RMA issued a license to Bhutan Insurance Ltd. to carry on non-life insurance business. The BIL officially commenced business transactions from August 20, 2009. On November 18, 2009, the BIL established its branch office in Paro and Phuentsholing, and opened a counter in Bumthang and Wangdue.
- The RMA granted approval to Royal Insurance Corporation of Bhutan Ltd. to open on August 19, 2009 an extension office at Lobeyesa, Punakha to cater to the insurance needs of the people and the upcoming Punatsangchu hydropower project.
- The Royal Securities Exchange of Bhutan Ltd. launched its website in September 2009 under the ADB Financial Sector Development Program.

- The RMA launched Bhutan's first Credit Information Bureau and the RMA Integrated Central Banking System on September 9, 2009.
- On December 5, 2009, the BDFCL inaugurated its vendors' outreach banking branch office at the Centenary Farmers' Market, Thimphu, to enhance access to banking services. Meanwhile, the RMA has also granted approval to BDFCL to establish branches in Dorokha and Nganglam.
- Bhutan's first issue of the RGOB Treasury Bills was auctioned on December 14, 2009.
- On December 22, 2009, the RMA accorded approval to the BNBL to convert its extension office in Trashigang to a full service branch office.
- RMA issued a commercial banking license to Druk PNB Bank Ltd., a FDI joint venture bank, on January 19, 2010. Druk PNB Bank Ltd. officially commenced its business on February 27, 2010 and established its first branch in Phuntsholing on February 7, 2010.
- On March 1, 2010, the RMA granted a license to the BDFCL as a specialized deposit-taking commercial bank. Its license will allow the BDFCL to engage in depository banking, excluding foreign exchange transactions.
- On March 10, 2010, the RMA issued a commercial banking license to T-Bank Ltd. The T-Bank Ltd. formally commenced its business on March 12, 2010. On September 14, 2010, the T-Bank Ltd. set up its branch office in Phuentsholing.
- The RMA, in collaboration with the financial institutions in Bhutan, carried out a Financial Literacy Education Program and Awareness Campaign from March 15 – 24, 2010, with the objective to educate the public at large on the services provided by different financial institutions, their role and responsibilities, the rights of the clients of the FIs while doing business with the them, and to also to improve the public's understanding of the financial sector.
- The RMA initiated the drafting of Regulations on the Establishment of Commercial Banks and Insurance Companies in Bhutan, Microfinance Regulations, Branchless Banking Regulations, Corporate Governance Regulations, Anti-Money Laundering Regulations and the Establishment of Reinsurance companies in Bhutan.
- The Royal Monetary Authority Act of Bhutan 2010 was formally enacted during the 5th session of Parliament on June 2, 2010.
- The RMA held the formal launch of the Electronic Fund Transfer and Clearing System (EFTCS) on June 11, 2010. The launch was inaugurated jointly by the Chairman of the RMA Board, H.E. Lyonpo Wangdi Norbu, Hon'ble Finance Minister and Dr. D. Subbarao, Governor of Reserve Bank of India. The Launch was attended by the Asian Clearing Union (ACU) members, members from the RGOB, financial sector, and international organizations in Bhutan.

- On August 18, 2010, His Majesty the King appointed the Managing Director of the RMA Daw Tenzin, as the country's first Governor of the Central Bank.
- On September 20, 2010, the RMA gave approval to the BDFCL to establish branches at Samdrup Jongkhar, Sarpang, Dagana and Samtse districts.

DEVELOPMENTS IN BHUTAN'S FINANCIAL INSTITUTIONS

Finance is considered as the lifeblood and nerve center of a business. A thriving financial sector is an important driver of macroeconomic development and therefore also key for poverty reduction. Banking, saving and investment, insurance, and debt and equity financing help private citizens save money, guard against uncertainty, and build credit, while enabling businesses to start up, expand, increase efficiency, and compete in local and international markets. For the poor, these services reduce vulnerability and enable people to manage the assets available to them in ways that generate income and options-ultimately creating paths out of poverty (Christopher N. Sutton and Beth. Jenkins, 2007).

Albeit developing, Bhutan's financial sector played a fundamental role in promoting economic growth and development in the recent years. In 2009, the finance, insurance and real estate sector collectively contributed 8.9 percent to country's GDP. As of June 2010, the assets/liabilities of the financial institutions in Bhutan grew by 28.8 percent to Nu.50.5 billion, of this, almost 90 percent belonged to commercial banks and remaining 10 percent to non-bank financial institutions (NBFIs).

Throughout, the Royal Monetary Authority of Bhutan has placed high priority on the development of Bhutan's financial sector through intensifying ICT and upgrading payment and settlement mechanism. Besides its core central banking and regulatory functions, the RMA also accorded high priority to the education of the general public on financial literacy and promoting financial inclusion, with the collaborative efforts of the Royal Government and the stakeholders of the domestic private sector.

This section provides brief background information and overview of developments that have taken place in the financial sector¹ during the FY 2009/10, including detailed institutional-wise developments, and information on the National Pension and Provident Fund and the Royal Securities Exchange of Bhutan. Please refer to Annex VIII for a more in-depth review of the performance of Bhutanese financial institutions.

BANK OF BHUTAN LTD. (BOBL)

The Bank of Bhutan Limited, established on May 28, 1968, is the oldest and largest financial institution in the country. In order to encourage monetization of the economy and improve banking services in the country, the RGOB collaborated with the State Bank of India, (SBI) on October 7, 1971, to establish the BOBL, with SBI participating in the capital and management of the bank. SBI held 40 percent of the bank's shares, while 60 percent were held by the RGOB. In 2002, the management of the bank was handed over to the Bhutanese with a corresponding reduction in SBI's shareholdings to 20 percent. The RGOB represented by Druk Holding and Investments (DHI) holds 80 percent of the bank's shares.

¹ BDFCL, BNBL, BOBL, NPPF, T-Bank Ltd., Druk PNBL, BIL and RICBL.

Over the years, in order to better serve the country's growing needs for banking services, BOBL entered into a series of arrangements with foreign banks. From 1975 onwards, the bank started contributing to the earnings of foreign exchange by financing and facilitating export transactions. In 1989, in an attempt to improve its banking culture, the BOBL introduced customer education in rural areas on its services, deposit mobilization, and follow-up on loans. Thereafter, in 1986, the bank conducted door-to-door surveys in rural areas to introduce lending and deposit schemes to the rural community.

BOBL has an established network of 26 branches and 3 extension counters with only 12 of the branches on stand-alone systems and the rest on manual ledger systems. In 2008, the bank undertook the major task of upgrading its stand-alone technology platform to a centralized core banking solutions (CBS) network. As of December 2009, eight branches were running on the Flexcube CBS, and the rest of the branches including 16 manual branches, will be linked to the CBS technology by the end of 2010. With the up-gradation of its technology, BOBL was able to introduce convenient delivery channels such as SMS and mobile banking, and was also the first bank to introduce internet banking facilities on May 28, 2009 in the country. Furthermore, BOBL has constructed a USD 1 million, Tier-III, state of the art data centre, the first of its kind in Bhutan.

In recent years, the BOBL has also completed due diligence and has signed an agreement on the GTFP (Guarantee Facility) with the International Finance Corporation (IFC). Similarly, the bank has introduced multi-city cheque facilities with the help of its strategic partner, the SBI, which will facilitate faster remittances to India.

Customer satisfaction is being accorded highest priority at the bank, which regularly conducts feedback surveys to monitor customer satisfaction levels. To improve its services and customer convenience, Sunday Banking services were launched on November 30, 2008, providing 7 days services to its customers, in addition to introducing ATM, internet and mobile banking for overall customer convenience and satisfaction. The bank also introduced a Customer Helpline to assist clients during regular banking and non-banking hours. Coinciding with the Centenary and the Coronation celebrations, the BOBL initiated social sector targeted loan schemes (viz. education, ladies plus and pensioners) and increased its loan base from 6,000 to 20,000 customers.

Similarly, human resources development at the BOBL has been accorded great priority. To improve the quality of its human resources, the BOBL has initiated campus recruitment drives to recruit top academic achievers from Sherubtse College, engineers from the College of Science and Technology, besides inducting professionals with legal, doctoral and human resource specialist backgrounds. At present, the BOBL has also encouraged employees to undergo Masters Programs in Thailand, Philippines, and Malaysia. This is part of the BOBL's revised service rules and 10-year HRD Master Plan. The conduct of Employee Satisfaction Survey and Employee Care Project are some of the recent initiatives of the bank.

The BOBL plans to harness ICT to achieve the bank's strategic outcomes by extending its services and enabling greater organizational effectiveness. A 5 Year Business Plan has been initiated, identifying areas for new initiatives in corporate and international banking,

credit card services, branding, and marketing. The bank recently launched the Master Card which is expected to promote effective banking transaction of tourists, businessmen, and Bhutanese individuals travelling abroad. BOBL also plans to launch the VISA International Card, which can be used for both local and international transactions. Moreover, the bank will be taking initiatives to establish a Data Recovery Centre and plans to expand ATM connectivity to all its branches in Bhutan.

The capital of the bank has increased from Nu.200 million in 2008 to Nu.400 million in 2009, through a capital injection of Nu.200 million by its shareholders, the DHI and SBI.

BHUTAN NATIONAL BANK LTD. (BNBL)

The Unit Trust of Bhutan (UTB) was established in 1980 as a division of the RICBL, jointly owned by the RGOB and the RICBL. In 1992, it started functioning as an independent financial institution to promote and mobilize small domestic savings, and to channel capital to productive sectors in the economy. With the overall goal of deepening the financial system to generate broader and competitive banking services, the RGOB, with assistance from the ADB, converted the UTB into the Bhutan National Bank on December 5, 1996. The general public holds 38.6 percent of the total share capital of the bank. NPPF holds 25.7 percent, the Royal Government 13.6 percent, ADB 10.1 percent, Bhutan Trust Fund 9.95 percent, and the RICBL 2.1 percent.

In January 2003, BNBL upgraded their software, in order to be able to provide modern banking facilities, such as credit card, internet banking, and ATM services to their customers. The BNBL provides ATM facilities in Thimphu and Phuentsholing. Further, in December 2004, the BNBL launched the Global Credit Cards, which has enabled the ASEAN tourists to use the card for purchasing merchandise/services in Bhutan.

In the later part of 2004, the bank expanded its network by establishing branches in Paro and Mongar, and thereafter converted its Gelephu extension office into a full-fledged branch in December 2005. In 2008, BNBL established a branch in Wangduephodrang and Bumthang and also converted its extension offices at Samdrup Jongkhar and Trashigang into full-fledged branches.

During the year 2009, the total assets of the bank increased to Nu.24.1 billion from Nu.16.7 billion in 2008, while the loans and advances of the bank increased by 20.7 percent from Nu.9.1 billion in 2008 to Nu.11.1 billion in 2009. New products and services including the Gold Visa International Credit Card, Debit cum ATM card and SMS banking were also introduced in the recent years. Currently, the BNBL has installed 10 ATM machines across its branches in Bhutan.

BHUTAN DEVELOPMENT FINANCE CORPORATION LTD. (BDFCL)

BDFCL was established on January 31, 1988 with assistance from the ADB, and equity participation of the RGOB (93.5 percent), the BOBL (3.75 percent), the RICBL (1.5 percent), and the BNBL (1.25 percent). Its main sources for funds are external concessional loans and grants from international agencies, including the UNCDF,

HELVETAS, KFAED, IFAD, SDC, and the ADB. It was set up, primarily to assist the private sector by providing financial and technical assistance for industrial, agricultural, and commercial projects. BDFCL is funded by international multilateral agencies. The ongoing UNCDF/IFAD agricultural credit program, which was initially implemented by the RMA, was transferred to the BDFCL in March 1988, along with all assets and staff of the former Agricultural Credit Division of the RMA. To finance small entrepreneurs, the BDFCL joined the Entrepreneurial Development Program (EDP) initiated by the RGOB; its share in the EDP is Nu.20 million.

Industrial lending activities dominate the BDFCL's activities and profitability, while agricultural lending, particularly, micro-financing, constitutes its primary function. In October 1998, the BDFCL issued Nu.50 million worth of 10-year rural credit bonds for the purpose of providing micro-credit to rural borrowers. The principal goal was to assist small farmers to increase production and income, and ultimately improve their quality of living.

In line with the resolution of the 82nd National Assembly on the reduction of the interest rate on rural credit from 13 percent to 10 percent, the institution reduced interest rates of its rural credit group loans from 13 to 10 percent with effect from August 1, 2004. In addition, marking the United Nations International Year of Micro Credit 2005, the BDFCL launched the two saving schemes, fixed and saving deposits during the first quarter of 2005, and beginning 2008, it launched a recurring deposit scheme.

BDFCL is registered as a company under the companies Act (2000). As of March 2010, the BDFCL now functions as a domestic commercial bank with cheque facilities, after obtaining its banking license. With the introduction of mobile banking facilities at the grassroot level, the BDFCL continues to emphasize the implementation of its Group Guarantee Lending and Saving Scheme (GGLS) program piloted in 2002, targeted at assisting the rural poor.

The BDFCL has a nation-wide branch network that covers all 20 districts and 5 sub-districts, with 29 branches, 2 sub-branches and 3 regional offices in the country.

TASHI BANK LTD. (T-BANK LTD)

The T-Bank is Bhutan's fourth commercial bank, which opened its first office at Thimphu on March 2010. The T-Bank Ltd. is a local bank with three domestic promoters, holding a total of 60 percent of total share holding (20 percent each), with the remaining 40 percent floated to the public through an initial public offering (IPOs). The T-Bank established its first branch office at Phuentsholing on September 14, 2010.

DRUK PUNJAB NATIONAL BANK LTD. (DPNBL)

The Druk Punjab National Bank Limited is the second foreign direct investment bank in Bhutan since the establishment of the BOBL. The DPNBL opened for business in January 2010, with a total capital of Nu.300 million, of which 51 percent (Nu.153 million) is held by the Punjab National Bank, 19 percent (Nu.57 million) by its domestic promoters, and

the remaining 30 percent (Nu.90 million) floated to the public in its initial public offering (IPOs). As of date, the DPNBL has a workforce that comprises of 42 Bhutanese and four other staff (including the CEO) from the Punjab National Bank, India. The DPNBL opened its first branch office in Phuentsholing in February, 2010.

ROYAL INSURANCE CORPORATION OF BHUTAN LTD. (RICBL)

The RICBL commenced its operations as the country's first and only insurance institution in 1975 under Royal Charter, with 61 percent government participation and 39 percent public participation. It was subsequently incorporated under the Companies Act of Bhutan 1989 and licensed under the Financial Institutions Act of Bhutan, 1992. Under the Royal Charter, the mandate of the RICBL is to underwrite all types of insurance business emanating from Bhutan and engage in investment activities. Its main lines of business are categorized into life insurance and non life insurance, besides investment and real estate. The corporation also manages the general insurance scheme (GIS) of the civil service, armed forces and the monk body, while managing rural insurance and private provident funds for private individuals.

Right from its inception, the RICBL has not only risen to meet the insurance needs of the country, but has also contributed towards the country's economic development by facilitating financial assistance to private individuals. In this connection, its Credit and Investment Department was set up to act as an investment body for effective and efficient utilization of funds from insurance and Government Employees Provident Fund (GEPF). With the investment of these funds in the economy, housing construction and transportation activities in the country were taken up by the private sector on a large scale.

Almost 75 percent of the houses/buildings in Thimphu, Phuentsholing, and other towns were financed by the RICBL. Besides housing and transportation loans, the RICBL also invested in the development of industrial units and trading activities. The GEPF, which was managed by the RICBL since 1976, was transferred to the NPPF from April 2000, when the company had to part with assets worth Nu.1.2 billion (accounting for over 80 percent of the RICBL's assets). However, the separation of the GEPF did not have adverse effects on the overall performance of the RICBL. Instead, it helped to resolve the long-standing problem of excess liquidity and enabled the corporation to concentrate on its core business.

The RICBL operates on a fully computerized financial and operational system under the local area network system at its head office. Currently, the RICBL is using an Integrated Insurance Management System (IIMS) for the general and life insurance system. The corporation is also in the process of developing a new system for its Credit and Investment Management department under an Integrated Credit and Investment Management System.

Some of the major initiatives undertaken by the RICBL during the year 2009/10 included the following:

- *Introduction of several products in the general insurance business, including the Health Insurance Scheme-I.*

- *Leverage on life insurance business as a source of funds for investment business through the introduction of new products, such as the Micro Insurance Saving Scheme.*
- *Expanding marketing channels through the recruitment of sales executives and establishment of branches and micro branches across the country.*
- *Delegation of authority to underwrite insurance business and claim settlements at RICBL branch offices, to enhance customer service.*
- *Up-gradation of the company's information technology.*
- *Promoting human resource development within the RICBL.*
- *Identification of risk management as a key tool to effectively manage the insurance business.*
- *Development of corporate key performance indicators, which will benchmark the minimum requirement performance of RICBL employees, based upon which employees' performance incentives shall be designed.*

BHUTAN INSURANCE LTD. (BIL)

The Bhutan Insurance Ltd (BIL) was incorporated under the Companies Act of the Kingdom of Bhutan, 2000 on July 24, 2009. 40 percent of the BIL's share holdings are held by its domestic promoters, with the remaining 60 percent of its shares held by 4,434 shareholders. The headquarters of the BIL is located at Thimphu, with three additional branch offices and two extension offices in the country. Currently, the BIL has a total staff strength of 32 employees. The BIL offers all types of non-life insurance services including personal insurance, commercial insurance, industrial insurance, and liability insurance.

NATIONAL PENSION AND PROVIDENT FUND (NPPF)

Prior to the establishment of the NPPF, the GEPF was managed by the RICBL and covered only government employees. Its benefits were limited to a gratuity and a provident fund scheme, which were paid as a lump sum after retirement. Therefore, in order to enhance social security, the royal government initiated a formal old-age income security scheme by restructuring the GEPF scheme aimed to provide:

- *Post service retirement benefits to its members;*
- *Income security in the event of permanent disability;*
- *Social support to spouse(s) and dependent children in the event of the death of a member; and*
- *Compulsory savings plan for salaried employees.*

The ADB project and the RGOB working committee in 1999, under the governance of the Board of Directors, reviewed and evaluated the UNDP's study (1997) on the "Feasibility of Introducing a Pension Scheme in Bhutan" and recommended an annuity-based, multi-tiered retirement plan called the National Pension and Provident Fund Plan (NPPFP). Thereafter, the royal government formally established the National Pension and Provident Fund as an autonomous body on July 1, 2002, under the governance of the National

Pension Board. The NPPF consists of two integral separate, but linked tiers: the National Pension Plan (NPP)² and the Provident Fund Plan (PFP)

On July 3, 2000, the NPPF took over the GEPF and real estate operations from the RICBL, worth Nu.2 billion in the form of fixed deposits, cash, and real estate assets, thus making it the largest institutional investor in the country. Meanwhile, on the investment and credit front, realizing the importance of investing its assets in a prudent manner the NPPF was licensed by the RMA to carry out limited financial services on March 9, 2007. To ensure that members' funds were safeguarded, the NPPF came under the purview of RMA with effect from July 1, 2007.

More recently, FY 2009/10 marked another successful year for the NPPF, as it generated gross revenues amounted to Nu.587.73 million compared to Nu.512.98 million in 2008/09, and achieved considerable progress on the operations of the civil and the armed forces pension and provident fund plans. At the end of June 2010, the NPPF membership increased from 40,222 to 42,393 members, growing by over 5 percent during the review year.

Major developments that took place during the year 2009/10 included the following:

- *Increase in the pension contribution of civil servants from 8 percent to 11 percent of the basic salary.*
- *Increase in the retirement pension benefit to a maximum of 40 percent of final salary, and provision of an extending option to avail of lump-sum or monthly pension from 10 years to 20 years for civil servants.*
- *Improvements in the service delivery system, including the setting up of the one-stop solution, computer telephonic interaction system, installation of a hotline service, SMS messaging, and the opening of dedicated counters at BOBL in Thimphu and Phuentsholing.*
- *Operationalization of the Credit Information Bureau System.*
- *Implementation of the Ascend Banking System (ABS).*

In addition to the above, the NPPF plans to develop an in-house Inventory Management System (IMS), Management Information System (MIS) and ABS reporting tools. Further, the NPPF has plans to implement the National Electronic Clearing System (NECS) which will be used to disburse pension payments and staff salaries. The latter system is expected to greatly improve the quality and efficiency of service delivery for pensioners.

² The NPP, titled Tier 1 of the NPPFP, is a defined benefit plan under which monthly pension benefits will be provided to a member upon retirement and in addition it also provides disability benefit to a member and benefit to survivor (s).

ROYAL SECURITIES EXCHANGE OF BHUTAN LTD. (RSEBL)

The RSEBL is regulated under the Companies Act, and licensed under the Financial Institutions Act, 1992. Its initial paid up capital of Nu.2 million was provided by the four FIs whose subsidiary units, the brokerage firms, were licensed to serve as brokers. Its board of directors consists of the Governor of the RMA as Chairman, the chairpersons of the four-brokerage firms, Director, Department of Industry, Ministry of Economic Affairs, and the CEO of the RSEBL as member secretary. The RMA's role is that of a Securities Commission.

The trading system of the RSEBL runs through an automated system, linked through a local area network on the trading floor. Since the volume of trading is relatively low, the exchange conducts trading only twice a week, i.e. on Tuesdays and Fridays, at 11 a.m. Furthermore, to eliminate delays in the registration of physical transfers of shares and to ensure the safety of such documents, a Central Depository (CD) was established along with the RSEBL. The CD currently holds 99.3 percent of the outstanding shares of all the listed companies.

