

## INCLUSIVE AND SUSTAINABLE GROWTH ASSESSMENT

1. This assessment reviews Bhutan's performance with respect to key socioeconomic indicators, impediments to inclusive and sustainable growth and their potential solutions, and the development priorities and programs emphasized in Bhutan's Thirteenth Five Year Plan, 2024–2029.<sup>1</sup> It draws on various sector and thematic assessments, the recommendations of the final review of the Asian Development Bank (ADB) country partnership strategy (CPS) for 2019–2023 and its validation report prepared by the Independent Evaluation Department,<sup>2</sup> and consultations with government, development partners, and civil society. This assessment informs the CPS 2024–2028 for Bhutan.<sup>3</sup>

### A. Recent Growth, Poverty, Inequality, and Other Development Dynamics

2. **Economic growth, 2000–2019.** Bhutan's gross domestic product (GDP) grew at 8% on average during 2000–2009 (Figure 1), supported by the commissioning of the 60 megawatt (MW) Kurichhu powerplant in 2002 and the 1,020 MW Tala powerplant in 2007; strong manufacturing growth led by power-intensive, mineral-based industries including ferrosilicon, cement, and ceramics; and the opening of the economy as a result of economic and policy reforms.<sup>4</sup> Hydropower, manufacturing, construction, financial services, and real estate contributed about 60% of the growth during this period. Bhutan's average annual GDP growth rate declined to 6% during 2010–2019 as a result of a slowdown in manufacturing, the lack of effective reforms to reduce regulatory burdens on the private sector, growing dominance of state-owned enterprises (SOEs), and the fact that only one hydropower plant (the 720 MW Mangdechhu powerplant) was commissioned during this period, toward the end of 2019. There was a shift in sector growth: Bhutan's fastest growing sectors during 2000–2009 were utilities (electricity, gas, and water); hotels and restaurants; trade; and manufacturing. This shifted during 2010–2019, with mining and quarrying; hotels and restaurants; wholesale and retail trade; and finance, insurance, and real estate becoming the fastest growing sectors (Figure 2). The slowdown in manufacturing, the large public sector, heavy dependence on hydropower, a weak private sector, and limited economic diversification are matters of concern. GDP per capita, measured in current United States (US) dollars tripled from \$723 in 2000 to \$2,194 in 2010, but grew by just 1.7 times to \$3,688 in 2019.<sup>5</sup>

3. **Economic growth, 2020–2025.** The coronavirus disease (COVID-19) pandemic dealt a severe blow to Bhutan's economy, which had been slowing since 2010. Through a combination of measures—including lockdowns, strict travel and quarantine requirements, and high vaccine coverage of around 95%—the government controlled the spread of infection effectively, with just 21 COVID-19 deaths in Bhutan. However, the prolonged restrictions, the border closure with India, and the ban on tourism caused Bhutan's economy to contract by 10.2% in 2020. The decline was blunted by the commissioning of the Mangdechhu hydropower plant in late 2019, which boosted government revenue. Fiscal and monetary stimulus measures helped buffer small businesses and vulnerable groups from the economic slowdown and job losses. Bhutan's economy grew by 4.4% in 2021 and 5.2% in 2022, and is projected to grow by 4.0% in 2023 and 4.4% in 2024.

<sup>1</sup> Government of Bhutan. 2024. [Thirteenth Five Year Plan, 2024–2029](#).

<sup>2</sup> ADB. 2023. [Country Partnership Strategy Final Review: Bhutan \(2019–2023\)](#); and Independent Evaluation Department. 2024. [Bhutan: Validation of the Country Partnership Strategy Final Review, 2019–2023](#). ADB.