Ever since the exchange commenced operations in 1993 with four listed companies and a total market capitalization of Nu.393 million, the number of listed companies has now grown to 21 listed companies with a total market capitalization to over Nu.8 billion. At the end of 2009, the total number of shareholders increased from 12,851 in 2008 to 17,654. Transactions in the secondary market also grew both in terms of volume and value, from 77,123 shares valued at Nu.30.04 million in 2008 to 261,983 shares valued at Nu.132.4 million as of 2009.

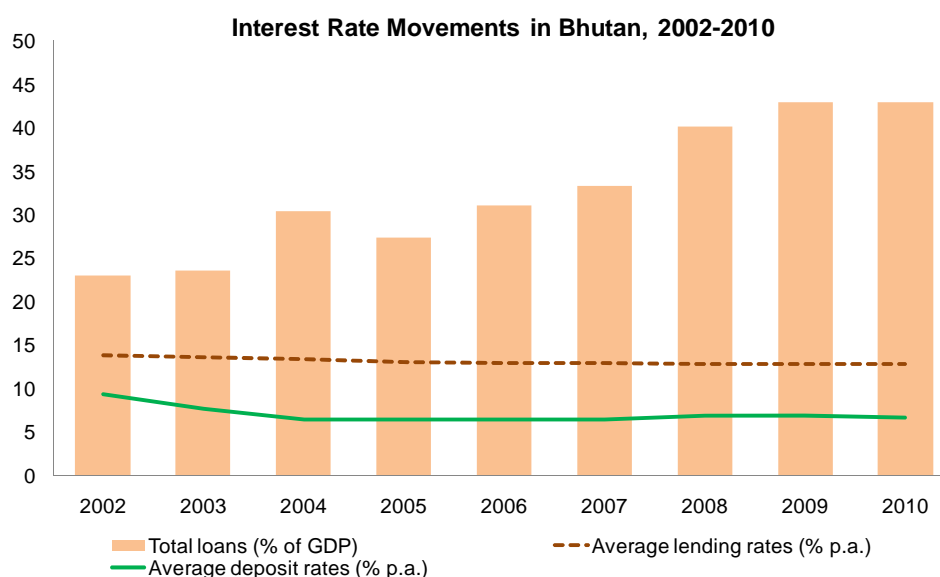
INTEREST RATES

Given its geographic location, the historical relations between the two countries, as well as the fact that India has long been Bhutan's key development partner, Bhutan and India have shared extremely close economic and financial ties over the years. India is not only an important stakeholder in Bhutan's overall economic development but also a principal trading partner (under a joint Free Trade Agreement), and the Ngultrum has been pegged at par to the Indian Rupee since its first issue in 1974. These linkages have had consequent monetary implications in terms of the extent of interest rate and price movements in Bhutan being highly influenced by corresponding developments in India. Huge deviations in interest rates differentials for Bhutan would otherwise have serious effects on capital flows.

Table 1. Commercial Bank Deposit Rates in Bhutan: 2006–2010

Types of deposit	Percent per annum				
	2006	2007	2008	2009	2010
Savings	4.50	4.50	4.50-5.00	4.50-5.00	4.50-5.50
Fixed Deposits					
a) 3 months to less than 1 year	4.50	4.50	4.5-5.0	4.5-5.0	4.5-5.5
b) 1 year to less than 2 years	6.00	6.00	6.0-6.50	6.00-6.50	4.50-6.50
c) 2 years to less than 3 years	6.00-6.50	6.00-6.50	7.00	7.00	6.00-7.00
d) More than 3 years	7.00	7.00	7.00-7.50	7.00-7.50	7.00-8.50

Source: Financial Regulation and Supervision Department, RMA.



Since the liberalization of interest rates in 1997, movement in Bhutan's deposit rates across deposit categories as well as between financial institutions as tracked in more recent years (Tables 1, 2 and 3) have been sluggish. The saving rates of commercial banks indicated a marginal improvement, increasing from the range of 4.5-5.0 percent in June

2009 to 4.5-5.5 percent in June 2010. However, in the case of maturity deposits of commercial banks (1 year to more than 3 years), the average deposit rates declined slightly from 6.8 percent to 6.6 percent during the period. Similarly, the average interest rates paid by commercial banks on corporate deposits (46 days to 1 year) remained at the range of 2.00-2.30 percent. On the other hand, the average lending rate (including lending rates across major sectors) of commercial banks and other financial institutions remained at 12.9 percent in June 2010. In June 2010, the major lending rates for the manufacturing industry, general trade, and housing sectors ranged at 12-13 percent, 13.8 percent, and 10-13 percent, respectively.

Although it appears that the lending rates of the commercial banks continued to be rather sticky during the review period, overall credit expansion in the economy has been strong. During FY 2009/10, growth in total financial institutions' credit, excluding the NPPF, increased (by 22.8 percent) to Nu.29.8 billion from Nu. 26.3 billion as of the previous year. This increase was attributed mainly to the significant increase in housing and construction sector lending. As of June 2010, of the total loans and advances of FIs, 25.6 percent were invested in building and construction, followed by manufacturing (17.1 percent), personal loans (15.3 percent), service and tourism (14.6 percent), and the remaining were invested in other sectors.

In response to the hike in the Reserve Bank of India's policy rate, the interest rates of public sector banks on its deposits with a maturity of one year to three years, decreased from the range of 6.50-8.00 percent in September 2009 to a range of 6.00-7.25 percent in June 2010. Meanwhile, the interest rates on deposits with a maturity of above three years also dropped from 7.00-8.50 percent to 6.50-7.75 percent during the same period. A similar decline in deposit rates was also witnessed for private sector banks.

However, during June 2010, India's benchmark prime lending rates (BPLRs) of public sector banks, private sector banks and foreign banks continued to remain at the range of 11.00-13.50 percent, 12.50-16.75 percent and 10.50-16.00 percent, respectively.

Table 2. Selected Lending Rates in Bhutan, 2006-2010

Loan by Purpose	Percent per annum					Repayment period (yrs.)
	2006	2007	2008	2009	2010	
1. General Trade	13.75	13.75	13.75	13.75	13.75	1-3
2. Export Finance (Convertible Currency Areas)						
<i>a) From date of 1st disbursement to 60 days after the date of the last disbursement</i>	13.0	13.0	13.0	13.0	13.0	1
<i>b) More than 60 days after the last disbursement</i>	14.0	14.0	14.0	14.0	14.0	1
3. Manufacturing Industry						
<i>a) Term loan</i>	12.0	12.0	12.0	12.0	12.0	10
<i>b) Working capital</i>	13.0	13.0	13.0	13.0	13.0	1
4. Service Industries						
<i>a) Term loan</i>	10.0	10.0	10.0	10.0	10.0	10
<i>b) Working capital (includes tourism, contract services, and other service activities)</i>	13.0	13.0	13.0	13.0	13.0	1
5. Transport						
<i>a) Truck & buses (Heavy vehicle)</i>						
<i>i) Term loan</i>	13.0	13.0	13.0	13.0	13.0	5
<i>ii) Working capital</i>	14.0	14.0	14.0	14.0	14.0	1
<i>b) Other passenger vehicles (commercial light vehicles)</i>	14.0-16.0	14.0-16.0	14.0-16.0	14.0-16.0	14.0-16.0	5
<i>c) Non commercial light vehicles</i>	12.0-13.0	12.0-13.0	12.0-13.0	12.0-13.0	12.0-13.0	5
6. Agriculture & Livestock	13.0-15.0	13.0-15.0	12.0-13.0	12.0-13.0	12.0-13.0	10
7. Housing	10.0-13.0	10.0-13.0	10.0-13.0	10.0-13.0	10.0-13.0	20
8. Equity Finance	10.0-13.0	10.0-13.0	10.0-13.0	10.0-13.0	10.0-13.0	5
9. Personal Loan	15.00	15.00	15.0-16.0	15.0-16.0	15.0-16.0	3-5
10. Govt. Employee Loan	12.0	12.0	12.0	12.0	12.0	5-7

Source: BDFCL, BNBL, BOBL, TBL, DPNBL, BIL and RICBL. Note: Effective April 1999, the interest rates on deposits and advances were fully liberalised by RMA. The calendar year refers to June-end periods.

Table 3. Indian Deposit and Lending Interest Rates

Item	Percent per annum			
	Sept '09	Dec '09	Mar '10	Jun '10
I. Domestic Deposit Rates				
Public Sector Banks				
Up to 1 year	1.00-7.00	1.00-6.25	1.00-6.50	1.00-6.25
1-3 years	6.50-8.00	6.00-7.25	6.00-7.25	6.00-7.25
Over 3 years	7.00-8.50	6.25-7.75	6.50-7.75	6.50-7.75
Private Sector Banks				
Up to 1 year	2.00-7.50	2.00-6.75	2.00-6.50	2.00-6.50
1-3 years	6.00-8.75	5.25-7.50	5.25-7.75	6.25-7.50
Over 3 years	6.00-9.00	5.75-8.00	5.75-8.00	6.50-8.00
Foreign Banks				
Up to 1 year	1.80-8.00	1.25-7.00	1.25-7.00	1.25-7.00
1-3 years	2.25-8.50	2.25-7.75	2.25-8.00	3.00-8.00
Over 3 years	2.25-9.50	2.25-8.50	2.25-8.75	3.00-8.50
II. Benchmark Prime Lending Rates				
Public Sector Banks	11.00-13.50	11.00-13.50	11.00-13.50	11.00-13.50
Private Sector Banks	12.50-16.75	12.50-16.75	12.50-16.75	12.50-16.75
Foreign Banks	10.50-16.00	10.50-16.00	10.50-16.00	10.50-16.00

Source: RBI Bulletin, November 2010.

TOURISM¹

The first official tourists to Bhutan were a group of Americans led by Lars Eric Lindblad of Lindblad Travel, New York, after the royal coronation of the fourth king in 1974. Thereafter, the Bhutan Tourism Corporation was responsible for all tourist operations up till 1991, when the tourism industry was privatised. It was then that the Tourism Authority of Bhutan (TAB) was established as a regulatory body, which in 2000 was re-instituted as the Department of Tourism in a government restructuring exercise. In 2008, realizing the importance of a multi-sectoral approach towards tourism development, the Department of Tourism under the Ministry of Economic Affairs was reconstituted as the Tourism Council of Bhutan (TCB), a separate autonomous body under the chairmanship of the Prime Minister.

Since its inception, development of the tourism industry has been guided by a policy of "high value, low volume," in an effort to ensure the preservation of Bhutan's environment, traditional culture and values, in line with the country's overarching development philosophy of gross national happiness. The tourism sector continues to be recognized for its considerable potential as a major source of income for the government, and as a private sector employer to part of Bhutan's growing working population. The TCB estimates that the tourism industry provided employment (direct and indirect) for some 13,000 people in 2009.

Expansion of the tourism sector is now recognized as an important prerequisite for meeting the government's objective of promoting Bhutan as a quality service destination. The number of tourists visiting the country has been increasing steadily over the years. From 287 tourists in 1974, arrivals have increased to 23,480 in 2009. The government has

Analysis of Daily Fee Breakdown (USD)	
HIGH SEASON	
Client pays per day	200.0
Less 10 % commission to overseas agent	20.0
<hr/>	
<i>So Bhutan receives</i>	<i>180.0</i>
Less 35% agreed royalty to RGOB	65.0
Less 2% withheld tax to RGOB	2.3
<hr/>	
<i>Received by tour operator</i>	<i>112.7</i>
LOW SEASON	
Client pays per day	165.0
Less 10% commission to overseas agent	16.5
<hr/>	
<i>So Bhutan receives</i>	<i>148.5</i>
Less 35% agreed royalty to RGOB	93.5
Less 2% withheld tax to RGOB	1.9
<hr/>	
<i>Received by tour operator</i>	<i>91.6</i>

Source: Tourism Council of Bhutan.

set a target of achieving 100,000 tourist arrivals by the end of the 10th five-year plan. Steps towards achieving this objective have focused on diversifying tourism from cultural to nature-based products involving the opening of up many, previously closed communities and protected areas. Accordingly, Bhutan's tourism policy has been realigned along the theme of "high value, low impact" in order to meet any future increased tourist target and more importantly, to ensure that adverse impacts from tourism on the socio-cultural and natural environment are minimal.

¹ Sources: Tourism Council of Bhutan; UN World Tourism Organization; Kuenselonline news archives.

Recent Performance

Tourism continues to remain the kingdom's largest source for convertible currency earnings. Tourism revenue to the government consists of royalties and taxes collected from tour operators².

Tourism performance in the fiscal year 2009/10 however, suffered from the impact of the global financial crisis and the AH1N1 pandemic in 2009. Compared to the previous fiscal year, arrivals dropped by 9.3 percent to 24,326 while revenue subsequently fell by 12.1 percent to USD 32.8 million. The decrease in fiscal year 2009/10 was also particularly pronounced as the preceding year saw record arrivals because of the country's coronation and centenary celebrations and the positive international interest generated from the United States Smithsonian Folk Life Festival. For the fiscal year 2009/10, government revenue from tourism (in the form of royalties) accounted for 3.3 percent of total domestic revenue (Nu.517.3 million), down from its contribution of Nu.611 million in 2008/09.

Table 1. Selected Tourism Indicators: 2005-2009

Item	2005	2006	2007	2008	2009
Tourist Arrivals	13,626	17,344	21,094	27,636	23,480
Of which: Cultural	13,013	14,855	18,507	23,437	21,076
Trekking *	613	2,489	2,587	4,199	2,404
% Change in arrivals	47.3	27.3	21.6	31.0	(1.5)
Gross receipts ¹	18.5	24.0	29.8	38.8	31.9
% Change in receipts	48.3	29.3	24.4	30.1	(17.9)
Contribution to Government revenue ¹	6.5	7.3	10.6	13.8	11.1
% Change in contribution	47.5	11.7	46.5	29.9	(19.8)

* Includes both trekking only and trek-cultural combination. 1) in millions of USD; Government revenue includes royalty and 2% tax.

Sources: Tourism Council of Bhutan.

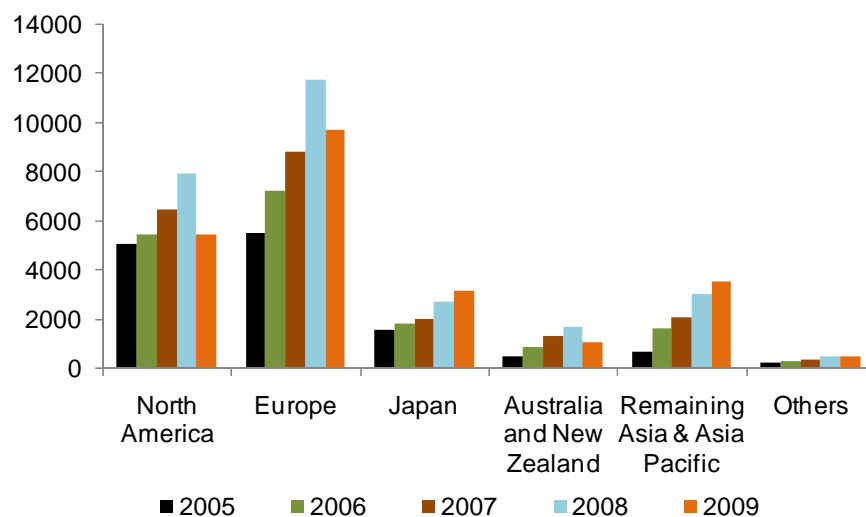
In terms of source markets, tourists from the United States continued to dominate the market both in terms of numbers (20.4 percent of total arrivals in 2009) and bed nights³ (22.3 percent of total bed nights in 2009). While Japan and the United Kingdom were the second and third largest sources of international tourists in terms of absolute figures in 2009 respectively, tourists from the United Kingdom tended to stay longer in the country. As a result, in terms of bed nights, the United Kingdom outranked Japan (9.7 percent and 9.4 percent share in annual bed nights, respectively). The average length of stay in 2009 was 7.6 days compared to 7.8 days in 2008. Among the source markets, tourists from Switzerland had the highest average length of stay at 10.7 days, followed by Netherlands at 10.3 days. The average length of stay for the top Asian source markets such as Japan, China and Thailand were all below 6 days.

² Each convertible currency paying tourist pays USD 10 per visit towards the Tourism Development Fund (TDF). The TDF is used for the development of tourism activities with the approval of the TDF Management Committee, and is maintained by the Tourism Council of Bhutan and ABTO.

³ Bed nights measure the duration of stay in the country and have important implications for revenue generation.

From a regional perspective, the European and North American (USA, Canada and Mexico) regions have traditionally dominated the market and even in 2009, these two regions accounted for 41 and 23 percent of the total arrivals, respectively. However, arrivals from these two markets declined in 2009, while tourists from Asia, in particular, Malaysia, Thailand, Japan, China and Singapore have increased. On the whole, arrivals from the European (-17 percent), North American (-31 percent), South American (-11 percent) and African (-14 percent) regions decreased, while arrivals from the Middle East (+62 percent) and the Asia and Asia-Pacific region (+4 percent) increased in 2009.

Arrivals by Source (actuals): 2005-2009



Even on the global front, the United Nations World Tourism Organization (UNWTO) estimates an annual global decline in international tourist arrivals in 2009 by 4 percent, to 880 million arrivals. However, a growth of 2 percent in the last quarter of 2009 helped counter the declines in all the previous three quarters resulting in a better-than expected overall performance. This last quarter growth was led by the Asia and Pacific and the Middle Eastern markets. The UNWTO projected that this recovery would carry on well into 2010 with growth prospects estimated at between 3-4 percent. Indeed, as per the October 2010 UNWTO World Tourism Barometer, international tourism continued to recover with arrivals between January and August 2010 even surpassing the pre-crisis levels. All regions recorded improved performance while emerging economies continued to lead the recovery. Based on current trends, growth prospects for 2011 remain positive at the long-term average of 4 percent.

Developments, Challenges and Initiatives

Liberalization of the licensing process in Bhutan's tourism sector was initiated in early 1999, following a unanimous response from Bhutanese entrepreneurs to dilute the monopoly of early operators. Licenses for tour operators had been limited to 33 for a number of years prior to the liberalization. Following liberalization, the number of tour operators has been increasing steadily since the tourism industry is viewed as being very

lucrative and also in part because of the ease with which a license can be obtained. There were 622 licensed tour operators in 2009, up from 475 in 2008. However, on average, only about 55 percent of the total licensed tour operators have been active in the last five years. Moreover, the industry seems to be dominated by a few well established tour companies – it has usually been the same ten companies that have accounted for almost half of the business in any given year (calculated as a company's share of the annual bed-nights).

In terms of accommodation, from 32 in 1996, the number of hotels accredited to cater to international tourists increased to 109 in 2009. In 2009 itself, 14 such accredited hotels were newly completed while in total in 2009, there were 2,385 hotel rooms supplying 125,418 beds per month. In terms of annual tourist capacity, the existing hotels can cater to 1.5 million tourists a year, provided however that they are evenly spread out in all the twenty dzongkhags (districts) where the hotels are located.

In order to liberalize and integrate the Bhutanese economy with the rest of the world, several policy initiatives such as the FDI policy, guidelines on External Commercial Borrowings and Economic Development Policy have been implemented. Allowing joint venture projects such as the Bhutan Resorts Corporation Ltd (BRCL) and the Bhutan Eco-Ventures Ltd (BEVL) in the hospitality sector marked the early stages of building an enabling environment within the country to boost the local economy through inflows of technology, foreign exchange, and creation of employment. In 2009, two more FDI ventures were approved (US/UK and Thai investors), with construction already underway.

The BRCL or Aman-Bhutan, registered in August 2001, is a joint venture between the Bhutan Tourism Corporation Ltd. (BTCL) and Maha/Aman Resorts, Singapore. Aman caters to a select affluent segment of world travellers and was founded in 1988. In Bhutan, the BRCL operates small luxury resorts in Paro, Thimphu, Punakha, Gangtey Gompa and Bumthang, with a total of 72 rooms. While the development of its Paro site was completed and inaugurated end of June 2004, its Punakha and Gangtey Gompa sites have been operational since August and October 2005, respectively, and the Thimphu resort operational since January 2006. The total project cost was estimated at USD 22 million of which 53 percent was to be financed by its foreign partner, 45 percent from IFC, and the remaining from BTCL.

Soon after the establishment of the BRCL, another FDI venture in tourism was forged between Bhutan International and M/s. HPL Properties (West Asia) Pte. Limited, Singapore. Bhutan Eco-Ventures Limited (BEVL) was incorporated on November 6, 2001 with the main objective of setting up exotic resort hotels initially in Paro, and subsequently in Haa and Punakha. Out of the total project expenditure of USD 4 million, USD 3 million was met in proportion to the respective holdings of BEVL's shareholders (M/s. HPL Properties Pte Limited: 60 percent, Bhutan International: 30 percent, and 10 percent floated to the public), with the balance of USD 1 million raised through loans. The BEVL's Paro Uma Hotel commenced operations with 20 rooms and 9 villas in November 2004.