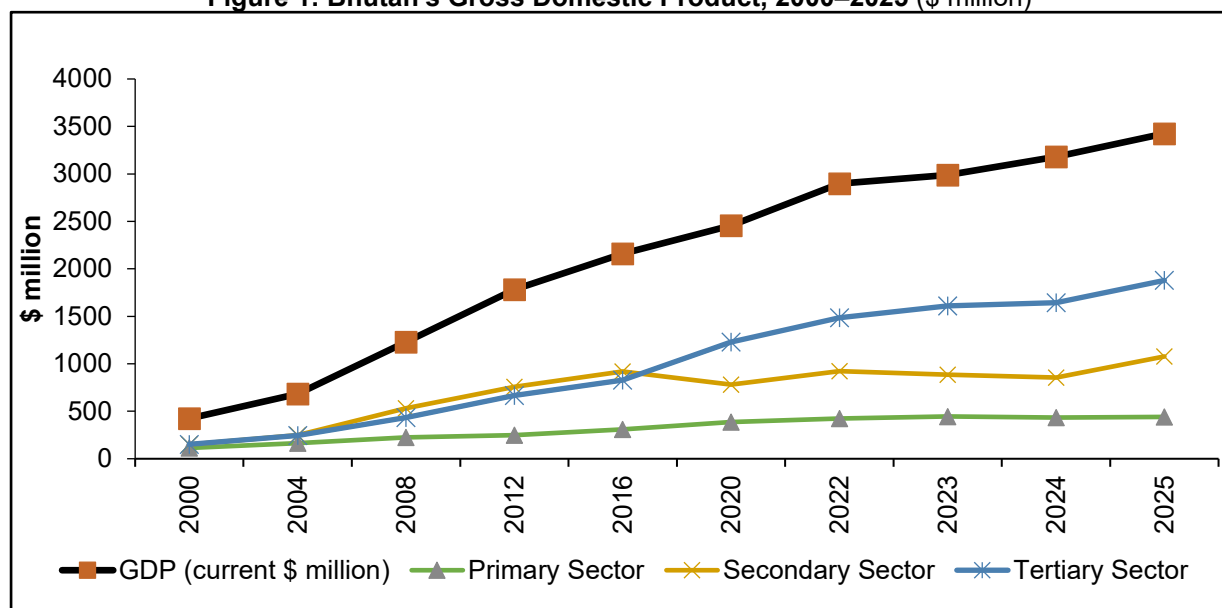
<sup>3</sup> Background assessments were prepared focusing on agriculture, food, nature, and rural development; energy; finance; human and social development; transport; and water and urban development. Thematic assessments focused on civil society engagement; climate change and disaster risk mitigation; digitization; gender, economic, and social inclusion; governance; private sector development; and regional cooperation and integration.

<sup>4</sup> Key economic reforms during 2000–2009 include the Companies Act of 2000 and FDI Policy of 2002.

<sup>5</sup> World Bank. [World Development Indicators](#). (accessed 26 January 2024).

Higher hydropower generation in 2025 from the newly commissioned Punatsangchhu II hydropower plant is expected to accelerate growth to 7.0% in 2025.<sup>6</sup>