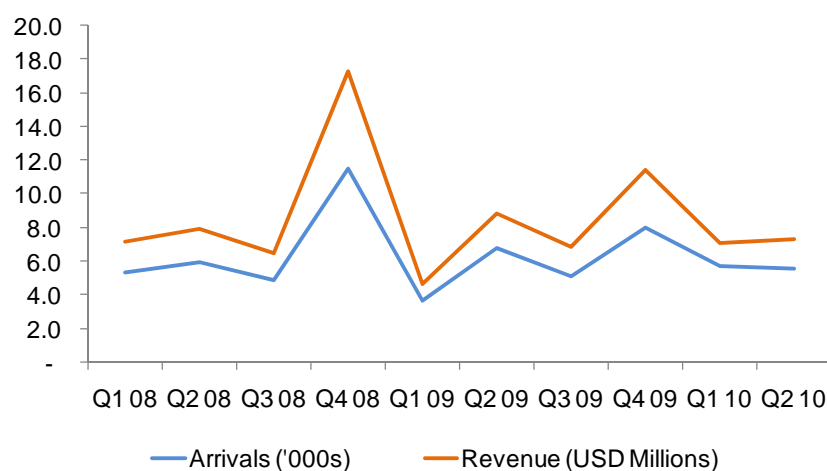
Bhutan joined the United Nations World Tourism Organization in October 2003. The UNWTO is the leading international organization in the field of tourism, headquartered in

Madrid with 154 member nations currently. By becoming a member, Bhutan aims to develop its vast potential, and strengthen its ability to withstand external shocks.

Tourists from neighbouring countries Bangladesh, India, and the Maldives do not require visas to enter the country and as such, the TCB data on international tourists do not include tourists from these countries⁴. As such these markets remain largely untapped while the TCB is looking to promote high-end tourists from India and tourists from the region in general since these tourists typically visit Bhutan during the snow-season in winter and can thereby help smooth out some of the seasonality in the industry.

Seasonality remains one of the key challenges for the tourism sector in Bhutan. Bhutan is seen by international tourists and marketed by tour operators as primarily a cultural destination. Tourism products have been largely limited to Bhutan's religious festivals and cultural sites – in any given year, 'cultural' tourists make up over 80 percent of the total with the remaining tourists classified under 'trekking' made up of tourists who undertake only trekking activities as well as those who combine a trek with a cultural tour. Consequently, tourism in Bhutan is defined by two peak seasons within a calendar year (the second and last quarters), coinciding with religious festivals in the major towns of Thimphu, Paro, Punakha and Bumthang. Furthermore, the nature of such cultural products do not lend tourism in Bhutan to repeat visitations – close to 90 percent of tourists over the last five years were visiting Bhutan for the first time.

Quarterly Trends: 2008-Q2 2010



Another important challenge has been the regional distribution of tourism within Bhutan. The geographical spread of the country compounded by accessibility and infrastructure bottlenecks have limited the spread and impact of tourism within the country. Until recently, entry into the country by air has been limited to Paro in the west, through a single airline with concomitant capacity problems while entry via road has again been limited to the border town of Phuentsholing in south-western Bhutan. As a result, tourism activities and benefits have been concentrated mainly in the west-central parts of the country.

⁴ According to the TCB, 20,847 Indian tourists visited Bhutan in 2009.

However, several initiatives have either already been taken or are underway to address these challenges and to ensure that Bhutan is able to develop its tourism sector in a manner that is sustainable and equitable. The focus of these initiatives has been two-fold: to improve the regional spread of tourism and to diversify tourism in order to ensure its sustainability and to smooth out the current seasonality in the industry.

Among numerous initiatives to achieve more regional balance, Gelephu in south-central Bhutan and Samdrup Jongkhar in south-eastern Bhutan were opened as access points for tourists in 2008 in order to boost tourism in the southern and eastern regions. Plans to establish domestic air services in eastern and central Bhutan are also expected to enhance accessibility to these regions. Two airlines, the existing Druk Air and a new Tashi Air have been approved by the government to provide domestic air service expected to commence by April 2011. Accessibility in general will also be improved as Druk Air expands its operations network, while in August 2010, a private airline from Nepal, Buddha Air started operations in Bhutan.

In terms of product diversification, the opening up of previously protected areas, reserves and remote communities are aimed to promote Bhutan not just as a cultural but also as a trekking and environmental destination, focusing on community-based and eco-tourism products. The nomadic community of Merak Sakteng in north-eastern Bhutan was opened to tourism in September 2010 as part of this strategy and to increase the regional spread of tourism. The TCB has also embarked on proactive marketing campaigns involving collaboration strategies with international tour operators as well as active participation in numerous tourism fairs and road shows. Improving tourism infrastructure, capacity and governance and liberalizing the pricing policy are also key focus areas. Notably, to help build capacity in the hospitality sector at an international standard, the Royal Institute for Tourism and Hospitality, the first such institute in the country, was established in Thimphu in 2010.

Table 2. Tourist Arrivals and Revenues

Period	2008				2009				2010			
	Absolute		% change		Absolute		% change		Absolute		% change	
	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*	Nos.	Rev*
Jan	532	0.6	21	14.7	667	0.7	25	25.8	552	0.5	(17.2)	(34.4)
Feb	1,311	1.5	61	49.4	811	0.9	(38)	(38.7)	1,358	1.4	67.4	50.1
Mar	3,512	5.1	38	37.2	2,184	3.0	(38)	(40.3)	3,809	5.3	74.4	73.9
Apr	3,173	4.4	19	9.4	4,263	5.8	34	30.9	3,059	4.4	(28.2)	(23.8)
May	1,862	2.4	78	74.3	1,743	2.1	(6)	(9.5)	1,747	2.1	0.2	0.2
Jun	869	1.1	50	55.4	764	0.9	(12)	(19.0)	753	0.7	(1.4)	(19.5)
Jul	1,085	1.0	85	99.2	858	0.8	(21)	(18.2)				
Aug	1,386	1.4	22	41.1	1,220	1.3	(12)	(3.4)				
Sep	2,428	4.1	(18)	(6.3)	3,020	4.7	24	15.9				
Oct	6,162	9.8	37	35.2	4,326	6.7	(30)	(31.6)				
Nov	4,126	6.0	51	49.8	2,607	3.5	(37)	(41.2)				
Dec	1,190	1.5	9	4.5	1,017	1.2	(15)	(16.5)				
Total	27,636	38.8	31	30.1	23,480	31.9	(15)	(17.9)	11,278	14.4		

* Revenue figures in USD millions

Source : Tourism Council of Bhutan.

Table 3. Tourist Arrivals by Nationality and Activity: 2004-2009

Country of Origin	2005	2006	2007	2008	2009	Change over 2008 (%)	% of total
USA	4,681	5,018	5,773	6,941	4,786	-31.0	20.4
Japan	1,554	1,815	2,008	2,745	3,136	14.2	13.4
United Kingdom	1,462	1,952	2,193	2,758	1,968	-28.6	8.4
Germany	1,042	1,074	1,456	1,717	1,587	-7.6	6.8
France	532	708	738	1,402	1,189	-15.2	5.1
China*	234	362	504	1,069	1,143	6.9	4.9
Thailand	96	776	707	627	975	55.5	4.2
Australia	458	774	1,181	1,524	970	-36.4	4.1
Netherlands	329	389	497	915	780	-14.8	3.3
Italy	529	648	614	751	759	1.1	3.2
Singapore	149	180	350	667	708	6.1	3.0
Canada	292	375	588	852	556	-34.7	2.4
Switzerland	363	427	396	597	543	-9.0	2.2
Spain	185	281	444	803	485	-39.6	2.9
Austria	319	484	443	472	420	-11.0	1.7
Malaysia*	72	49	94	221	367	66.1	0.8
Belgium	134	220	291	432	364	-15.7	1.6
Poland*	52	133	252	233	184	-21.0	0.8
Brazil*	44	55	79	249	178	-28.5	0.9
Finland	21	35	76	191	161	-15.7	0.7
Israel	98	46	152	78	159	103.8	0.3
Denmark*	56	85	170	127	153	20.5	0.5
Mexico	83	73	127	138	125	-9.4	0.5
New Zealand	76	116	127	180	122	-32.2	0.7
Others	765	1,267	1,834	1,947	1,662	-14.6	7.0
TOTAL ARRIVALS	13,626	17,342	21,094	27,636	23,480	-15.0	100.0
<i>Trekking**</i>	<i>613</i>	<i>2,489</i>	<i>2,587</i>	<i>4,199</i>	<i>2,404</i>	<i>-42.7</i>	<i>15.2</i>
<i>Cultural</i>	<i>13,013</i>	<i>14,855</i>	<i>18,507</i>	<i>23,437</i>	<i>21,076</i>	<i>-10.1</i>	<i>84.8</i>

* Clubbed under others in the past.

** Includes trek only as well as trek & cultural combination.

Source of International Tourist Arrivals by Region (% of total)					
Region	2005	2006	2007	2008	2009
Europe	40.6	41.6	41.6	42.3	41.3
<i>of which: United Kingdom</i>	<i>10.7</i>	<i>11.3</i>	<i>10.4</i>	<i>10.0</i>	<i>8.4</i>
<i>Germany</i>	<i>7.6</i>	<i>6.2</i>	<i>6.9</i>	<i>6.2</i>	<i>6.8</i>
Asia & Asia Pacific	20.4	25.1	25.7	27.2	33.2
<i>of which: Japan</i>	<i>11.4</i>	<i>10.5</i>	<i>9.5</i>	<i>9.9</i>	<i>13.4</i>
<i>China</i>	<i>1.7</i>	<i>2.1</i>	<i>2.4</i>	<i>3.9</i>	<i>4.9</i>
<i>Thailand</i>	<i>0.7</i>	<i>4.5</i>	<i>3.4</i>	<i>2.3</i>	<i>4.2</i>
<i>Australia</i>	<i>3.4</i>	<i>4.5</i>	<i>5.6</i>	<i>5.5</i>	<i>4.1</i>
North America	37.1	31.5	30.8	28.7	23.3
<i>of which: USA</i>	<i>34.4</i>	<i>28.9</i>	<i>27.4</i>	<i>25.1</i>	<i>20.4</i>
South America	0.8	0.9	0.8	1.1	1.2
Middle East	0.7	0.3	0.8	0.4	0.7
Africa	0.4	0.5	0.3	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0

North America includes USA, Canada & Mexico.

Source: Tourism Council of Bhutan.

THE POWER SECTOR IN BHUTAN*

1. Background

Bhutan's hydropower potential is estimated at 30,000 megawatts (MW), of which around 23,760 MW has been estimated as being techno-economically feasible. Presently, a little over 1,480 MW or about 5 percent of that potential has been harnessed.

While the first hydroelectric plant was built in Thimphu, producing 360 kilowatts (kW) of electricity, hydropower earnings have driven economic growth since the first major hydropower plant was commissioned in Chhukha (336 MW) in 1988. Besides Chhukha, there are currently three other major hydropower plants in operation, namely Basochhu with a capacity of 64 MW, Kurichhu with a capacity of 60 MW and Tala with a capacity of 1,020 MW.

The Chhukha, Kurichhu and Tala projects were all financed with assistance from the government of India in the form of 60 percent grant and 40 percent loan components. All three projects export a bulk of their production to India. The Basochhu project was financed with assistance from the government of Austria and hydropower from Basochhu is sold to the domestic market. (Please see table 3 for details on financing)

Bhutan's hydropower sector currently comprises of:

- **Department of Energy** (under the Ministry of Economic Affairs) - The government's policy and planning body for the entire energy sector.
- **Bhutan Electricity Authority** (fully autonomous since January 2010) - A regulatory body to regulate the electricity supply industry.
- **Bhutan Power Corporation Limited** (BPC) - A public utility company mandated with the domestic provision of adequate, reliable and affordable electricity.
- **Druk Green Power Corporation Limited** (DGPC) - A wholly-owned corporate entity of the government placed under Druk Holding and Investments, responsible for the promotion, development and management of Bhutan's hydropower resources. The DGPC was incorporated on January 1, 2008, through the amalgamation of the erstwhile Chhukha, Kurichhu, and Basochhu hydropower corporations, while it took over Tala in April 2009.

Hydropower is exported to India at Nu.2 per unit from Chhukha (revised upward from Nu.1.5 per unit from January 1, 2005), and at Nu.1.80 per unit from Kurichhu and Tala. The export tariff for Kurichhu was increased from Nu.1.75 per unit from January 1, 2008 and is now pegged to the Tala export tariff. For domestic sale to the BPC, the rates were fixed at Nu.0.30 per unit for up to 15 percent of the annual generation (royalty energy) and

* Sources : Bhutan Electricity Authority
 Bhutan Power Corporation Limited
 Department of Energy, Ministry of Economic Affairs
 Department of Revenue and Customs, Ministry of Finance
 Druk Green Power Corporation Limited
 Kuenselonline news archives

beyond the 15 percent royalty energy, at Nu.1.20 per unit. Rates for royalty energy were revised downwards to Nu.0.13 per unit from August 2010.

The BPC's power tariff for its consumers has been structured as follows:

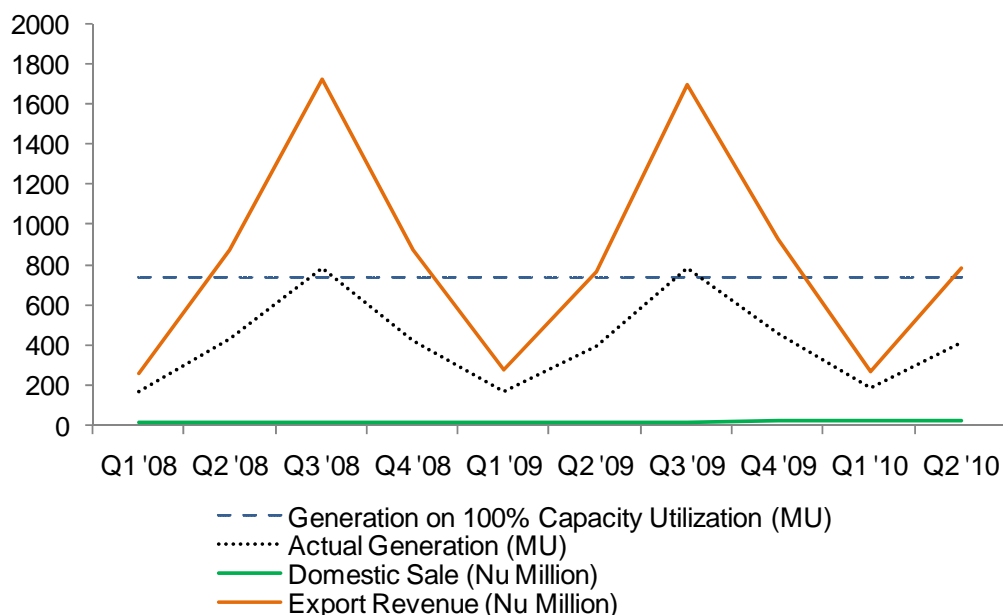
Category		1st August 2010 to 30th	1st July 2011 to 30th June 2012	1st July 2012 to 30th June 2013
		Tariff in Nu/kWh		
Wheeling (Nu./kWh)		0.11	0.11	0.11
Low Voltage	0-100 kWh	0.85	0.85	0.85
	101-300kWh	1.47	1.54	1.62
	300+ kWh	1.94	2.04	2.14
	LV bulk	1.94	2.04	2.14
Medium Voltage	Energy charge	1.63	1.71	1.79
	Demand charge (per month)	95	105	115
High Voltage	Energy charge	1.51	1.54	1.54
	Demand charge (per month)	85	105	105

Source: Bhutan Power Corporation Ltd (<http://www.bpc.bt/utilities/electricity-tariffs>).

Chhukha Hydropower Plant (336 MW)

Chhukha was Bhutan's first major hydropower project and is located on the Wangchhu. Being the first time that such a project was undertaken, around four years (1974-1978) were spent on the construction and development of infrastructure. The project was completed at a cost of Nu.2,460 million and fully commissioned by August 22, 1988.

Chart 1. Chhukha Quarterly Performance: 2008 – June 2010

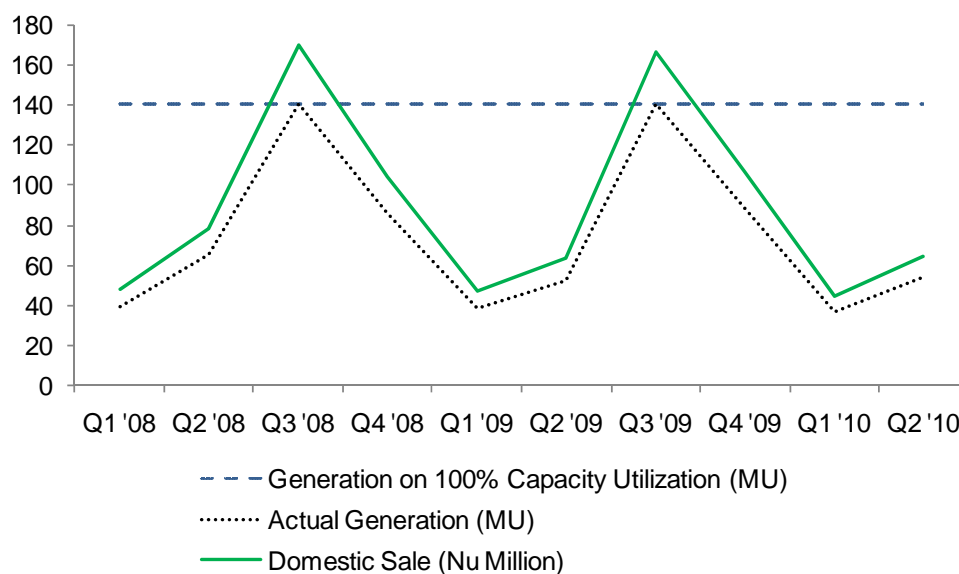


Basochhu Hydropower Plant (64 MW)

The Basochhu project was constructed with financial assistance from the government of Austria. The two stages of the Basochhu project have a combined installed capacity of 64 MW. The lower stage utilizes water released by the upper stage to generate 32 MW of hydropower. An additional 20 percent flow (i.e. 8 MW) is tapped from the nearby Rurichhu. Construction commenced in November 1997 while both stages were fully commissioned by September 2004.

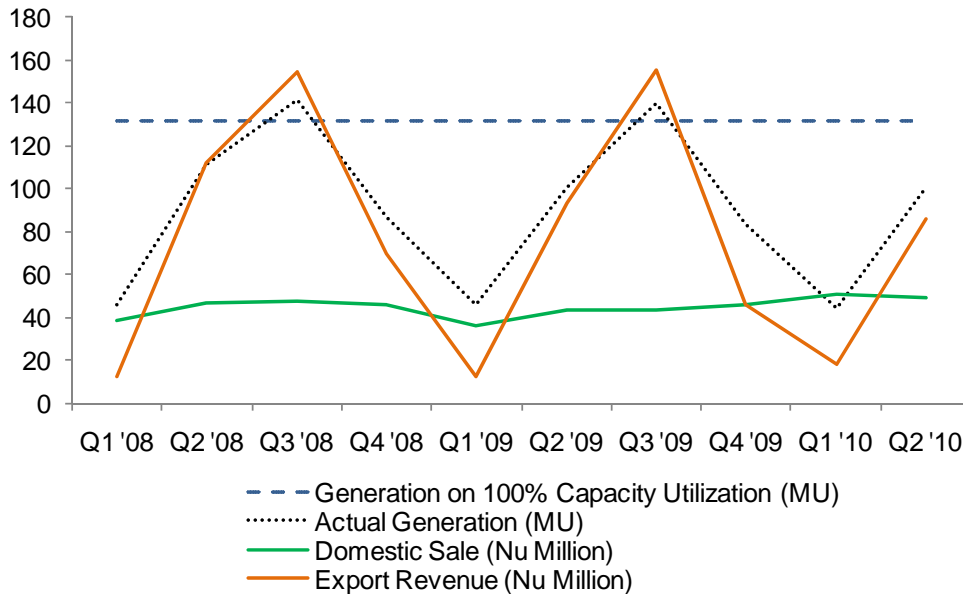
Basochhu power is supplied through 220 kV and 66 kV transmission lines to the Semtokha central switchyard in Thimphu. Although at present, the power is confined to the western grid only, work is underway to transmit the power to the southern dzongkhags by the BPC. The BPC is in the process of laying Nu.1.2 billion worth of transmission towers and cable lines to link the eastern and western power grids by July 2011. The ultimate objective of the RGOB is to link the western grid to the eastern grid in Gelephu, forming an integrated national power transmission grid.

Chart 2. Basochhu Quarterly Performance: 2008 – June 2010

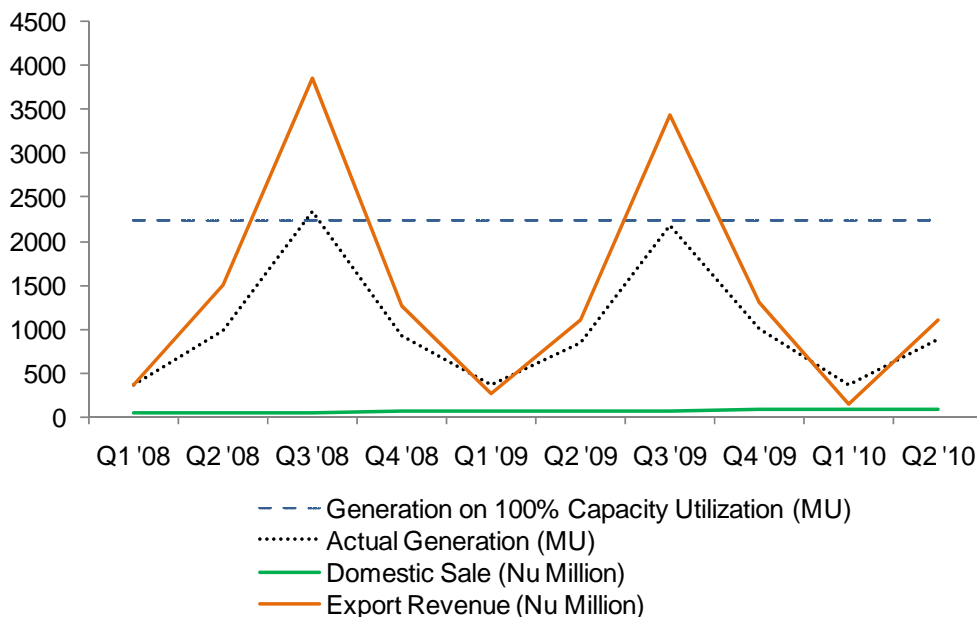


Kurichhu Hydropower Plant (60 MW)

A run-of-the-river scheme on the Kurichhu in Gyelposhing, Mongar, the project was constructed on the command of His Majesty the 4th King Jigme Singye Wangchuck, to provide electricity to rural homes in the east and to bring about balanced regional development. The Kurichhu plant supplies power to the eastern transmission grid network, which distributes it to dzongkhags in eastern and central Bhutan. Starting from Gyelposhing where the Kurichhu project is based, the 132 kV line connects substations in Tangmachu in Lhuentse, Kilikhar in Mongar, Kanglung in Trashigang, Nangkhor in Pemagatsel, Deothang in Samdrup Jongkhar, Tingtibi in Zhemgang, and a feeder bay extension in Gelephu. The network was built with a Nu.1,837.2 million grant from the GoI. The Kurichhu project was completed in seven years (1995-2002).