**Figure 1: Bhutan's Gross Domestic Product, 2000–2025 (\$ million)**

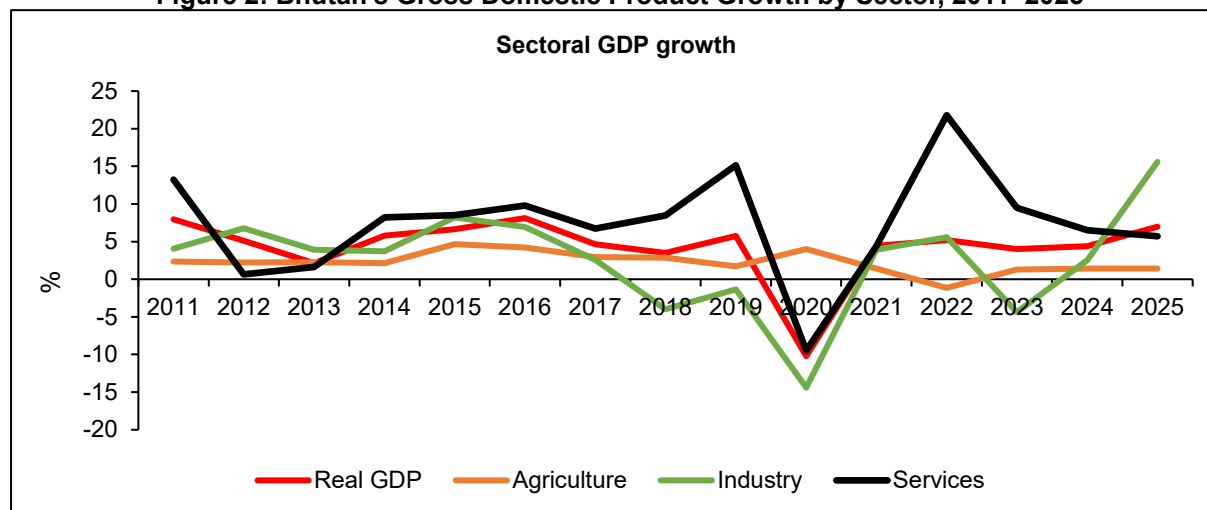


GDP = gross domestic product.

Notes: Average GDP growth rates: 2000–2009: 8%; 2010–2019: 6%; 2020–2022: –0.2%; 2023–2025 (projected): 5.1%. Figures after 2017 are based on rebased 2017 GDP.

Source: Asian Development Bank Macro Monitoring and Forecasting Tool (based on national accounts reports), 2024.

**Figure 2: Bhutan's Gross Domestic Product Growth by Sector, 2011–2025**



GDP = gross domestic product.

Notes: 2023–2025 (projected). Numbers after 2017 are based on rebased 2017 GDP.

Source: Asian Development Bank Macro Monitoring and Forecasting Tool (based on national accounts reports), 2024.

<sup>6</sup> Asian Development Bank. 2024. [Asian Development Outlook April 2024](#).

4. **Slow structural transformation.** Changes in Bhutan's economic structure and labor force have been slow (Figures 3a and 3b). As of the third quarter of 2023, 43.5% of the labor force was engaged in the low-productivity primary sector, which accounts for only 13% of GDP. The secondary sector as a percentage of GDP has declined from close to 46.9% in 2009 to 31% in 2023, while its share in employment has been stagnant at around 14%, indicating a decline in productivity. Within the secondary sector, the share of construction grew from 13% to 44% while that of manufacturing fell from 87% to 56% over the period. About 95% of enterprises in Bhutan are cottage and small-scale industries.<sup>7</sup> They employ about 99,228 workers, but most use low productivity techniques, are constrained by a lack of access to finance, and have weak prospects for growth.<sup>8</sup> The share of the tertiary sector relative to GDP and employment has risen since 2016.<sup>9</sup> However, within the tertiary sector, the share of information and communication technology, and financial and real estate services in total service employment fell from 15% to 5% during 2010–2021, while that of traditional services (trade and transport) rose from 85% to 95%. It is critical for the government to enable the private sector, strengthen the manufacturing and tertiary sectors by simplifying industrial licensing requirements and foreign direct investment (FDI) rules, direct credit to the more productive sectors and enterprises (para. 11, and Figures 8 and 9), restructure inefficient SOEs that are crowding out private businesses, and invest in technical and vocational education and training (TVET) reforms to enable workers to transition from low to higher productivity sectors and sub-sectors.

5. **High youth unemployment and brain drain.** Bhutan's unemployment rate increased from 2.7% in 2019 to 5.9% in 2022, and then declined to 3.5% in 2023. However, youth unemployment reached an alarming 28.6% in 2022 in response to a sharp slowdown in economic activities caused by the COVID-19 pandemic and the return of many overseas Bhutanese workers. Most have resumed their work overseas, leading to a drop in youth unemployment to 15.9% in 2023. However, emigration of Bhutanese youth and professionals, which began in 2014, has increased sharply following the pandemic because of the continuing lack of adequate job opportunities. During 2021–2023, 9,352 civil servants resigned, and several hundred availed of long leave.<sup>10</sup> Former civil servants, students, doctors and health workers, teachers, engineers, and other professionals account for the majority of those who are migrating. About 64,000 Bhutanese are estimated to be overseas, suggesting that around 9% of Bhutanese have left over the past few years.<sup>11</sup> This brain drain is destabilizing for a small country such as Bhutan. Gender disparities in labor force participation and employment are also worsening over time (para. 15).

6. **Growing current account imbalance.** Because of its small size, landlocked location, and narrow economic base, Bhutan relies heavily on imports of essential goods including petroleum, machine parts, consumer goods, computers, rice, and ferrous products. With the exception of hydropower exports to India, most Bhutanese exports (ferrosilicon, gypsum, dolomite, cement, boulders, and pebbles) have low value addition and are extractive. Ferroalloys accounted for over

<sup>7</sup> Cottage and small-scale industries include establishments with 19 or fewer workers. As of 2022, 42% of such establishments were in wholesale or retail trade, 31% in accommodation and food services, and 11% in manufacturing. The remainder were in administrative services, entertainment, and construction.

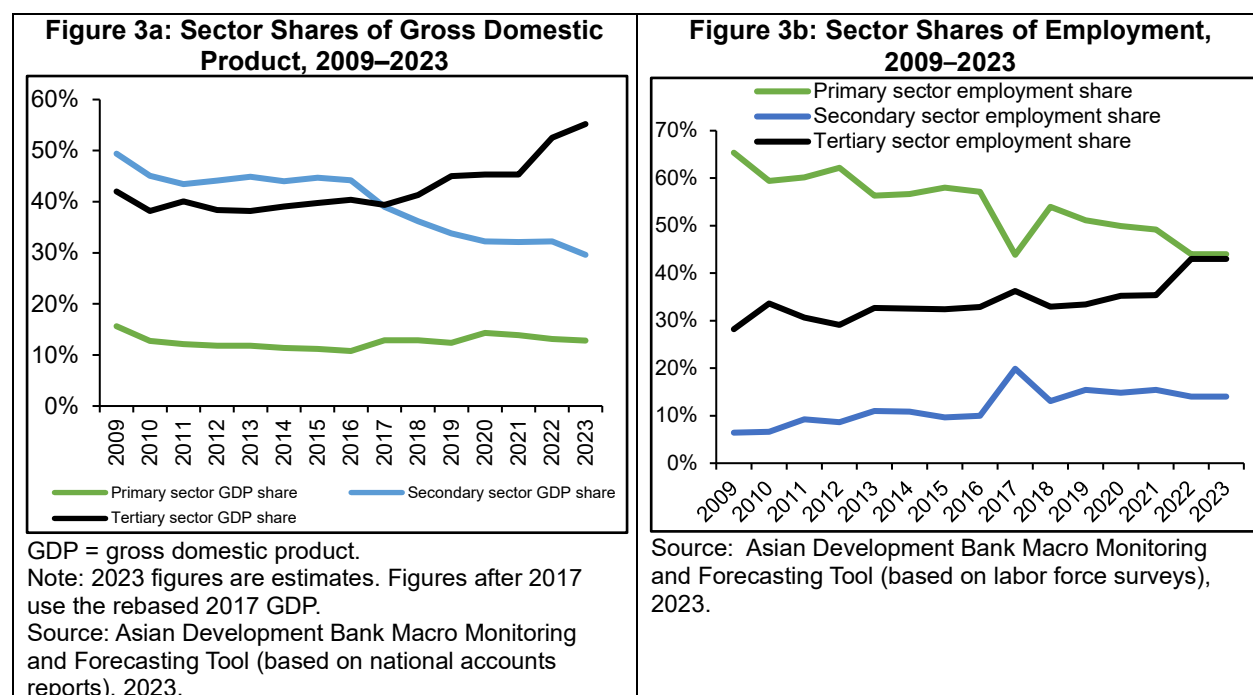
<sup>8</sup> Government of Bhutan, Ministry of Economic Affairs, Department of Cottage and Small Industry. 2019. [Annual Report \(2018–2019\)](#).