Chart 3. Kurichhu Quarterly Performance: 2008 – June 2010**Tala Hydropower Plant (1,020 MW)**

The Tala project, the largest hydropower plant in operation so far, is located downstream on the Wangchhu from the Chukha hydropower plant. Construction on the project commenced in October 1997. While the project was initially scheduled to be completed in 8 years, several unforeseen obstacles from adverse geological conditions delayed the commissioning of the first unit of the project to July 2006.

Chart 4. Tala Quarterly Performance: 2008 – June 2010

2. Chronological Milestones in the Power Sector

- **March 23, 1974:** The government of India and the RGOB signed the agreement for the construction of Bhutan's first major hydropower project at Chhukha.
- **September 7, 1986:** Bhutan began exporting hydropower to India with the commissioning of Chhukha's first 84 MW hydro-turbine unit. The other three units were commissioned by August 22, 1988
- **October 21, 1988:** The 336 MW Chhukha hydropower project was inaugurated by His Excellency R. Venkataraman, the then President of India, in the presence of His Majesty the 4th King, Jigme Singye Wangchuck.
- **February 18, 1994:** The contract for the 60 MW Kurichhu project was signed between the GoI and the RGOB. Construction commenced on September 27, 1995.
- **April 14, 1995:** The financing agreement for the 64 MW Basochhu project was signed between the RGOB and the government of Austria. Construction on Phase I started in November 1997.
- **March 5, 1996:** The contract for the 1,020 MW Tala project was signed between the GoI and the RGOB. Works on the project began in October 1997.
- **June 2, 1999:** Mr. Ganardhana Puranik Narayana Rao, Chief Engineer and Managing Director of the CHPCL upon its establishment in 1991, received the Druk Thuksey medal. Mr. Rao was also recipient of the Padmashri National Award from the government of India in 1992 for his outstanding and valuable contribution to Indo-Bhutan relations, and the development of hydropower in Bhutan.
- **October 2001:** The upper stage of the Basochhu project (24 MW) was commissioned.
- Effective **July 1, 2002**, the Department of Power under the Ministry of Trade and Industry (now renamed the Ministry of Economic Affairs) was separated into the Bhutan Power Corporation, the Department of Energy, and the Bhutan Electricity Authority. The restructuring was implemented in pursuance of provisions in the Electricity Act 2001.
- **June 10, 2003:** The eastern transmission grid network was inaugurated. The network distributes power from the Kurichhu project to dzongkhags in eastern and central Bhutan.
- **September 15, 2003:** The RGOB and the GoI signed a memorandum of understanding for the preparation of a detailed project report (DPR) on the Punatsangchhu hydroelectric project.
- **September 8, 2004:** The lower stage Basochhu project (40 MW) started commercial operations. The project was formally inaugurated on March 26, 2005.

- **December 2004:** Tariff for the export of power from Chhukha to India was revised from Nu.1.5 per unit to Nu.2 per unit, effective from January 1, 2005.
- **January 25, 2005:** The MOU for the preparation of the DPRs for the Punatsangchhu (Stage II) and Mangdechhu hydroelectric projects were signed between the RGOB and the GoI.
- **March 31, 2005:** The agreement for the 114 MW Dagachhu hydropower project was signed between the governments of Austria and Bhutan. Construction commenced in October 2009.
- **April 26, 2006:** The Kurichhu project was formally inaugurated. The first phase (3 units of 45 MW) was completed in September 2001 and commercial operations commenced in November 2001. The second phase (1 unit of 15MW) was completed in May 2002.
- **July 28, 2006:** A formal agreement to provide a systematic framework for cooperation in the development of hydropower projects was signed between the RGOB and the GoI. The agreement, valid for 60 years and to be reviewed every 10 years, facilitates the supply of funds and manpower from India for the construction of hydropower projects in Bhutan. The protocol on the tariff for the export of power from Tala was also signed between PTC India Limited and RGOB – a tariff of Nu.1.8 per unit was agreed upon, to be increased by 10 percent every 5 years until the loan amount is repaid, after which the increase will be by 5 percent every 5 years.
- **July 29, 2006:** Tala commissioned its first turbine (170MW). The second turbine was commissioned on October 7, 2006 while all six units were operational from March 29, 2007. Tala was officially commissioned in 2008.
- **July 28, 2007:** Bhutan and India signed the agreement on the implementation of the Punatsangchhu I hydropower project, to be financed by the GoI with 40 percent of the total cost as grant assistance and 60 percent as loan at 10 percent per annum interest. Construction commenced in November 2008.
- **November 11, 2007:** The hydropower corporations (Basochhu, Chhukha and Kurichhu) along with other government-owned companies were brought under the newly created Druk Holding and Investments (DHI). The DHI is a government holding company with the primary objective of safeguarding national wealth for all times to come.
- **January 2008:** The Tata Power Company Limited became the first private company to invest in Bhutan's hydropower sector under the new hydro-policy. Tata was allotted equity holdings of 26 percent in the Dagachhu Hydro Power Corporation, and committed to purchase power from the project for 25 years.
- **December 22, 2009:** MOUs were signed with 4 Indian public sector undertakings to prepare detailed project reports on the Amochhu, Kuri Gongri, Chamkharchu-I and Kholongchhu projects. The governments of Bhutan and India also signed an

agreement on consultancy services for preparation of Bhutan's national transmission grid master plan.

- **April 30, 2010:** The implementation agreements for Punatsangchhu II and Mangdechhu projects were signed. Preconstruction works had already commenced in March 2010.

3. Hydropower Strategy and Projects in the Pipeline

The RGOB aims to achieve a total installed capacity of 10,000 MW of hydropower by the year 2020. To that end the DGPC's 10 year investment plan formally outlines two modes through which this objective will be achieved – through an inter-governmental (IG) undertaking with the government of India and through joint venture undertakings with Indian public sector companies. Apart from this strategy, the DGPC will also make its own additional investments in medium-sized projects aiming for an extra 500 MW of power by 2020.

Except for the composition of grants and loans, the IG model follows the model implemented so far in the construction of the Kurichhu and Tala plants wherein the two governments establish an authority that gets 100 percent financing from India to undertake the construction of projects. About 9,000 MW of hydropower production are targeted under this mode. After completion, these projects will be handed over to DGPC. Six projects have been identified under this mode.

Under the joint venture mode, the Indian public sector will partner with the DGPC to undertake projects. The Indian public sector partner will be allowed 51 percent equity stake. DGPC's share of the equity will be provided by India as grant. In terms of financing, a debt-to-equity ratio of 70:30 has been agreed to in principle for the four projects identified under this mode. The Indian partners will leverage the loans needed for construction.

Table 1. A Summary of Hydropower Projects in the Pipeline

Project	Capacity (MW)	DPR Schedule	Construction Schedule	Development Model
1 Punatsangchhu-I	1200	Completed	2008-2015	IG
2 Punatsangchhu-II	990	Completed	2010-2016	IG
3 Mangdechhu	720	Completed	2010-2016	IG
4 Sankosh Storage	4060	2010 (Dec)	2011-2020	IG
5 Kuri-Gongri	1800	2011 (Dec)	2012-2019	IG
6 Amochhu Storage	620	2011 (Sep)	2012-2018	IG
7 Wangchhu Storage	600	2011 (Dec)	2012-2020	JV with Indian PSU
8 Bunakha Storage	180	2011 (Mar)	2012-2018	JV with Indian PSU
9 Kholongchu	650	2011 (Jun)	2012-2018	JV with Indian PSU
10 Chamkharchhu-I	670	2011 (Dec)	2012-2018	JV with Indian PSU
11 Dagachhu	114	Completed	2009-2013	JV
12 Nikachhu	208	Underway	2012-2015	
13 Gamri	100	Underway	Expected completion: 2016	

Source: DGPC. Projects 1-10 will be developed to achieve the government's target generation of 10,000 MW of hydropower by 2020. Projects 11-13 are additional investments by DGPC towards its goal of an additional 500 MW of power by 2020.

Inter-governmental Undertakings

Six projects have been identified and are at various stages of development or feasibility study under the IG mode: Punatsangchhu I (1,200 MW); Punatsangchhu II (990 MW); Mangdechhu (720 MW); Sankosh storage (4,060 MW); Amochhu storage (620 MW); and Kuri Gongri (1,800 MW).

Punatsangchhu I will be financed on a 40 percent grant and 60 percent loan basis. Construction commenced in November 2008 and the project is expected to be completed by 2015. Meanwhile, DPRs for the Punatsangchhu II and Mangdechhu projects have been completed and the projects are scheduled for completion in 2016. The two projects will be financed on a 30 percent grant and 70 percent loan basis. DPRs for the Sankosh and Amochhu storage and Kuri Gongri projects are currently under preparation. Construction of the Sankosh project is scheduled for early 2011 and of the remaining two projects for 2012. The loan and grant proportions for these projects have not yet been finalized.

Punatsangchhu I (1,200 MW)

The agreement on the implementation of the Punatsangchhu I hydropower project, financed by the GoI as 40 percent grant assistance and 60 percent loan at 10 percent interest per annum was signed on July 28, 2007. The project was approved at an estimated cost of INR/Nu.31,074.9 million (December 2006 price levels) for generation and INR/Nu.4,073.2 million for transmission works up to the Bhutan-India border. Construction commenced in November 2008 and the project is scheduled to be completed

by November 2015. As of May 2010, 19 percent of the project was completed while all preconstruction works (building of basic infrastructure) are expected to be complete by end of 2010.

It is estimated that 10 percent of the electricity generated from the project will be utilized for domestic consumption, with the remaining 90 percent to be exported to India. It is also expected that the export tariff will be determined as per the intergovernmental agreement, subject to review every 4 years. Given the revised financing modality with a lower grant component, the tariff for Punatsangchhu may be higher than the Tala tariff as it entails a higher cost for the RGOB.

Sankosh Storage (4,060 MW)

The 4,060 MW Sankosh project, estimated to cost more than Nu.210 billion will be the country's biggest hydropower project so far. As a reservoir project, Sankosh is expected to stabilize and smooth out the seasonality in Bhutan's hydropower generation, by storing water during the monsoons for use in the dry winter months. At present, the country's hydropower plants are all run-of-the river schemes, and suffer from seasonal fluctuations, with generation shrinking in winter when river water flow is minimal. The DPR for the project is expected to be ready by March 2011. The project is expected to take eight years to be completed.

Joint Venture Undertakings

Four projects have been identified under this mode: Bunakha storage (180 MW), Kholongchhu (650 MW), Wangchhu storage (600 MW) and Chamkharchhu I (670 MW). The NHPC limited India, Satluj Jal Vidyut Nigam limited, Tehri hydro development corporation limited and the national thermal power corporation have been identified as the joint venture partners of DGPC to undertake these projects.

DGPC Investments

Apart from developing hydropower projects through financial assistance from India under the IG and JV modes, the DGPC also promotes self-undertaken projects in medium-sized plants to build human resource capacity in the hydropower sector. Under this strategy the DGPC will partner with domestic and external investors to raise financing for and to manage the projects. Several projects have already been identified, including Dagachhu (114 MW), Nikachhu (208 MW) and Gamri (100 MW) projects. Construction on Dagachhu project has already commenced while feasibility studies for Nikachhu and Gamri projects are underway. In addition, studies are also underway for the diversion of Tsibjalumchhu to the Tala reservoir to increase winter generation as well as for the Maokhola hydroelectric project in south central Bhutan.

Dagachhu Hydroelectric Project (114 MW)

DGPC is a lead partner in the construction of the 114 MW Dagachhu hydroelectric project. The project was approved at an estimated cost of USD 201.5 million, corresponding to Nu. 8.16 billion (2008 price levels and exchange rates), revised to Nu.10.918 billion in June 2010. The project is being financed on a 60:40 debt equity ratio with three equity stakeholders: DGPC (59 percent), Tata Power Company Limited, India

(26 percent) and the National Pension & Provident Fund of Bhutan (15 percent). The ADB is providing a loan of Euro 41.23 million for financing the electro-mechanical works, and the NPPF is providing a loan of Nu.600 million.

Dagachhu was approved as a clean development mechanism (CDM) project by the United Nations Framework Convention on Climate Change CDM executive board on February 26, 2010, with the crediting period defined from January 1, 2012 to December 31, 2018 (on a renewable basis). The project, estimated to generate 500 GWh of electricity annually, will provide 500,000 certified emission reduction (CER) credits for trading.

Construction on the project commenced on October 1, 2009 and is scheduled for completion by March 2013. Besides the domestic sale of royalty energy, power from the project will be evacuated to India through a long term power purchase agreement with Tata Power Trading Company Limited.

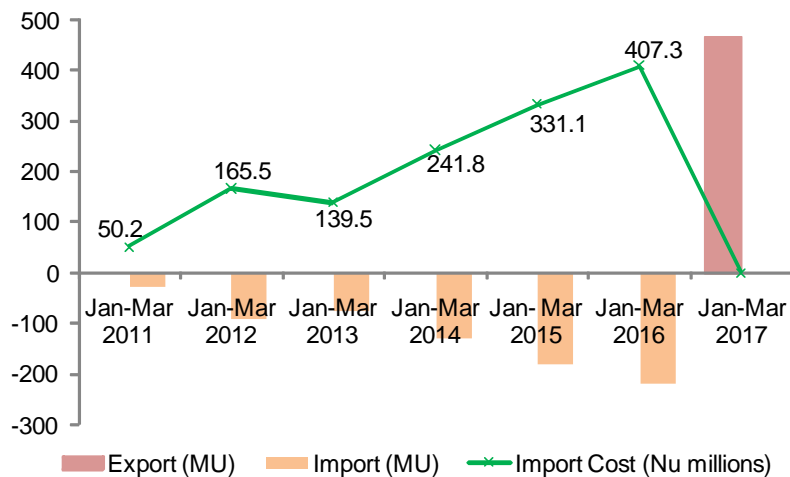
Hydropower Prospects 2011-2016: Winter Shortages

Development of Bhutan's hydropower sector has thus far proceeded at a slow pace with three hydropower projects (Basochhu, Kurichhu and Tala), having a combined generational capacity of 1,144 MW, constructed over a span of some 11 years. This pace will be much accelerated over the next decade as the government sets to achieve its objective of 10,000 MW of installed capacity by the year 2020. Construction of ten megaprojects with a combined capacity to generate 11,490 MW of power – about 10 times the capacity developed over the last decade – have either already commenced or will take place in the remaining 11 years till 2020.

Even as Bhutan sets off on this accelerated pace, the immediate concern over the long gestation period (during which all planned megaprojects are in the construction phase), is the potential shortage of power for domestic consumers in the dry winter months. At present, the country's hydropower plants are all run-of-the river schemes, and suffer from seasonal fluctuations, with generation shrinking in winter when river water flow is minimal. On the demand side, increasing demands from power-intensive industries, construction of new hydropower projects, and the government's rural electrification project are expected to compound the problem of power shortage.

Currently, the total winter generation (January-March) stands at about 288 MW while domestic winter demand has already reached 237 MW (of which 66 percent comes from the industry sector). Domestic demand is expected to rise further to 308 MW by 2011, resulting in a shortfall of 20 MW in 2011. Winter power shortages are expected to continue until 2016 when Punatsangchhu I is commissioned, with the DGPC even possibly becoming a net importer during winter until then.

The DGPC projects a winter import requirement of 718 MU during the next six years at a total cost of Nu.1.3 billion (see graph below).



Discussions are currently underway on the feasibility and tariff rates for the import of power from India. Since India also faces power shortages, the concern for the government is that it may have to import power from India at a rate higher than its export tariff unless the two sides agree to adopt a netting-off module. Under this module, power would be imported at the same tariff as that at which it is exported, with the two being netted off.

Several other strategies are also underway or being considered to meet the shortage. Among these strategies, the Tichulumchu and Lubichu streams have been diverted to the Chhukha dam to increase winter generation (expected by 9-10MW). Feasibility studies to divert Tsibjalumchu into the Tala dam are also underway – with the potential addition of 10-30MW winter generation by 2013. Another possibility being considered is that of ‘*power banking*’ where power can be exported tariff-free in summer to an energy bank for use in winter. If the shortage is acute, power-intensive industries may have to adopt load shedding as well as load reduction through higher winter tariffs.

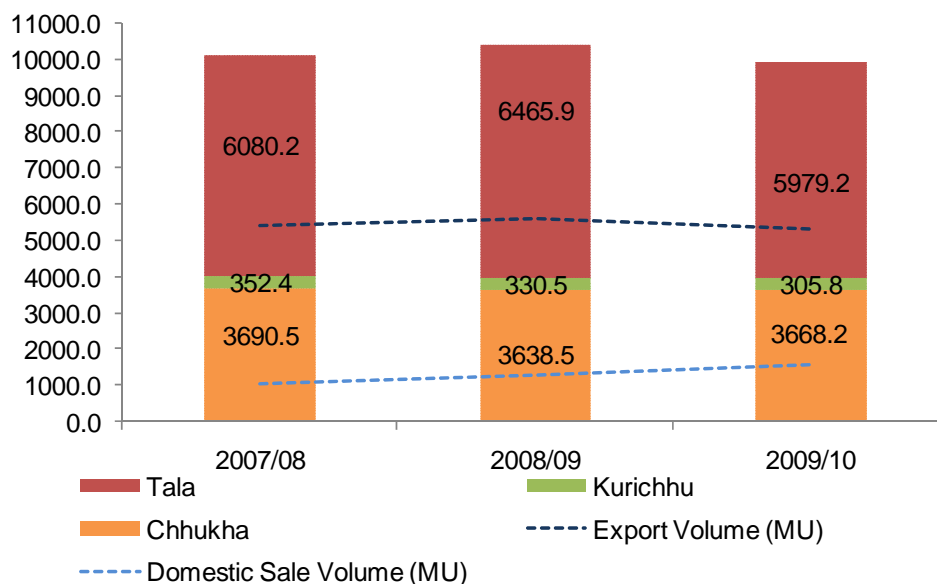
Finally, construction of small plants are also being considered – for example, a 20MW plant at Begana, Thimphu and 13MW plant at Bindu, Samtse are in the pipeline to be financed by the BPC. The draft feasibility report for the Begana plant has already been prepared and has been estimated to cost Nu.1.1 billion. The BPC is also considering two captive thermal power plants of 100MW run on gas or coal based either in Pasakha or Samdrupjongkhar.

4. Hydropower Exports

India remains Bhutan’s largest trading partner, accounting for 92 percent of exports and 72 percent of imports during fiscal year 2009/10. Hydropower exports to India are still the most important export, accounting for 39 percent of total exports in 2009/10. The commissioning of the Tala hydropower project was instrumental in doubling power export earnings in 2006/07.

The hydropower sector constituted around 9 percent of GDP prior to the commissioning of Tala with this ratio surging in 2006/07 and peaking in 2007/08 at around 20.5 percent. However, since then, in tandem with slower growth in export earnings and even a fall in earnings in 2009/10, hydropower export revenue as a percentage of GDP has also been falling. In 2009/10, export revenue fell by 4.6 percent from the previous year, to Nu.9.95 billion, owing largely to increased domestic consumption. The volume of hydropower sold domestically increased by over 20 percent between 2008/09 and 2009/10. Except for Chhukha which saw a nominal increase in its export revenue, the export earnings of both Kurichhu and Tala fell by 7.5 percent each. As a result, the ratio of hydropower export earnings to GDP was recorded at 16.3 percent in 2009/10, reflecting a decrease of 2.8 percentage points from the previous fiscal year.

Revenue earnings for the government from the hydropower sector (corporate income tax on the DGPC and transfer of dividends from Tala) in fiscal year 2009/10 amounted to Nu. 3.5 billion or about 22.7 percent of the national revenue for that year.

Chart 5. Hydropower Export Revenue (in Nu millions): 2007/08-2009/10**Table 2. Export Earnings from Hydropower: 2002/03-2009/10**

Millions of Nu.