<sup>9</sup> Government of Bhutan, National Statistics Bureau. 2023. *Quarterly Labor Force Survey Report November 2023*. The primary sector includes crops, livestock and forestry and logging; the secondary sector includes mining and quarrying, manufacturing, electricity, water supply, and construction; and the tertiary sector includes wholesale and retail trade, transport and storage, hotels and restaurants, communication, finance and insurance, real estate and dwellings, professional administrative and support services, public administration and defense, education, human health and social work health, and entertainment, recreation, and other services.

<sup>10</sup> K. Sharma. 2024. [RCSC plans to revamp work culture amid surge in civil servant resignations](#). *Kuensel*. 17 April.

<sup>11</sup> D. Dolkar. 2024. [Migration poses an existential threat: PM](#). *Kuensel*. 5 July

46% of non-hydro export value in 2023. About 80% of imports come from India and 90% of exports—mostly hydropower sales—are to India. The heavy dependence on imports, low value-added exports, and poor terms of trade have resulted in a current account deficit (Figure 4), which averaged 19.8% of GDP during 2016 to 2019, but worsened to 31.2% of GDP in 2022 because of increases in the price of oil and some food items, depreciation of the Indian rupee and ngultrum (which are pegged) relative to the US dollar, and large imports of bitcoin mining equipment. The current account deficit is expected to narrow to 25.2% of GDP in 2023 because of reduced imports of bitcoin mining equipment.