Hydropower Plant	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Chhukha Hydropower Plant	1,978.4	2,306.6	2,091.4	2,985.9	3,759.3	3,690.5	3,638.5	3,668.2
<i>Annual Growth in %</i>	-2.4	16.6	-9.3	42.8	25.9	-1.8	-1.4	0.8
Tala Hydropower Plant					2,671.1	6,080.2	6,465.9	5,979.2
<i>Annual Growth in %</i>						127.6	6.3	-7.5
Kurichhu Hydropower Plant	385.3	497.7	493.4	523.8	473.3	352.4	330.5	305.8
<i>Annual Growth in %</i>	101.9	29.2	-0.9	6.2	-9.6	-25.5	-6.2	-7.5
Export Revenue	2,363.7	2,804.3	2,584.8	3,509.7	6,903.8	10,123.1	10,434.9	9,953.2
Annual Growth in %	6.6	18.6	-7.8	35.8	96.7	46.6	3.1	-4.6
Chhukha and Kurichhu	2,363.7	2,804.3	2,584.8	3,509.7	4,232.7	4,042.9	3,969.0	3,974.0
<i>Annual Growth in %</i>	6.6	18.6	-7.8	35.8	20.6	-4.5	-1.8	0.1
<i>Share in % to total</i>	100.0	100.0	100.0	100.0	61.3	39.9	38.0	39.9
<i>As % of GDP</i>	9.1	9.9	8.3	9.7	10.4	8.2	7.3	6.5
Tala (Share in % to total)					38.7	60.1	62.0	60.1
<i>As % of GDP</i>					6.6	12.3	11.8	9.8
Export Revenue as % of GDP	9.1	9.9	8.3	9.7	17.0	20.5	19.1	16.3

The Economics of Hydropower Flows

Water remains one of Bhutan's most important national resources, freely available and with a potential of generating about 30,000 megawatts of electricity. Hydropower is developed from the force of free flowing rivers which drive turbines to generate electricity. By increasing production through the construction of new hydropower plants, Bhutan is in a position to make optimum utilization of its water resources to meet growing domestic demand and boost its exports of hydropower.

Trade

Bhutan represents a model case study in the harnessing of hydropower to finance and support macroeconomic growth. Earnings through the development and trade in hydropower continue to drive growth in various sectors, especially construction and industry. Apart from revenue earned from the export of the product itself, another potential source of earnings lie in the amassing and sale of carbon credits. The adoption of technology that allows reduced carbon dioxide emissions in the development of the hydropower plants enables the country to emit carbon dioxide at levels below the standards set by the UNFCCC. The country then earns carbon credits which can subsequently be sold to the developed country signatories of the Kyoto Protocol. While the relatively higher costs of developing such projects can pose an important financial constraint, arrangements such as the UNFCCC's clean development mechanism provide channels for developed countries with emission reduction/limitation commitments to implement emission-reduction projects in developing countries and trade the certified emission reduction credits generated from such projects.

In the production of hydropower in Bhutan however, a key economic question is the use of water available within an annual weather cycle. The production of hydropower depends significantly on the force of the water turning the turbine as well as on how the water is transported away from the turbine. Low water levels and reduced force of water flow can reduce electricity production per unit of water and its associated revenues. The following are some factors which can cause fluctuations in electricity generation.

Scarcity of water and threat of over flow: Associated risks

All hydropower plants in Bhutan are run-of-the river schemes and hydropower is a highly seasonal product. For Bhutan, being located in the Himalayas, water downstream is susceptible to dry bouts due to snowfall frequency and formation of ice during the winter season, which can cause water scarcity and affect the production of electricity. In a typical year, production is near or at capacity in only about 5 months (June-October). Without a reservoir to store water during winter for the production of electricity, hydropower generation is severely seasonal.

On the other hand, the gradual melting of snow and ice during the early summer months can trigger swelling of rivers downstream. Similarly, while heavy monsoon rain helps to ensure better water supply for hydropower generation, there is an associated threat of overflow that can occur due to heavy rainfalls accompanied by flash floods. In such cases, hydropower plants may be forced to shut down with adverse effects on overall electricity production.

Reservoir

A reservoir plays a vital role in addressing the above two limitations in the production of electricity. It serves as storage for water, which can be used throughout the year to generate power with storage capacity dependent on the relative size of the reservoir. One of the key advantages of constructing reservoirs is to maintain a minimum level of water throughout the year and to stabilize water levels during rainy and dry seasons, thereby ensuring greater stability in power generation. On the other hand, heavy rainfall can cause landslides and floods that could destabilise the foundation of the reservoir leading to possible outburst of the reservoir, dangerous for those downstream of the river. Similarly, the controversies surrounding the displacement of local populations from their habitat and disturbances in the ecosystem are other important concerns in the development of reservoirs.

Table 3. Summary of Operations of Major Hydropower Plants in Bhutan

ITEM	TALA	KURICHHU	UPPER STAGE BASOCHHU	LOWER STAGE BASOCHHU*	PUNATSANGCHHU-I
Date Contract Signed	March 5, 1996	February 18, 1994	April 14, 1995	September 13, 2001	July 28, 2007
Donor	Govt. of India (GOI)	GOI	Govt. of Austria (GoA)	Official Austrian Export Promotion Scheme (Govt. of Austria)	Govt. of India (GOI)
Commencement of Construction	October 1, 1997	27-Sep-95	November 6, 1997	March 20, 2002	November 11, 2008
Date of Completion	March 31, 2007	First Phase (3 units of 45 MW): September 2001. Second Phase (1 unit 15 MW): May 2002	October 31, 2001	September 8, 2004	November 10, 2015
Energy Capacity upon Completion	1020 MW	60 MW	24 MW	40 MW	1200 MW
Terms of Finance	60% Grant 40% Loan (9% simple interest)	60% Grant 40% Loan (10.75% interest)	37.74% Grant 48.96% Loan 13.69% RGOB	2.80% TA Grant (GoA) 90.70% Soft Loan (GoA) 2.79 % Interest 6.5 % RGOB	40% Grant 60% Loan (10 % interest)
Initial Budget Outlay and Estimated Cost	Rs./Nu.14,080.00 million (at 1993 price levels)	Rs./Nu.2,550 million	Euro 25.44 million	Nu.1,421.8 million	Rs./Nu. 31,074.9 million for generation Rs./Nu. 4,073.2 million for Transmission works upto Bhutan-india Border
Cost of Construction	Rs./Nu.43,270 million (Estd. cost 2006) Rs./Nu.42,355 million (anticipated cost-to-completion)	Rs./Nu.5,600 million (as revised in June 2002) - GOI. Additional RGOB contribution of Rs./Nu.40 million	Euro 30.23 million Nu.192.84 million (RGOB) (Total - Nu.1,440 million)	Euro 31.95 million Nu.33.97 million (RGOB) (Total - Nu.1,843.3 million)	
Grant Disbursed Till Date	Rs./Nu.25,113.142 million	Rs./Nu.3,360 million	Euro 13.08 million (Nu.540 million)	Euro 0.9 million (Nu.47.53 million)	Rs./Nu.1,684.00 million (30.06.10)
Loan Disbursed Till Date	Rs./Nu.16,742.094 million	Rs./Nu.2,240 million	Euro 17.15 million (Nu.708 million)	Euro 31.05 million (Nu.1,638.27 million)	Rs./Nu.1,626.00 million
Total Funds Utilised Till Date	Rs./Nu.41,777.209 million (till 30.06.2008)	Rs./Nu.5,600 million - GOI Rs./Nu.33.239 million - RGOB Total - Rs./Nu.5,655.503 million	Euro 30.23 million Nu.192.84 million (RGOB) (Total - Nu.1,440 million)	Euro 31.95 million Nu.33.97 million (RGOB) (Total - Nu.1,843.3 million)	Rs./Nu.2,417.839 million (till October 2009)

Source: DGPC, Punatsangchhu I Hydroelectric Project Authority

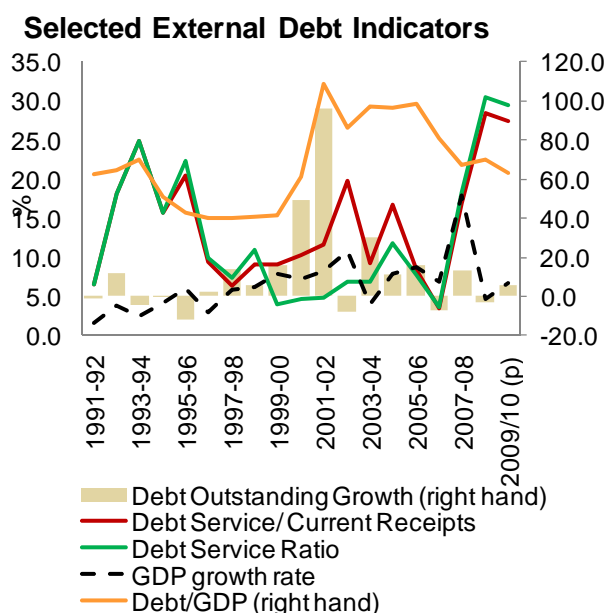
* Basochhu Lowerstage formally taken over by the Upperstage from July 1, 2005. ATS is converted to Euro.

BHUTAN'S EXTERNAL DEBT: A Status Report, FY 2009/10

1. EXTERNAL DEBT

Total External Debt

The outstanding stock of Bhutan's external debt stood at an equivalent of USD 840.7 million at the end of June 2010, increasing by 5.8 percent from the previous year. Of the total, 41.9 percent were convertible currency loans and the remaining 58.1 percent, Indian Rupee denominated debt (*mostly for hydropower development*). In terms of its components, the change in debt stock can be explained by the growth in both outstanding convertible currency debt which grew by 1.7 percent from 2008/09, and Rupee denominated debt which grew by 6.4 percent during 2009/10. The present stock of external debt comprises of convertible currency debt of USD 352.5 million and Indian Rupee debt of INR 22.8 billion. Additional statistical tables featuring Bhutan's external debt are presented in the Statistical Section.



Primary external debt data are sourced from the Department of Public Accounts, Ministry of Finance (public and publicly guaranteed debt), and from private sector borrowing entities through the RMA's BOP Enterprise Survey. The Department of Public Accounts, Ministry of Finance, also furnishes information on budgetary external grants. To the extent that non-budgetary grant statistics are referenced, detailed analysis is otherwise excluded.

This year's Status Report is exclusive of domestic debt data. Projections on BOP and debt-related statistics are provisional and computed as part of the World Bank/RGOB Medium-Term Fiscal Framework (MTFF) exercise.

In accordance with the international accepted definitions of the International Monetary Fund, long-term debt is defined to include external debt with a maturity of more than one year, and short-term external debt refers to external debt with a maturity of less than one year. Public/sovereign external debt represents external debt obligations of the government and is computed with that of debt guaranteed by the government (public guaranteed debt). In this report, private external borrowing refers to external debt guaranteed by and payable by non-government entities (on commercial terms).

Since the 1998/99 amortization of the commercial loan for the purchase of the Druk Air plane, Bhutan has had only public and publicly guaranteed debt (on largely concessional terms) outstanding to its multilateral and bilateral donors until 2002/03. However, since then, both the Royal Government and the Bhutanese private sector has borrowed externally on more commercial terms, and as of June 2010, 3.4 percent of Bhutan's total convertible currency loans (USD 12.1 million) constituted long term private commercial borrowings by the Bhutanese private sector. Meanwhile, disbursements towards the Punatsangchhu I hydropower project, which commenced June 2008, continued to boost Rupee loan inflows, doubling during 2009/10. The bulk of total loan disbursements remain focused on expanding the hydropower sector, although recent developments also indicate steady growth in debt flows related to the communications sector, which grew to USD 12.3 million in disbursements for the year 2009/10.

Table 1.1 External Debt Outstanding: Fiscal Year Position

Item	Rupee/Ngultrum Million			US \$ Million		
	2007/08	2008/09	2009/10	2007/08	2008/09	2009/10
1. Convertible Currency Borrowing	14117.4	16551.5	16444.4	349.7	346.4	352.5
<i>Public</i>	13491.9	15886.7	15878.0	334.2	332.5	340.3
a. World Bank	3839.1	5215.9	5023.2	95.1	109.2	107.7
b. IFAD	1072.4	1276.7	1298.4	26.6	26.7	27.8
c. ADB	4896.7	5660.9	6361.5	121.3	118.5	136.4
d. KFAED	9.5	10.4	10.0	0.2	0.2	0.2
e. EFIC Australia	0.0	0.0	0.0	0.0	0.0	0.0
f. Govt. of Austria	2970.5	3068.5	2702.5	73.6	64.2	57.9
g. Govt. of Denmark	703.6	653.3	481.5	17.4	13.7	10.3
h. JBIC		1.0	0.9		0.0	0.0
<i>Private</i>	625.6	664.8	566.4	15.5	13.9	12.1
3. Rupee Debt	18948.4	21400.7	22777.9	469.4	447.9	488.2
a. Chukha Hydropower Project	0.0	0.0	0.0	0.0	0.0	0.0
b. Kurichhu Hydropower Project	1493.3	1306.7	1120.0	37.0	27.3	24.0
c. Tala Hydroelectric Project	15346.9	13951.7	12556.6	380.2	292.0	269.2
d. Punatsangchhu - I Project	480.0	2225.0	4601.0	11.9	46.6	98.6
e. Standby Credit Facility - Gol		3000.0	3000.0		62.8	64.3
f. SBI OD Facility	1628.1	917.3	1500.3	40.3	19.2	32.2
4. Gross Total	33065.8	37952.2	39222.3	819.2	794.4	840.7
Convertible Currency Debt As a % of Total Debt				349.7 42.7	346.4 43.6	352.5 41.9
Rupee Debt As a % of Total Debt	18948.4 57.3	21400.7 56.4	22777.9 58.1			
Exchange Rate Ngultrum to 1 USD	40.4	47.8	46.7			

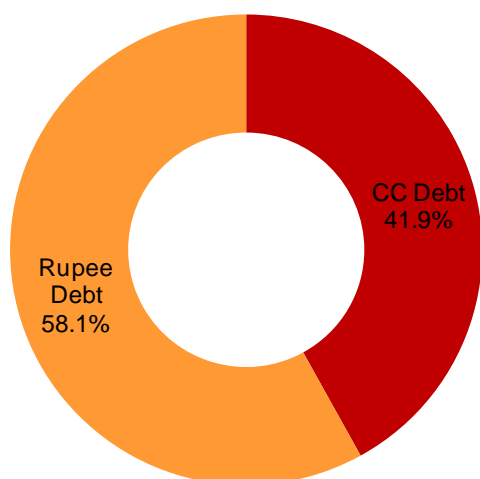
Source: Department of Public Accounts, Royal Monetary Authority of Bhutan & private sector enterprises.

1. Debt outstanding at the end of each fiscal year.

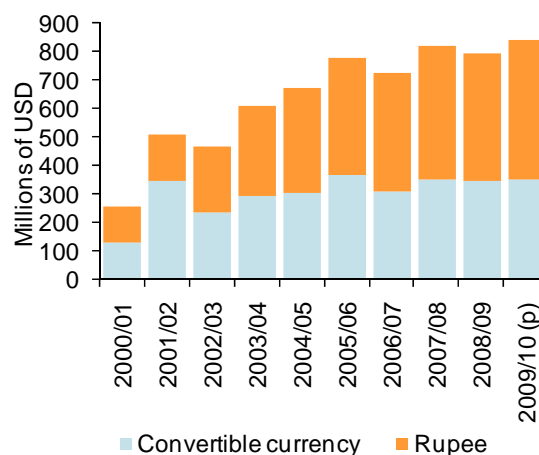
2. Outstanding Debt = (Total Disbursement - Principal Repayment).

3. Exchange rate used for conversion: fiscal year average, International Financial Statistics (IMF).

Composition of External Debt Outstanding (End of FY 2009/10)



External Debt Outstanding



Bhutan's external debt has been summative over the years to fund a range of infrastructure and public social sector works. The external debt service ratio, a liquidity monitoring ratio, remained relatively high in line with the previous year's ratio, at 29.5 percent in 2009/10 compared to that of 30.5 percent in the previous year. This reflects repayments on Rupee borrowings at more commercial terms availed by the Royal Government during the year through the State Bank of India (SBI) overdraft and GoI standby credit facilities.

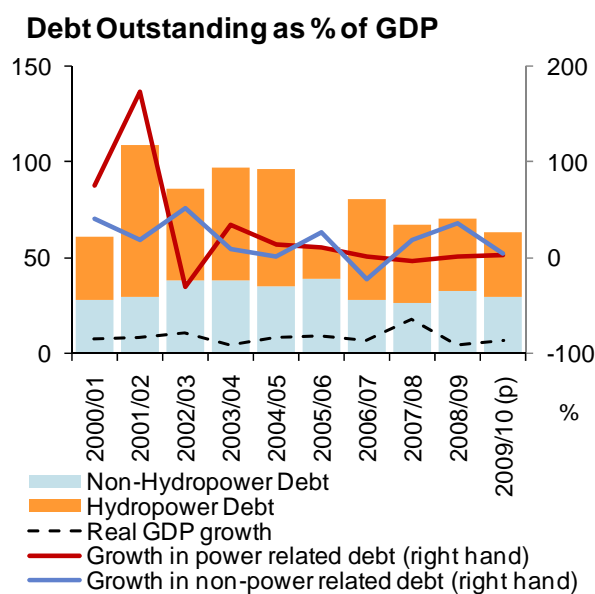
Short-term external debt has witnessed a considerable increase in the past 3 years on account of non-budgetary Rupee borrowing. Since 2007/08, the RGOB has resorted to Rupee borrowings from the SBI under a short term overdraft facility payable with 9.2 percent interest per annum. This coupled with the FY 2008/09 RGOB negotiated Nu.3 billion standby credit facility with the Government of India at an interest rate of 5 percent per annum, has contributed to the sharp increase in the debt service payment package in recent years. Similarly, debt service payments as a percentage of current receipts remain high at 27.4 percent in 2009/10 from 28.4 percent in the previous year. In comparison to the early 2000s, Bhutan's debt burden indicator as a percentage of GDP has improved from a peak of a 108.7 percent in 2001/02 down to 63.5 percent as at the end of June 2010.

Table 1.2 Selected External Debt Indicators

(In Percent)

Year	Debt Service/ Current Receipts	Interest/ Current Receipts	Debt/ Current Receipts	Debt/ GDP	Convertible Currency Debt/ Total Debt	Rupee Debt/ Total Debt	Debt Service Ratio
1990-91	5.3	2.0	145.2	50.4	59.6	40.4	5.3
1991-92	6.5	2.4	160.2	62.3	61.8	38.2	6.5
1992-93	18.1	4.0	169.9	64.8	55.4	44.6	18.1
1993-94	24.9	16.7	183.5	70.0	58.7	41.3	24.9
1994-95	15.7	11.7	152.4	50.7	59.8	40.2	15.7
1995-96	20.4	7.8	100.5	42.7	69.8	30.2	22.3
1996-97	9.4	6.3	102.6	39.9	72.1	27.9	9.8
1997-98	6.4	2.3	97.5	40.3	68.5	31.5	7.4
1998-99	9.1	1.6	108.4	40.5	65.7	34.3	10.9
1999-00	9.0	3.1	304.7	41.4	56.8	43.2	3.9
2000-01	10.3	3.5	430.0	60.9	50.2	49.8	4.7
2001-02	11.6	3.5	910.8	108.7	67.9	32.1	4.9
2002-03	19.8	7.1	1245.9	86.0	51.0	49.0	6.8
2003-04	9.2	4.0	646.5	96.9	48.5	51.5	6.8
2004-05	16.8	8.1	665.6	96.1	44.8	55.2	11.9
2005-06	8.4	4.2	336.0	98.3	47.3	52.7	7.6
2006-07	3.4	1.8	107.9	80.8	42.6	57.4	3.6
2007-08	16.8	6.1	115.5	67.0	42.7	57.3	18.3
2008-09	28.4	6.1	128.9	70.1	43.6	56.4	30.5
2009/10 (p)	27.4	6.8	127.2	63.5	41.9	58.1	29.5

1. Figures for debt service and interest payments are calculated on a cash basis.
2. Current receipts exclude official transfers (grants) and receipts of INGOs, previously termed as private transfers.
3. Debt-GDP figures are calculated using the GDP figure for the previous calendar year, i.e., the 2008 GDP figure for Fiscal Year 2008/09. Debt-GDP figures are derived using Ngultrum figures.
4. Debt Service Ratio is equal to total debt service payments in percent of the total exports of goods and services.
5. Differences in data in this table compared to past published time series data are due to revisions in the balance of payments and GDP data.



Bhutan's external debt is projected to grow at an average of about 21 percent for the remainder of the 10th FYP and an estimated 22 percent during FY 2010/11. In addition to ongoing loan portfolio disbursements, the anticipated expansion in external debt is expected to be driven primarily by the flows of medium and long-term debt, mostly new GoI Rupee loans towards the construction of the Mangdechhu and Punatsangchhu II hydropower projects, which are expected to commence in 2010/11. Similarly, Bhutan's convertible currency loan portfolio is also expected to grow, albeit slower than Rupee debt, led by growth in multilateral debt and the Dagachhu power-related loan from a consortium of

local and foreign investors.

2. EXTERNAL DEBT AND THE BUDGET

The Royal Government has followed a cautious fiscal approach to development, a cornerstone of which has been the policy to meet current expenditures through domestic revenue collections. On the other hand, a major part of the resource gap to finance capital expenditure has been sought through external borrowings and aid on concessionary terms. During the 9th Five Year Plan (2002/03-2006/07; extended by an additional year), Bhutan's outstanding external debt grew at an average of 9.1 percent per annum, its growth peaking during 2003/04 and 2005/06. Notably, those years coincided with expanded development activities in the energy sector, where the Basochhu and Tala projects were nearing completion, while others in the education, telecom and urban development spheres were beginning to gain ground.

Bhutan's FY 2009/10 revised budget outlay was marked up to Nu.30.5 billion. Of this amount, current expenditures accounted for 45.4 percent and capital expenditures, the residual 54.6 percent (Nu.16.6 billion). Revised estimates for domestic revenue mobilization for 2009/10 was placed at Nu.15.9 billion, more than enough to meet current expenditures totaling Nu.13.8 billion. Furthermore, as in the past, grant aid and concessional loans from India and other bilateral and multilateral sources supplemented domestic revenues to finance a significant portion of the government's capital expenditure.

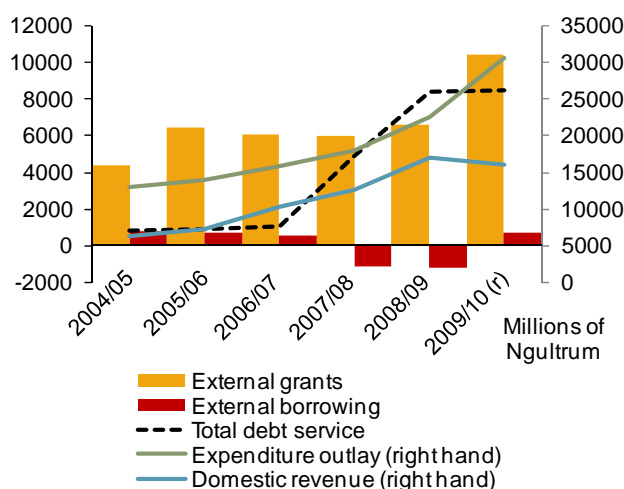
According to the FY 2010/11 provisional budget estimates, sovereign debt service payments (principal and interest) towards external outstanding debt have been budgeted up to Nu.4 billion from 2009/10.

	Nu. Millions	
	2009/10 (revised)	2010/11 (estimate)
Financing the Budget Deficit		
Fiscal Deficit (-) / Surplus (+)	-4090.5	-4805.2
a) Net External Borrowing	657.3	1003.7
i. Borrowings	2944.6	3351.8
ii. Repayments	2287.2	2348.1
b) Resource Gap	3433.2	3801.5

Source: Department of National Budget.

Year	External Debt Outstanding (USD Millions)	Annual Change (USD Millions)
2002/03	466.3	-41.5
2003/04	607.6	141.3
2004/05	674.3	66.7
2005/06	780.1	105.8
2006/07	723.8	-56.3
2007/08	819.1	95.4
2008/09	794.4	-24.8
2009/10	840.8	46.4

Composition of National Budget Financing



According to the FY 2010/11 provisional budget estimates, sovereign debt service payments (principal and interest) towards external outstanding debt have been budgeted up to Nu.4 billion from 2009/10.

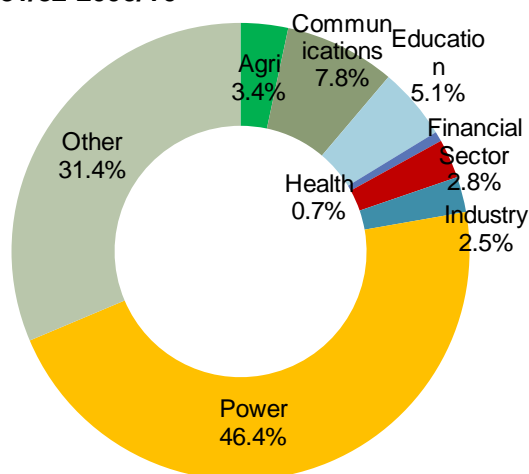
3. CLASSIFICATION OF EXTERNAL DEBT

3.1. Sectoral Disbursements

Bhutan's first concessional loan can be traced to 1981/82 with the first SDR loan disbursement from IFAD for the development of the Small Farms Project. Debt service payments are still being made on this loan. Since then, an equivalent of USD 1.4 billion convertible currency and Indian Rupee loans have been disbursed to Bhutan by various foreign governments, international multilateral, bilateral, and private financing agencies.

In terms of the sector-wise allocation, as of June 2009, 46.4 percent of the total external loans were disbursed to the power sector, followed by the communications sector with 7.8 percent and the education sector with 5.1 percent. Disbursements in the agriculture and financial sector accounted for 3.4 and 2.8 percent, respectively. For the year 2009/10, the highest disbursement of loans was accorded to the power sector to the tune of USD 70.2 million equivalent. Loans for communications sector development amounting to USD 12.3 million came in second, of which USD 10.9 million was disbursed by the ADB under the Road Network Project, and the education sector received USD 3.7 million during the year.

**Sector Share of External Loans:
1981/82-2009/10**



3.2. Creditor Classification

A creditor-wise classification of Bhutan's external debt is presented in Table 3.2.2 and 3.2.3. For the year ending June 2010, the GoI was Bhutan's largest creditor with 54.2 percent of overall external debt at Nu.21.3 billion, or 93.4 percent of total Rupee outstanding debt. This is followed by the ADB (Table 3.2.1) with USD 136.4 million and the World Bank with USD 107.7 million. Outstanding debt to the Government of Austria for the Basochhu hydropower project totaled USD 57.9 million.

Convertible currency multilateral debt outstanding has increased over the years to USD 272.1 million or 32.4 percent of total external debt as of the year 2009/10. Its share has decreased gradually over the years in line with the expansion of bilateral Rupee debt, and particularly rising private sector related debt and other Rupee debt.

Creditor Classification of External Debt

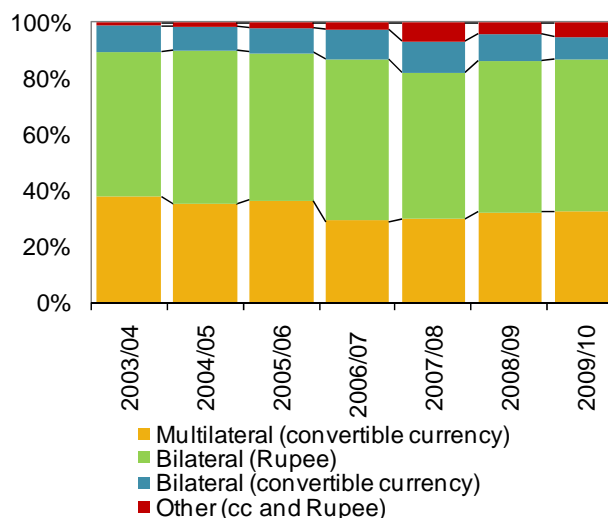


Table 3.2.1 ADB Cumulative Lending to Bhutan

Bhutan: Cumulative ADB Lending as of December-end 2009			
Sector	Loans Awarded	Amount (USD million)	% Share
Agriculture & Natural Resources	2	7.8	3.0
Education	2	14.1	5.5
Energy	5	106.9	41.7
Finance	5	23.5	9.2
Health & Social Protection	1	10.0	3.9
Industry & Trade	1	1.2	0.4
Transport & ICT	4	46.6	18.2
Water Supply & Other Municipal Infrastructure & Services	3	33.6	13.1
Multisector	2	12.4	4.8
TOTAL	25	256.1	100.0

Source: ADB Annual Report 2009.

Loans are cumulative from year of membership, 1982.

Table 3.2.2 External Debt Outstanding by Individual Creditor Category

Creditor Category	End of Period						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	<i>(In Millions of USD and Rupees/Ngultrum)</i>						
A. Convertible Currency Debt	294.4	302.1	368.8	308.1	349.7	346.4	352.5
I. Multilateral	229.4	234.4	282.5	210.0	243.2	254.6	272.1
Asian Development Bank	120.3	123.0	146.7	106.3	121.3	118.5	136.4
EFIC (Australia)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	29.7	27.6	31.5	23.6	26.6	26.7	27.8
KFAED	2.6	1.5	1.1	0.6	0.2	0.2	0.2
World Bank (IDA)	76.7	82.3	103.2	79.4	95.1	109.2	107.7
II. Bilateral	57.1	57.7	68.8	80.4	91.0	77.9	68.2
Government of Austria	57.1	57.7	59.9	64.2	73.6	64.2	57.9
Government of Denmark			8.9	16.2	17.4	13.7	10.3
III. Other	8.0	10.0	17.5	17.6	15.5	13.9	12.1
B. Rupee Debt	14222.3	16603.8	18400.2	18369.9	18948.4	21400.7	22777.9
Government of India	14222.3	16603.8	18400.2	18369.9	17320.3	20483.4	21277.6
State Bank of India	0.0	0.0	0.0	0.0	1628.1	917.3	1500.3
	<i>(In percent of Total Convertible Currency/Rupee Outstanding Debt)</i>						
Convertible Currency Creditors							
ADB	40.9	40.7	39.8	34.5	34.7	34.2	38.7
EFIC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government of Austria	19.4	19.1	16.2	20.8	21.0	18.5	16.4
Government of Denmark			2.4	5.3	5.0	3.9	2.9
IFAD	10.1	9.1	8.5	7.7	7.6	7.7	7.9
KFAED	0.9	0.5	0.3	0.2	0.1	0.1	0.1
World Bank	26.0	27.3	28.0	25.8	27.2	31.5	30.5
Others	2.7	3.3	4.7	5.7	4.4	4.0	3.4
Rupee Creditors							
Government of India	100.0	100.0	100.0	100.0	91.4	95.7	93.4
State Bank of India	0.0	0.0	0.0	0.0	8.6	4.3	6.6

Source: Department of Public Accounts & private sector enterprises.

Table 3.2.3 External Debt Outstanding by Creditor Category

Creditor Category	<i>(In millions of USD)</i>						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
I. Bilateral (convertible currency)	57.1	57.7	68.8	80.4	91.0	77.9	68.2
II. Bilateral (Rupee)	313.2	372.2	411.3	415.7	429.1	428.7	456.1
III. Multilateral (convertible currency)	229.4	234.4	282.5	210.0	243.2	254.6	272.1
IV. Other (cc and Rupee) ¹	8.0	10.0	17.5	17.6	55.8	33.1	44.3
Total External Debt	607.6	674.3	780.1	723.8	819.2	794.3	840.7
	<i>Percentage Share of Total External Debt</i>						
Bilateral (convertible currency)	9.4	8.6	8.8	11.1	11.1	9.8	8.1
Bilateral (Rupee)	51.5	55.2	52.7	57.4	52.4	54.0	54.2
Multilateral (convertible currency)	37.7	34.8	36.2	29.0	29.7	32.1	32.4
Other (cc and Rupee)	1.3	1.5	2.2	2.4	6.8	4.2	5.3

Source: Department of Public Accounts & private sector enterprises. 1) Includes non-bilateral and non-multilateral debt outstanding. This includes (i) cc private non-publicly guaranteed debt and (ii) SBI Overdraft Facility (publicly guaranteed debt).

3.3. External Debt by Currency Composition

Disbursements of Indian Rupee loans till date have largely traced developments in the hydropower sector in Bhutan. Continuing its previous trend, Rupee denominated debt continues to comprise over 50 percent of Bhutan's external debt portfolio. Meanwhile, the share of other concessional and SDR-denominated debt from the ADB, IFAD and the World Bank remains consistent in its one-third composition of debt. On the other hand, debt owed to the Government of Austria for the Basochhu hydropower project in Euro-denomination has declined with the commencement of debt servicing along with the absence of new loans since the project completed in 2004. However, the share of this currency in Bhutan's total debt is expected to grow in the next few years on account of the ADB's new loan towards the Dagachhu power project from 2009/10.

Table 3.3.1 Currency Composition of External Debt

Currency	<i>(% of Total External Debt)</i>						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
SDR	37.3	34.5	36.1	28.9	29.7	32.0	32.3
US Dollar	1.3	1.5	1.2	1.3	1.0	1.0	0.9
Indian Rupees	51.5	55.2	52.7	57.4	57.3	56.4	58.1
Euro	9.4	8.6	8.8	11.1	11.1	9.8	8.1
Kuwaiti Dinar	0.4	0.2	0.1	0.1	0.0	0.0	0.0
Norwegian Kroner			1.0	1.1	0.9	0.7	0.6
Yen						0.0	0.0

Table 3.3.2 Creditors Ranked by Cumulative Disbursement: 1981/82 – 2009/10

Millions of USD

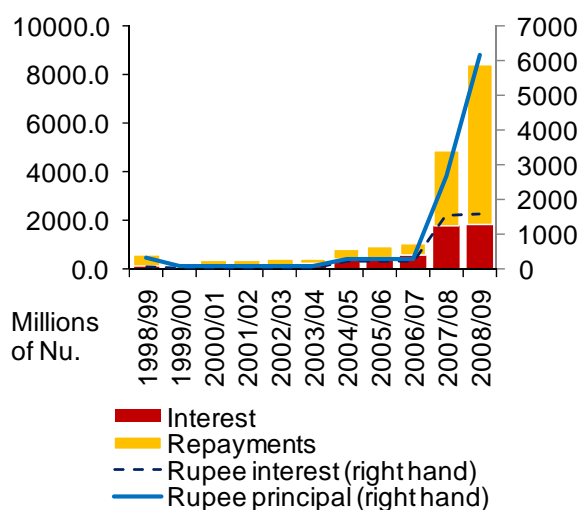
Agency	Sector								Total
	Agriculture	Communications	Education	Health	Financial Sector	Industry	Power	Other	
Government of India*						5.0	571.0	78.2	654.1
Asian Development Bank	5.9	48.7	22.0	10.1	19.9	0.8	40.5		147.8
World Bank	11.3	21.5	50.8		15.0	7.2		71.2	176.9
KFAED					4.8	23.0			27.8
Government of Austria							53.7		53.7
Government of Denmark		16.9							16.9
IFAD	30.8								30.8
Mitsui & Co. (Japan)		1.7							1.7
EFIC Australia		0.8							0.8
West LB Ltd.		22.6							22.6
IFC								10.0	10.0
Others								290.5	290.5
Total	48.0	112.2	72.8	10.1	39.6	35.9	665.2	449.8	1433.7

* The exchange rate used for conversion is based on the FY average and also the simple average of FY averages for the 15-year group (1981/82 - 1995/96).

4. DEBT SERVICE

The debt sustainability of any country is determined by its ability to service all its foreign debt and publicly guaranteed debt, domestic and external, short-term and long-term, without undermining its macro-economic objectives and long-term development goals. Since the focus of this feature is that of Bhutan's external debt situation, there are several indicators and international benchmarks that assist nations to monitor their debt levels. Moreover, a country's ability to service its external debt will depend on its debt burden, the mix of loans and grants in relation to all projected BOP flows, fiscal revenues and expenditures. However, it is essential to note that both debt and non-debt indicators can be used to estimate a country's level of liquidity and solvency.

External Debt Service



Debt servicing (repayment of principal plus interest) on both convertible currency and Indian Rupee debt expanded to an equivalent of USD 180.8 million in 2009/10 from USD 174.7 million in 2008/09. Of this amount, debt service on convertible currency loans in 2009/10 grew to USD 20.4 million from USD 12.7 million in 2008/09. Meanwhile, debt servicing on Rupee denominated debt remained the key contributor to the overall expansion in total debt service, with repayments remaining high at INR 7.5 billion from INR 7.7 billion as of 2008/09, a majority of which were principal repayments by the RGOB on the SBI OD facility. Meanwhile, Rupee debt service on hydropower debt including Tala and Kurichhu remained steady at INR 3.1 billion per annum.

Bhutan's debt service ratio measured as a percent of the export earnings from goods and services has remained on the lower spectrum for the most part of the last decade. From 2007/08 with the commissioning and commencement of debt servicing on the Tala project, Bhutan's debt service ratio has grown considerably to 18.3 percent in 2007/08 and to 29.5 percent in 2009/10. This takes place despite the subsequent increase in power-related export levels, due to an uneven expansion in commodity and services import coupled with a smoothing out of the growth in exports. By international standards, this would place Bhutan in the highly-indebted range; other SAARC countries' ratio remain within the range of 0.9 to 19.7 percent (the highest with that of Pakistan). Similarly, overall debt service as a percentage of current receipts (which excludes official transfers and INGO receipts) remained high at 27.4 percent in 2009/10. Even in terms of the magnitude of the external debt burden, where highly indebtedness is marked at higher than 50 percent of national income, Bhutan at 63.5 percent of GDP, is second after Maldives at 71.4 percent, with other SAARC members below 50 percent. Yet despite Bhutan's huge dependence on power-related exports and foreign aid, persistent current account deficits and growing fiscal burden, it is believed that Bhutan's external debt is largely sustainable but subject to a "moderate risk of distress." This is underlined by the self-liquidating nature of hydropower development which underlines the substantial build-up in Bhutan's external debt.

Table 4.1 Bhutan's Debt Service Payments by Creditor Category

Creditor Category	End of Period						
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Interest	Interest	Interest	Interest	Interest	Interest	Interest
	Principal	Principal	Principal	Principal	Principal	Principal	Principal
	<i>(In Millions of USD)</i>						
I. Multilateral (Convertible Currency)	2.42	2.29	2.78	2.67	2.48	2.20	2.69
	2.90	2.67	2.93	3.00	3.87	4.62	5.79
II. Bilateral Convertible Currency	0.75	0.74	1.42	3.32	1.73	1.24	5.92
	0.00	0.00	0.00	0.88	3.40	3.02	3.91
III. Convertible Currency Commercial Debt	0.16	0.25	0.77	1.28	1.01	0.75	0.22
	0.00	0.00	0.59	0.85	1.76	0.85	1.92
IV. Rupee Debt	0.46	4.89	4.78	4.74	38.36	33.46	36.14
	1.93	6.15	6.13	6.21	66.82	128.59	124.22
Total Interest Payments	3.78	8.16	9.75	12.01	43.58	37.65	44.97
Total Principal Repayments	4.83	8.82	9.64	10.93	75.85	137.08	135.84
Total Debt Service	8.61	16.98	19.40	22.94	119.44	174.73	180.81
	<i>(Ratios)</i>						
Debt Service Ratio*	6.8	11.9	7.6	3.6	18.3	30.5	29.5
Debt Service/Current Receipts**	4.4	16.8	8.4	3.4	16.8	28.4	27.4
Interest Payments/Current Receipts	1.9	8.1	4.2	1.8	6.1	6.1	6.8
Debt Service/Gross Reserves	2.2	4.7	4.0	3.8	18.2	22.6	20.8

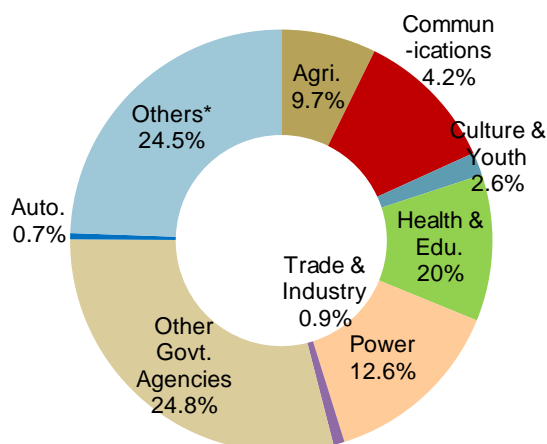
Source: Department of Public Accounts & private sector enterprises.

*: Debt service payments as a percentage of total exports of goods and services.

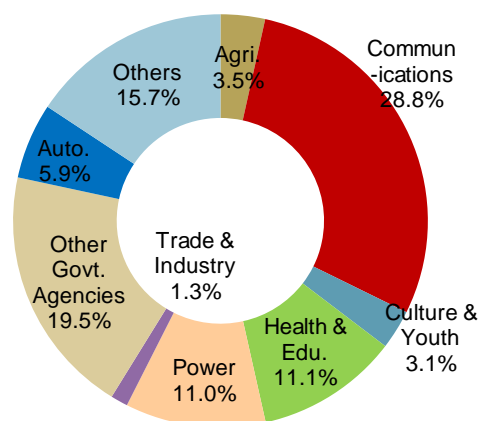
** : Current receipts include receipts from the export of goods and services, income and transfers, excluding official grants and receipts of International NGOs & international organizations. Please note: Inconsistencies may occur due to rounding.

5. GRANT ASSISTANCE

Sector Share of Grants: 1999/00



Sector Share of Grants: 2009/10



Source: Department of Public Accounts. *) Others: includes GoI program grants in addition to other miscellaneous grant items. Please note that there may be differences in grant data reported here and the fiscal report as reported by sources.

Grant aid from the Government of India and other international donors have traditionally financed on average over one-third of the fiscal outlay. In the revised estimates of the 2009/10 budget, grant support has reportedly financed 34.2 percent of the total expenditure. The GoI remains Bhutan's largest grant donor at 72.3 percent of all grant inflows for the year 2009/10 (program and budgetary grants, excluding non-budgetary support for the power sector) and 60.3 percent of all cumulative grant disbursements since 1990/91. In the latter category, the GoI is followed by DANIDA (9.9 percent), Government of Netherlands (3.3 percent), and JICA (2.5 percent). For the year 2009/10, 8.2 percent of grants totaling Nu.734.8 million were received from DANIDA, followed by the Government of Austria (1.8 percent) and the UNCDF (1.5 percent).

Sectoral analysis indicates that besides the hydropower sector (8.7 percent), the health and education (17.4 percent), communications (13 percent), and agriculture (11.2 percent) sectors have been the largest recipients of international grant assistance since 1990. Over the years, there has been a discernable yet marginal expansion in the direction of grant aid besides traditional sectors towards trade and industry and autonomous agencies activities, including information technology, good governance and women's empowerment programmes.

During 2009/10, the communications sectors received 28.8 percent of all grant disbursements, followed by the health and education (11.1 percent) and energy sectors (11 percent). Notably, grant disbursements to various cross-sectoral autonomous agencies constituted 5.9 percent of total grants as of 2009/10. Of the latter, the top three recipients during 2009/10 were the Royal University of Bhutan, Royal Institute of Health Sciences and the Royal Institute of Management.

Table 5.1 Individual Grant Donors: 1999/00 – 2009/10

<i>Millions of Ngultrum</i>											
Agency	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Govt. of India	2187.9	2551.2	945.3	2631.8	2287.2	2370.5	3087.3	3081.2	4671.1	4394.9	6439.5
DANIDA	318.7	394.8	534.8	525.8	579.2	432.1	539.0	454.7	462.5	513.1	734.8
JICA	7.1	0.0	4.2	0.0	50.0	22.5	0.0	9.2	0.8	0.9	0.0
Govt. of Netherlands	74.4	147.6	274.5	201.0	331.7	253.9	234.1	136.3	27.0	20.6	0.0
UNDP	140.8	51.4	134.4	114.2	115.1	118.1	102.4	109.9	63.8	116.8	124.4
Govt. of Austria	143.0	174.2	44.2	68.7	32.7	56.6	61.9	66.0	6.3	212.2	159.0
HELVETAS	75.8	94.3	0.0	0.0	0.0	16.9	32.9	0.0	16.2	34.4	78.6
Swiss Dev. Cooperation	106.2	66.8	62.6	103.5	122.5	46.9	71.4	61.0	35.7	70.2	22.2
EEC	29.9	18.0	112.5	130.8	203.0	54.3	82.4	69.6	20.1	8.5	86.2
UNCDF	10.6	27.2	26.9	26.6	25.1	0.0	0.0	23.7	0.0	0.0	135.2
World Bank, IDF, IDA	13.3	0.0	11.8	28.6	17.5	35.3	771.2	662.9	42.0	190.5	0.0
Others	166.4	185.4	545.9	650.7	692.2	379.9	440.3	379.9	586.4	950.3	1129.1
Total	3274.1	3711.0	2696.9	4481.7	4456.2	3787.0	5422.9	5054.3	5931.9	6512.3	8909.0
<i>Percentage Change on the Previous Year</i>											
Total	0.4	13.3	-27.3	66.2	-0.6	-15.0	43.2	-6.8	17.4	9.8	36.8

Source: Department of Public Accounts.

Table 5.2 Sector-Wise Classification of Grant Assistance: 1999/00 – 2009/10

Period	Sector									Total
	Agriculture	Communications	Culture & Youth	Health & Education	Power	Trade & Industry	Other Govt. Agencies	Autonomous	Others*	
1999/2000	238.5	357.2	57.6	367.4	458.0	28.0	951.8	15.6	800.0	3274.1
2000/2001	212.4	363.6	69.1	422.3	323.0	12.1	1486.2	21.3	800.0	3711.0
2001/2002	475.1	379.0	128.2	599.6	653.6	47.8	371.4	42.1	0.0	2696.9
2002/2003	474.9	426.8	105.5	629.2	395.2	24.7	398.7	26.7	2000.0	4481.7
2003/2004	780.9	329.6	75.3	465.2	421.8	30.0	439.3	90.0	1824.0	4456.2
2004/2005	255.9	218.9	10.5	808.8	191.4	104.7	417.5	28.9	1750.0	3786.7
2005/2006	521.2	532.2	11.2	945.2	255.3	52.4	1319.0	86.4	1700.0	5422.9
2006/2007	388.3	216.3	136.5	1458.2	292.8	28.5	1061.5	372.1	1100.0	5054.3
2007/2008	572.3	1327.0	85.9	974.6	34.2	69.8	1695.5	72.6	1100.0	5931.92
2008/2009	649.5	488.7	20.0	1997.0	367.1	321.6	744.2	1924.1	0.0	6512.26
2009/2010	309.8	2565.5	273.8	991.6	979.9	119.2	1741.6	527.5	1400.0	8908.97
Total	7810.9	9089.7	1254.2	12155.8	6083.3	925.1	13075.4	3301.5	16175.0	69871.8
<i>Percentage Share of Total Grant Aid</i>										
Sector Total	11.2	13.0	1.8	17.4	8.7	1.3	18.7	4.7	23.1	100.0

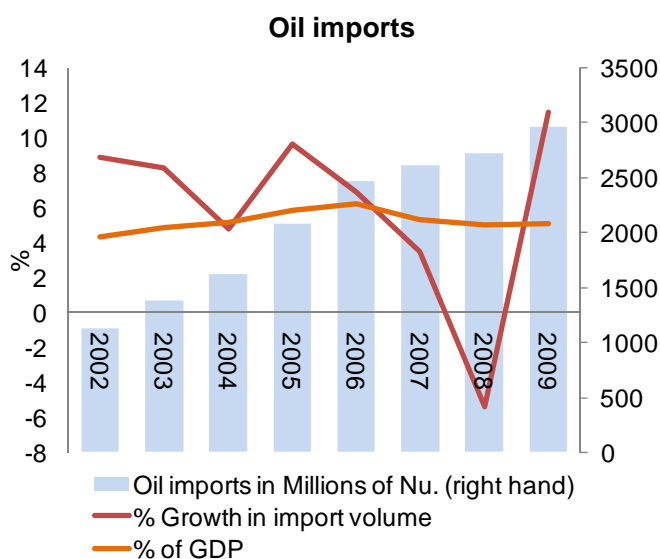
Source: Department of Public Accounts. *) Others include program grants from the Government of India (except during 2008/09 due to changes in classification).

SUMMARY OF PETROLEUM IMPORTS AND PRICES IN BHUTAN

Recent volatility in the prices of petroleum and related products in Bhutan have been a reflection of corresponding price and policy changes in India, which in turn have been influenced by global developments. For a small developing country such as Bhutan, heavily dependent on oil imports for consumption and industry, volatile fuel prices continues to remain a grave concern. While Bhutan possesses tremendous potential to harness and generate hydropower, its dependency on fossil fuels will continue to pose serious constraints on national policy.

Fuel prices in Bhutan are regulated based on the invoice price, and taking into consideration other cost factors in importing fuel products. Therefore, any revision in the price of the products at source immediately impacts prices in Bhutan. Moreover, in addition to the transportation costs, shrinkages allowance, dealers' commissions, depot surcharges, and product transit insurance, a five percent sales tax is also levied. Kerosene and liquid petroleum gas (LPG) are presently subsidized by the RGOB.

Bhutan imports most of its finished products of petroleum and related oils (diesel, petrol, kerosene, lubricating oils, and liquid petroleum gas) from India. In 2009, the growth in the import of oil in terms of volume and value has increased by 11.4 percent and 8.6 percent from negative 5.4 percent and 4.1 percent in 2008, respectively. As a percentage share of oil imports, diesel accounts for 62.3 percent, followed by petrol at 19.1 percent, and LPG at 5.7 percent. The remaining imports were on account of kerosene, furnace oils, ATF (jet fuel) and lubricating oils. In 2009, high-speed diesel continued to be among Bhutan's top ten imports.



During the year 2009, the growth in oil imports from India expanded in terms of both value and volume mainly due to an increase in the import of petrol, diesel and furnace oils. Petroleum and related products worth over USD 61.2 million (almost Nu.3 billion) were imported in 2009, against USD 62.7 million (Nu.2.7 billion) in 2008. Major petroleum imports comprised of diesel, petrol, LPG, kerosene and furnace oils, indicating an increase in the dependency on oil imports. For the year 2009, imports of major fuel components constituted 5.1 percent

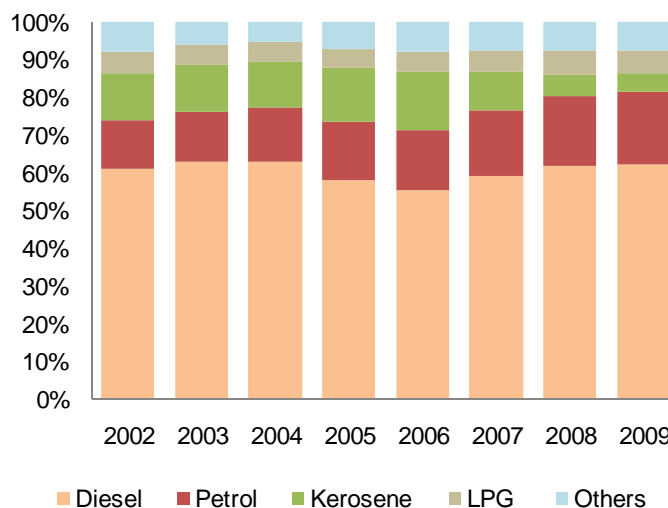
of GDP and overall fuel imports comprised 14.9 percent of total merchandise imports from India. The steady growth in domestic demand for petroleum products coupled with the associated burden of the growing import bill and negative external trade balance with India presents numerous policy challenges for the RGOB.

The increased demand for diesel and petrol is also evidenced by the growing population using cars and other forms of motor vehicles imported from India and other countries. Imports of motor vehicles have been among the country's top ten imports, with overall customs import values at Nu.2 billion for the year ending 2009. According to the Royal Safety and Transport Authority, the total number of registered vehicles in the country as of June 2010 was 48,447. With the ever-growing number of vehicles and use of heavy duty machinery in the construction sector, the consumption of petroleum products is likely to expand in the near future alongside growing economic and development activity.

Although the use of oil is largely limited to the transport and services sectors, the impact of changes in its price can be felt more strongly when transmitted through the import of other goods and services. Assessing the impact of oil prices on Bhutan's consumer price index, the consumer price index in Bhutan recorded a 6.1 percent for 2010 second quarter, compared to almost 3 percent during the same quarter in 2009.

During this period, the price of electricity, gas and other fuels, which constitute 6 percent of the expenditure basket, increased by 2.5 percent against 5.4 percent during the same period last year. On the other hand, the price of fuels and lubricants, which constitute 3.2 percent of the expenditure basket increased by 5.8 percent during the year, as compared to the decline of 1.4 percent during the same period last year.

Composition of Oil Imports



Growth in Major Oil Imports
(y-o-y, % change)

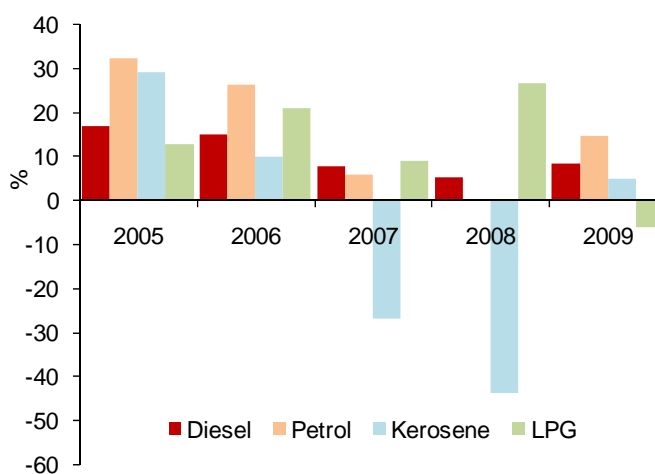


Table 1. Summary of Bhutan's Import of Major Oil Products, 2002-2009

Quantity/Value	2002	2003	2004	2005	2006	2007	2008	2009
Diesel (KL)	43507.0	48599.0	50809.0	51460.0	52418.0	58174.0	57245.0	64300.0
<i>Value in millions of Nu.</i>	655.8	854.3	1023.2	1263.9	1455.6	1570.7	1654.8	1792.9
Petrol(KL)	9112.0	10229.0	11800.0	13795.0	15216.0	16781.0	17393.0	19709.0
<i>Value in millions of Nu.</i>	208.3	261.6	340.0	450.5	570.0	603.2	604.4	694.7
Kerosene (KL)	9001.0	9706.0	9781.0	12545.0	14370.0	10207.0	5252.0	5427.0
<i>Value in millions of Nu.</i>	74.6	81.0	81.4	105.2	115.8	84.7	44.2	46.4
LPG (MT)	3887.3	4016.7	4055.0	4472.0	4980.4	5405.5	5724.7	5856.8
<i>Value in millions of Nu.</i>	54.9	56.4	65.9	74.4	90.1	98.2	124.5	116.8
Octane 91 (KL)			125.0	84.0	505.0	718.0	594.0	1036.0
<i>Value in millions of Nu.</i>			3.8	3.0	20.0	26.8	24.6	34.3
Aviation Turbine Fuel (KL)	1044.9	1026.0	1080.0	1145.0	801.0	1080.0	828.0	1008.0
<i>Value in millions of Nu.</i>	13.7	19.1	24.5	31.0	27.6	36.9	38.3	32.4
Lubricating Oils (MT)	1958.8	1461.5	1348.0	3414.0	3934.1	3297.4	3767.8	1096.7
<i>Value in millions of Nu.</i>	88.0	84.1	63.3	123.9	135.8	147.0	180.4	126.8
Furnance Oil (MT)	2745.5	2081.2	1812.0	1656.0	2421.0	2292.0	1892.0	4848.0
<i>Value in millions of Nu.</i>	32.9	28.5	26.8	29.8	51.1	53.3	56.9	119.0
Total volume (KL)	71,256.5	77,119.4	80,810.0	88,571.0	94,645.5	97,955.0	92,696.6	103,281.5
Total value (million)	1,128.2	1,385.0	1,628.9	2,081.5	2,465.9	2,620.7	2,728.2	2,963.3
<i>(% of Total Oil Imports by Volume)</i>								
Diesel	61.1	63.0	62.9	58.1	55.4	59.4	61.8	62.3
Petrol	12.8	13.3	14.6	15.6	16.1	17.1	18.8	19.1
Kerosene	12.6	12.6	12.1	14.2	15.2	10.4	5.7	5.3
LPG	5.5	5.2	5.0	5.0	5.3	5.5	6.2	5.7
ATF(Jet fuel)	1.5	1.3	1.3	1.3	0.8	1.1	0.9	1.0
Lubricating Oils	2.7	1.9	1.7	3.9	4.2	3.4	4.1	1.1
Furnance Oils	3.9	2.7	2.2	1.9	2.6	2.3	2.0	4.7
<i>(% of Total Oil Imports by Value)</i>								
Diesel	58.1	61.7	62.8	60.7	59.0	59.9	60.7	60.5
Petrol	18.5	18.9	20.9	21.6	23.1	23.0	22.2	23.4
Kerosene	6.6	5.9	5.0	5.1	4.7	3.2	1.6	1.6
LPG	4.9	4.1	4.0	3.6	3.7	3.7	4.6	3.9
ATF(Jet fuel)	1.2	1.4	1.5	1.5	1.1	1.4	1.4	1.1
Lubricating Oils	7.8	6.1	3.9	5.9	5.5	5.6	6.6	4.3
Furnance Oils	2.9	2.1	1.6	1.4	2.1	2.0	2.1	4.0

Source: POL Section, Ministry of Economic Affairs.

N.B: It is assumed that MT=KL . Figures are based on information submitted by the POL dealers in Bhutan. Diesel

REVIEW OF PERFORMANCE OF BHUTAN'S FINANCIAL SECTOR (June 2010)¹

Introduction

This report summarizes the performance of the Bhutanese financial sector for the second quarter of 2010 in comparison to the corresponding quarter of the previous year. However, this report does not reflect the true performance of the financial institutions during the period because this year's quarter (period ending June 2010) includes the data of newly licensed financial institutions (DPNB Ltd, T-Bank Ltd. and BIL) and excludes the NPPF. The information contained in this report is based on the RMA returns submitted by the financial institutions to the RMA. The observations are summarized below:

1. Business Size and Growth

Total assets of the financial system² increased by 32.17 percent to Nu.55.29 billion at the end of June 2010, compared to Nu.41.83 billion in June 2009 mainly due to increase in the net loans and advances by Nu.5.9 billion. The total assets of the banks³ expanded by Nu.11.09 billion (or by 28.42 percent) during the period under review where as non-banks⁴ assets rose by Nu.2.37 billion (or by 83.88 percent). Customers' deposits of the banks were Nu.39.61 billion at 30 June, 2010, Nu.9.67 billion higher than at the end of June 2009, comprising mostly of corporate deposits (63.05 percent). Borrowings of the NBFIs (including BDFCL) increased by 48.11 percent during the period and stood at Nu.2.43 billion, which were largely financed from domestic sources (about 87 percent). Meanwhile, the off-balance sheet exposures such as letters of credit, performance bonds and other form of guarantee of the financial sector more than doubled to Nu.5.88 billion from Nu.2.55 billion.

2. Capital and Reserves

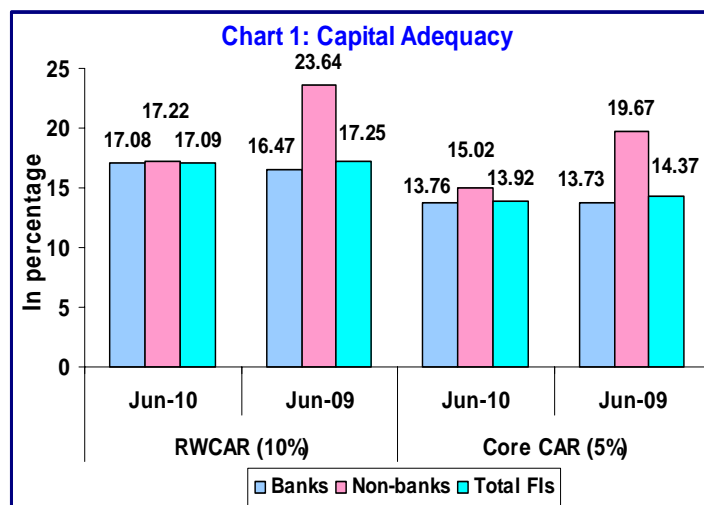
At the end of the second quarter of 2010, the Bhutanese financial sector is well capitalized with capital adequacy ratio and core capital ratio at 17.09 percent 15.02 percent respectively. These ratios indicate that the Bhutanese financial institutions are solvent and have enough capital to withstand shocks as well as to meet unexpected claims. The capital fund reached to Nu.6.53 billion in June 2010 from Nu.4.86 million a year ago. The increase is mainly seen in banks with almost Nu.1.56 billion (by 37.67 percent) and is hugely attributable to the increase in the core capital by Nu.1.14 billion (paid-up capital of new banks by Nu.0.34 billion) and Nu.0.44 billion increase in the net profit. Meanwhile, the non-banks' capital base increased from Nu.0.72 billion to Nu.0.82 billion or by 14.72 percent during the period.

¹ Prepared by the RMA Financial Regulation and Supervision Department (FRSD).

² The Bhutanese financial system consists of the BOBL, BDFCL, DPNBL, TBL, BDFCL, RICBL, BIL and NPPF.

³ Banks refers to the BOBL, BNBL, DPNBL, TBL and BDFCL.

⁴ Non-banks refers to the RICBL, BIL and NPPF.



3. Total Assets

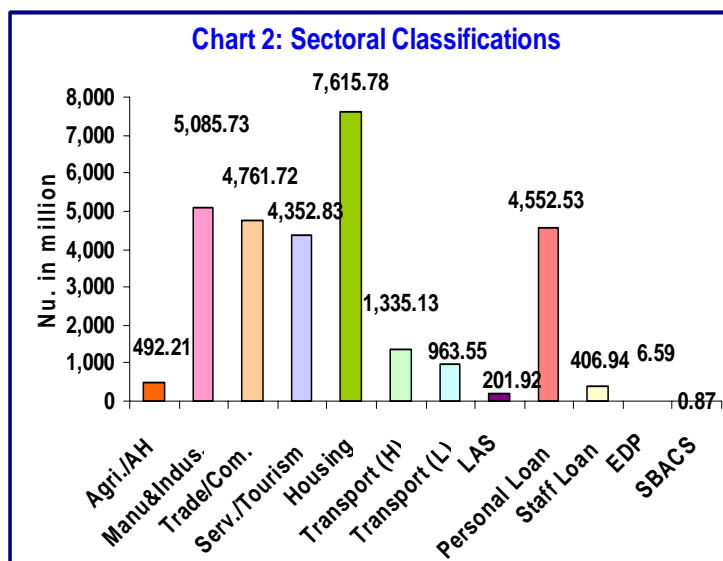
Financial sector total assets expanded by 32.17 percent to Nu.55.29 billion from Nu.41.83 billion. This expansion was mainly driven by a solid increase in the assets of the commercial banks (Nu.11.09 billion or by 28.42 percent) and a relatively smaller increase in the assets of non-banks (Nu.2.34 billion or by 83.88 percent). Of the total assets, the commercial banks constitute 90.60 percent while the NBFIs hold the remaining 9.40 percent.

In terms of holdings, loan assets (net of provision) form the major component of assets with Nu.28.28 billion (51.15 per cent), followed by liquid assets with Nu.24.77 (44.80 percent). The remaining assets include equity investments, fixed and others.

4. Credit Distribution by Sector

During the end of the second quarter of 2010, the financial sector credit portfolio increased to Nu.29.78 billion from Nu.24.26 billion or by 22.75 percent, mainly driven by the increase in the demand for housing loans. Housing finance provided by the financial institutions has risen by Nu.1.23 billion (or by 25.41 percent), making it an important component of total financial sector credit. Banks' total loans and advances increased by Nu.4.42 billion (or by 20.36 percent) as against about Nu.1.10 billion (43 percent) increase in the total loans and advances of the non-banks.

Housing sector credit, which accounts for 25.58 percent of overall total loans and advances, continued to lead the sectoral credit concentration, followed by the manufacturing and industry sector, and trade and commerce sector, with 17.08 percent and 15.99 percent shares, respectively. However, agricultural sector credit abated by 25.20 percent, reflecting the gradual transformation of the Bhutanese economy from one based on largely subsistence agriculture to a growing and modernizing one.

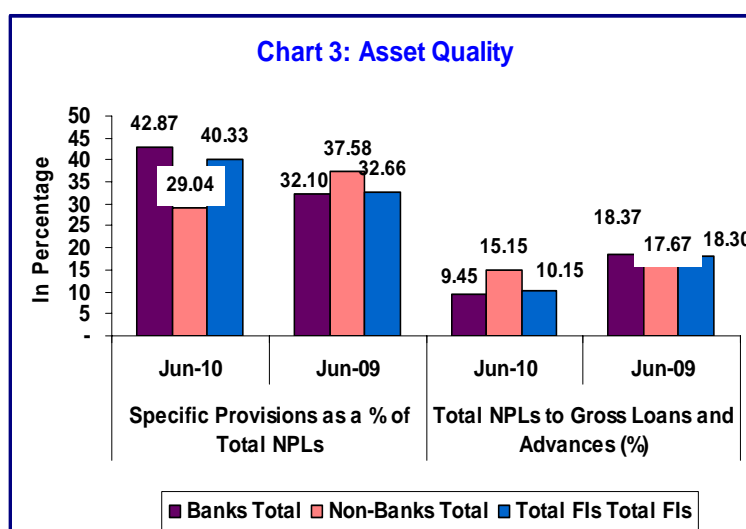


5. Asset Quality (Credit Portfolio)

The non-performing loans of the Bhutanese financial sector fell by 31.92 percent to Nu.3.02 billion in June 2010. The decrease in the non-performing loans was seen in all the financial institutions (except in one of the non-banks), mainly due to the reviving of the manufacturing and industry sector, and also due to the continuous monitoring and recovery of NPLs.

Consequently, the NPL ratio improved to 10.15 percent in June 2010 from 18.30 percent a year earlier. Nevertheless, the NPL ratio at 10.15 percent is still high compared to the year end-figure of 2009 (6.99 percent).

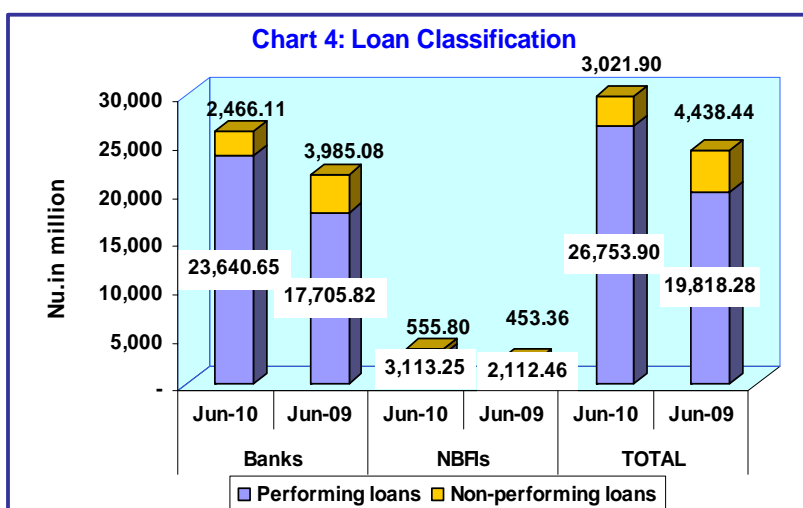
The NPLs of both the banks and non-banks decreased from 18.37 percent and 17.67 percent to 9.45 percent and 15.15 percent, respectively. Nevertheless, the provisions as a percentage of NPLs of the financial sector increased from 32.66 percent to 40.33 percent.



6. Consolidated Loan Classification of the FIs

Among the classified loans of the financial sector, bad loans or the non-performing loans constituted only around 10 percent of the total loans issued, which was much lower than that of June-2009 (18.37 percent).

Of the total loans of Nu.22.07 billion of the commercial banks, 92.41 per cent were performing loans and the remaining 7.59 percent were non-performing. Similarly, 86.05 percent of the total loans and advances (Nu.10.93 billion) of the non banks were performing loans and the remaining 13.95 percent were non-performing loans.



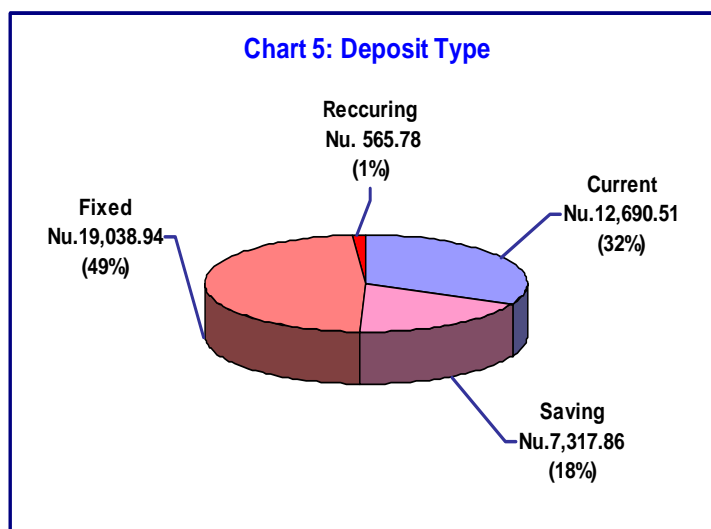
7. Liabilities

The total liabilities of the financial sector amounted to Nu.55.29 billion in June 2010 as compared to Nu.41.83 billion in June 2009. The majority of the liabilities comprised of deposit liabilities of the banks with 71.64 percent, followed by capital and reserves with 12.09 percent and borrowings of non-banks with 6.52 percent.

8. Distribution of Deposits by Customer

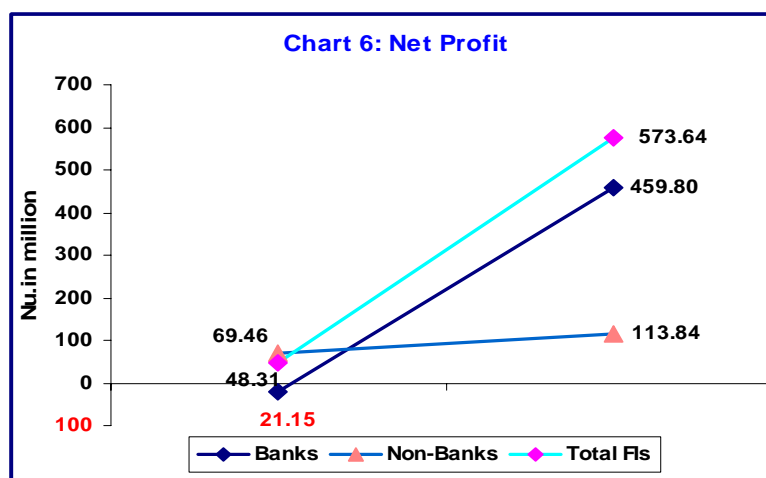
Total deposits liabilities of the deposit takers rose considerably to Nu.39.16 billion in June 2010 from Nu.29.94 billion in June 2009, achieving a growth of 32.31 percent. The substantial growth in the deposit base was the result of an increase in the deposits of corporate entities (by Nu.6.34 billion or 34 percent) particularly in the form of fixed deposits (by Nu.4.62 billion), followed by individual deposits (including foreign currency deposits) by Nu.3.34 billion (by 29.53 percent). Chart 5 shows the types of deposit with the banks in Bhutan. While the long term deposits (recurring and fixed deposits) rose by 43.04 percent, from Nu.13.71 billion to Nu.19.60 billion, the short term deposits (current and saving deposits) increased by only 23.25 percent to Nu.20 billion. Nevertheless, both the demand and time deposits shared almost equal holding in the total deposits. In terms of

deposits by customer holdings, corporate deposits⁵ accounted for around 63 percent and the remaining 37 percent constituted retail deposits. In other words, corporate deposits dominated the deposit holding pattern of the financial institutions.



9. Profitability

Net profits of the financial institutions for the second quarter of 2010 was Nu.573.64 million compared with negative Nu.48.31 million for the second quarter of 2009. Despite a 28.71 percent (Nu.0.16 billion) increase in the interest expense of the financial institutions mainly on corporate deposits, net interest income was up 39.87 percent to Nu.967.39 million, driven mainly by the increase in the return from inter-bank deposits (Nu.328.33 million). Similarly, the non-interest income also increased by 12.43 percent, mainly due to the transfer of surplus from the insurance revenue account of insurance companies and also due to the rise in fees and commissions earned by the financial institutions from their respective retail business.

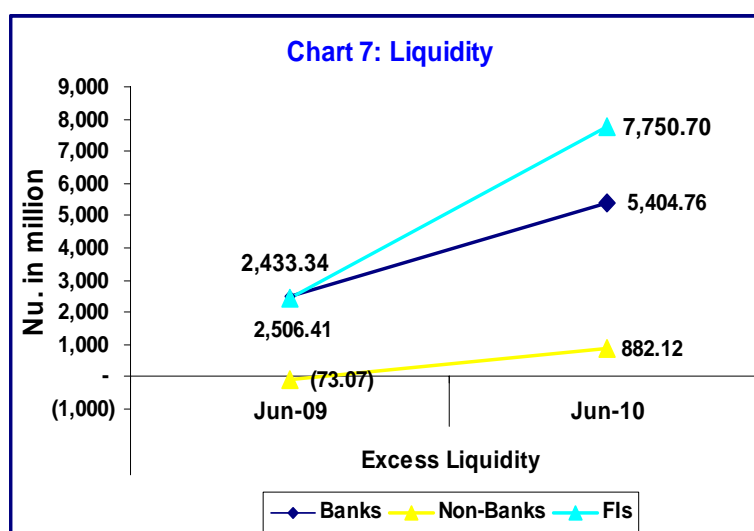


⁵ Corporate Deposits – refers to government, government corporations, joint corporations, private companies, NBFIs and CBs.

The net profit of banks have risen to Nu.0.46 billion from negative Nu.0.02 billion, mainly from their retail banking business (loans and overdrafts by Nu.0.33 billion), while the non-banks' net profit increased from Nu.0.07 billion to Nu.0.11 billion.

10. Liquidity

Although the amount of the Government Treasury Bills which replaced the RMA bills doubled, it did not have much effect on the excess liquidity of the financial sector. The excess liquidity of the financial sector remained substantial at Nu.7.75 billion, reflecting the persistent sluggish trend in investment avenues. The overall excess liquidity with the commercial banks stood at Nu.6.87 billion, registering 107.04 percent growth over that of the same period of previous year. Meanwhile, the non-banks also experienced an increase in their excess liquidity from negative Nu.0.73 billion to Nu.0.88 billion during the period. As a result, the statutory liquidity requirement (SLR) of the banks stood at a very comfortable position at 35.47 percent, which is around 15 percent above the regulatory requirement of 20 percent. Similarly, the non-banks' SLR position stood 20.92 percent above the minimum prudential requirement of 10 percent.



**ROYAL MONETARY AUTHORITY OF BHUTAN
BALANCE SHEET**

(Amount in Nu.)

ASSETS	AS AT JUNE 30, 2010	AS AT JUNE 30, 2009
FOREIGN ASSETS		
Cash in Hand	162,947,703.69	194,119,142.59
Balances with Banks (India)	110,705.41	110,003.41
Balances with Banks (Abroad)	984,323,493.08	2,352,253,307.44
Term Deposits (Abroad)	35,186,814,979.72	32,177,159,064.98
Long Term Investment Securities (Abroad)	856,110,434.32	503,249,007.01
Non-Monetary Gold and Silver	7,036,693.35	7,870,117.55
Accrued Interest on Foreign Investments	94,171,756.49	75,262,109.90
Total Foreign Assets	37,291,515,766.06	35,310,022,752.88
DOMESTIC ASSETS		
Cash in Hand	503,670.00	1,359,626.52
Balances with Banks	627,106,846.52	44,204,876.99
Other Financial Assets	18,278,597.98	17,207,591.46
Accrued Interest	6,291.77	5,187.72
Total Domestic Assets	645,895,406.27	62,777,282.69
NON FINANCIAL ASSETS		
Gross Fixed Assets	189,551,063.42	175,599,750.09
Inventories	50,469,621.18	51,634,533.73
Other Assets	77,389,127.27	124,743,382.33
Total Non Financial Assets	317,409,811.87	351,977,666.15
TOTAL	38,254,820,984.20	35,724,777,701.72

**ROYAL MONETARY AUTHORITY OF BHUTAN
BALANCE SHEET**

(Amount in Nu.)

LIABILITIES AND CAPITAL	AS AT JUNE 30, 2010	AS AT JUNE 30, 2009
CAPITAL AND RESERVES		
Capital	800,000,000.00	21,400,000.00
General Reserve	2,000,000,000.00	659,906,521.92
Revaluation Reserves	595,771,216.73	2,381,276,747.38
Special Reserves (Return on Deposit of Kuwait Central Bank)	217,325,741.16	183,370,302.00
Profit and Loss Account	192,171,323.48	452,220,023.69
Capital Reserves	4,608,249.74	4,608,249.74
Total Capital and Reserves	3,809,876,531.11	3,702,781,844.73
FOREIGN LIABILITIES		
Due to Banks	758,492,931.43	394,952,275.99
Due to Government	104,910,888.83	1,124,660,852.77
Due to International Institutions	2,795,532,170.38	2,933,516,002.38
Overdraft Accounts	1,500,338,787.43	917,321,039.50
GOI Standby Credit Facility	3,000,000,000.00	3,000,000,000.00
Total Foreign Liabilities	8,159,274,778.07	8,370,450,170.64
DOMESTIC LIABILITIES		
Currency in Circulation	5,890,751,611.00	4,887,735,216.00
Due to Banks	14,683,920,867.37	9,810,170,632.27
Due to Government	3,942,335,786.55	3,079,617,467.22
Due to Other Financial Institutions	430,000.00	300,000.00
RMA Bills	0	2,000,000,000.00
Interest Accrued	21,408,400.00	22,323,222.64
Accumulated Depreciation	70,883,406.28	57,162,069.39
Other Liabilities	1,675,939,603.82	3,794,237,078.83
Total Domestic Liabilities	26,285,669,675.02	23,651,545,686.35
TOTAL	38,254,820,984.20	35,724,777,701.72

ROYAL MONETARY AUTHORITY OF BHUTAN
INCOME & EXPENDITURE ACCOUNT

(Amount in Nu.)

PARTICULARS	AS AT JUNE 30, 2010	AS AT JUNE 30, 2009
INCOME		
Interest on Foreign Investment	614,339,322.90	828,768,284.33
Interest on Rupee Investment	16,603,438.39	39,316,710.20
Interest on Staff Loans	674,146.31	777,248.57
Interest Received on Domestic Investment	39,256.22	38,326.77
Royalty from Commemorative Coins	595,229.63	718,281.01
Gain or Loss on Sale of Foreign Currencies	4,110,246.79	10,771,781.90
Commission and Fees Received	3,317,852.01	1,571,332.69
Income from Other Sources	3,151,566.86	8,139,086.38
Other Income	67,953.25	90,699.33
Total Operating Income	642,899,012.36	890,191,751.18
EXPENSES		
Interest Expenses on Foreign Borrowings	41,753,677.36	46,529,723.53
Interest Expenses on Rupee Borrowings	189,881,421.18	100,962,999.38
RMA Discount Securities	37,946,333.34	104,249,850.00
Commission and Fees Paid, Foreign Banks	1,799,021.76	1,394,488.60
Commission and Fees Paid, Domestic Banks	40,323.39	10,659.12
Other Deposit	19,799.87	-
Security Printing and Minting	54,609,648.40	54,609,648.22
Salaries and Wages	27,524,574.00	24,063,058.00
Allowances	5,024,913.00	4,991,190.00
Other Staff Cost	14,723,016.55	14,272,843.29
Staff Superannuation Fund	5,847,338.00	7,070,777.00
Directors' Fees and Expenses	205,000.00	330,031.00
Auditors' Fees and Expenses	280,318.00	295,301.30
Rent and Insurance	357,488.00	871,307.00
Electricity, Water and Other Charges	654,831.60	533,806.25
Postage and Telecommunications	3,948,313.68	4,290,962.14
Remittances of Notes and Coins	2,096,325.00	901,865.00
Stationery and Supplies	1,011,879.96	1,263,633.28
Publications	483,675.00	302,045.00
Agency and Contractual Services	2,000,000.00	1,500,000.00
Miscellaneous Expenses	8,346,245.04	3,509,077.70
Depreciation	13,780,160.76	10,577,112.30
Repairs and Maintenance	4,431,206.70	2,201,185.41
Write-Off - Fixed Assets	6,739.13	-
Total Operating Expenses	416,772,249.72	384,731,563.52
SURPLUS / (DEFICIT)	226,126,762.64	505,460,187.66
LESS:		
Transferred to Special Reserves (Net Earnings on Deposit of Kuwait Central Bank)	(33,955,439.16)	(53,236,463.97)
Prior Period Adjustment	0.00	(3,700.00)
Surplus Payable to Government	192,171,323.48	452,220,023.69

ARTICLES PUBLISHED BY THE RMA

This list is designed to inform readers about articles/special studies featured by the Royal Monetary Authority in its various regular publications – the Annual Report, the quarterly Selected Economic Indicators and the Monthly Statistical Bulletin.

Annual Report

Most of the articles listed below have been updated and featured in each subsequent annual report, since they first appeared.

1. “The Royal Monetary Authority of Bhutan: Functions, Restructuring, and Important Projects” [2001/02-2009/10]. From 2008/09, this was merged with the new Section on “Governance and Organizational Development.”
2. “Chronology of Important Financial Sector Developments” [2001/02–2009/10]
3. “Developments in Bhutanese Financial Institutions” [2001/02-2009/10]
4. “Tourism” [2001/02-2009/10]
5. “The Power Sector in Bhutan” [2001/02-2009/10]
6. “Interest Rates” [2001/02-2009/10]
7. “Bhutan’s External Debt: A Status Report” renamed “Bhutan’s Foreign Aid: A Status Report” from the 2006/07 issue of the report [2001/02-2009/10]
8. “Review of Performance of Bhutan’s Financial Sector” [2002/03-2009/10]
9. “Address at the Royal Monetary Authority by International Monetary Fund Executive Director B.P. Misra, December 22 2004” [2003/04]
10. “Housing Credit (Summary)” [2004/05]
11. “Macroeconomic Projections” [2004/05]
12. “Development in Petroleum Imports and Prices in Bhutan” renamed “Summary of Petroleum Imports and Prices in Bhutan” from the 2006/07 issue of the report [2005/06-2009/10]
13. IMF Executive Board Concludes Article IV Consultation with Bhutan, Public Information Notice (PIN) [2006/07, 2008/09]

Selected Economic Indicators

Articles were featured from December 2002 onwards.

1. “Bhutan Balance of Payments: Methodology, Compilation Practices, and Data Sources” [December 2002]
2. “Revision of the Consumer Price Index” [December 2002]
3. “Bhutan Beverages Company Limited (BBCL)” [December 2002]
4. “Development of Imports from Thailand” [March 2003]
5. “Summary of the National Budget 2002/2003” [June 2003]
6. “Druk Air Corporation Limited: An Overview” [September 2003]
7. “Highlights of the National Budget 2004/05” [June 2004]
8. “Restructuring of the Royal Monetary Authority of Bhutan” [June 2004]

Monthly Statistical Bulletin

1. “Performance of Financial Institutions During 2001” [June 2002]
2. “Price Developments” [July 2002]
3. “Revised Estimates of Government Budget 2001/02” [August 2002]
4. “9th Five-Year Plan Outlay” [September 2002]
5. “External Debt” [October 2002]
6. “Revision of the Consumer Price Index” [November 2002]
7. “Bhutan Beverages Company Limited (BBCL)” [December 2002]
8. “A Leap Into Modernization – The FDI Policy” [January 2003]
9. “Tourism” [February 2003]
10. “Profile on Bhutan’s Public Limited Companies” [March 2003]
11. “Real Effective Exchange Rate of the Ngultrum” [May 2003]
12. “Forestry and Logging in Bhutan” [June 2003]
13. “Druk Air Corporation Limited: An Overview” [July 2003]
14. “Restructuring of the Royal Monetary Authority of Bhutan” [June 2004]

READERS' FEEDBACK ON THE ANNUAL REPORT

Dear Reader:

We would appreciate any and all comments, or suggestions, that you might have regarding the content and format of the Annual Report. Please feel free to contact us at the following address:

Director
Research and Statistics Department
Royal Monetary Authority of Bhutan
P.O. Box 154
Thimphu
Bhutan

You can also email us at: rsd@rma.org.bt.

Please visit our website www.rma.org.bt for information on the RMA and all our publications.

The *RMA Publication User Survey* is also attached at the end of this report and can be accessed online on the RMA website. Your valuable feedback will be most appreciated.

Thank you.

ROYAL MONETARY AUTHORITY PUBLICATION USER SURVEY

We would be thankful if you could take a few minutes to answer the following questions to help improve the quality and accessibility of RMA's Quarterly Selected Economic Indicators (SEI) and Annual Report publications.

Q1. Are you a frequent reader of RMA Publications?

Yes () No ()

Q2. How do you usually gain access to RMA publications?

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Q3. Which section of the RMA publications do you find most useful?

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Q4. On a scale of 1 to 5, where 1 = "extremely dissatisfied" and 5 = "extremely satisfied", how would you rate your level of overall satisfaction with RMA Publications?

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Q5. RMA publications are comprehensive in covering all Bhutan macroeconomic issues. Please indicate whether you:

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Q6. Do your clarifications get resolved after going through our publication?

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Thank you very much! On completing this survey, kindly send it to the Research and Statistics Division, Royal Monetary Authority of Bhutan, by email, fax or post.

The questionnaire can also be accessed and filled online at www.rma.org.bt.