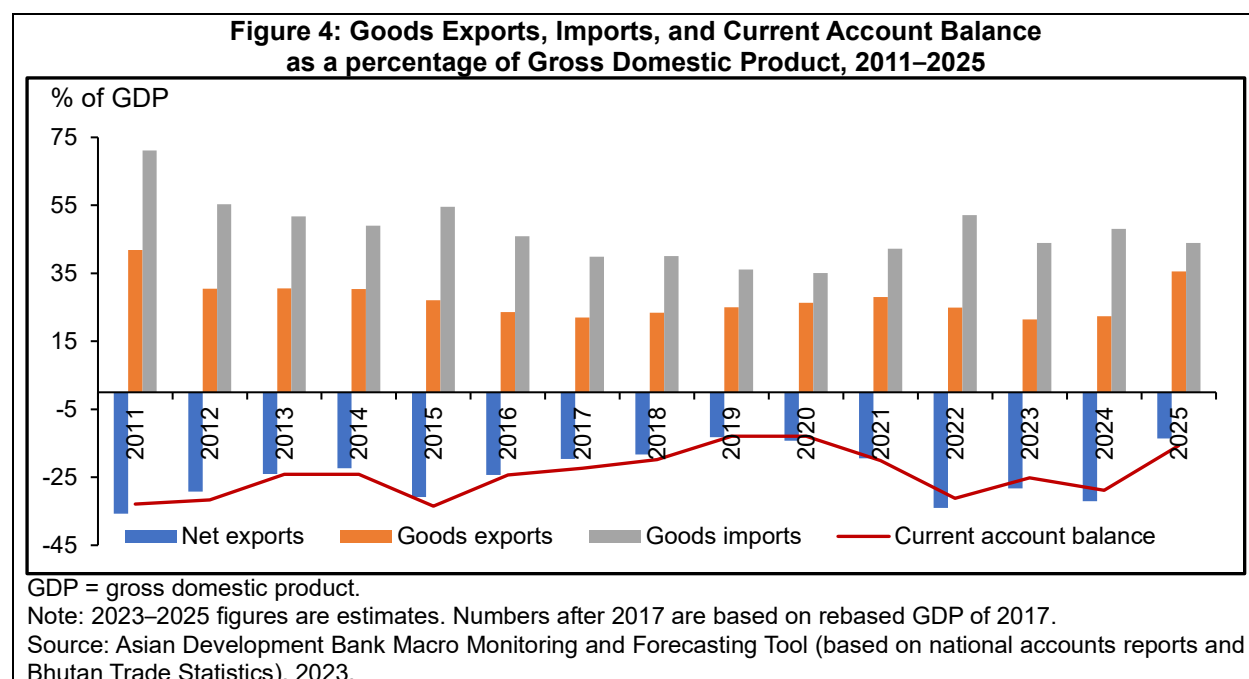


7. **Shortage of convertible currency reserves.** Gross international reserves (mainly Indian rupees and US dollars) rose by 14.27% during 2016–2019, from \$1,062.0 million to \$1,214 million, but reserves declined from \$1,213.6 million to \$607.0 million during 2019–2023 (Figure 5). This is below the constitutionally mandated reserve requirement of 12 months of essential imports, or about \$670.0 million. Higher food and fuel prices resulting from the Russian invasion of Ukraine and the huge increase in imports of bitcoin mining equipment (valued at about \$539 million from July 2021 to June 2023) have contributed to this sharp decline in foreign exchange.<sup>12</sup> Foreign exchange inflows have been low because of the weak recovery of the tourism sector (para. 24). To slow the outflow of reserves, the government has periodically enforced bans on nonessential imports including automobiles, machine parts, and some food items. Hydropower exports declined from \$303 million in 2021 to \$217 million in 2023 as a result of inadequate rain and a sharp rise in domestic power consumption, caused mainly by the increase in power consumed by bitcoin mining.<sup>13</sup> Because the bulk of Bhutan's imports are denominated in Indian rupees, a decline in rupee earnings from hydropower exports is a cause for concern. To promote remittances in the face of the convertible currency reserve shortage, the Royal Monetary Authority raised its remittance incentive from 2% to 10% from June 2023 to February 2024. Data are currently unavailable to assess the extent to which this has encouraged remittances.

<sup>12</sup> T. Zangpo. 2024. [Bhutan invests USD539 million on cryptocurrency](#). *Kuensel*. 6 May.

<sup>13</sup> Domestic sales of electricity increased from \$50 million in 2021 to \$81 million in 2023.

8. **Rising inflation.** Consumer prices in Bhutan have closely tracked price movements in India because of the currency peg between the ngultrum and Indian rupee, and the close trade relationship between the two countries. Inflation averaged 3.6% during 2015–2019, but rose to 6.2% year-on-year during 2020–2022 as a result of pandemic-related travel restrictions, the border closure, and global supply chain disruptions.<sup>14</sup> Overall inflation was 4.2% in 2023. Food price inflation accelerated to 7.2% during 2020–2022 in response to border closures, compared with 4.5% from 2015 to 2019, and slowed to 4.0% in 2023. However, periodic episodes of high food inflation cause hardship for poor households and underscore the need for Bhutan to work toward food security by increasing production of basic food items.<sup>15</sup>



9. **Weak fiscal performance.** Bhutan's fiscal balance has deteriorated since the pandemic. The fiscal deficit as a percentage of GDP was 4.6% in 2017, 2.4% in 2018, and 1.1% in 2019. The outbreak of the pandemic in 2020 resulted in a collapse in economic activities, with sharp declines in tax and nontax revenue. Government spending—in the form of COVID-19 relief, rescheduling of loan repayments, and economic stimulus—increased, causing the fiscal deficit to widen to 7% of GDP in 2022. The tax-to-GDP ratio declined from 15.7% in 2018 to 12.2% in 2020, and 12.0% in 2022. More needs to be done to reform tax policy and modernize tax administration to raise domestic revenue. It is estimated that if Bhutan transitions to a goods and services tax and digitizes its tax administration, additional taxes of around 1.1% of GDP can be mobilized.<sup>16</sup>

10. **Growing debt levels.** Total public debt-to-GDP ratio increased from 94% in fiscal year (FY) 2019 (ended 30 June 2019) to 136.8% in FY2023. The external debt-to-GDP ratio was 120.6%, or 89.1% of total public debt in FY2023. About 83% of Bhutan's external debt is because of hydropower projects (Figures 6 and 7). The Government of India is the lender for these projects and the main buyer of the power that is generated. This debt is self-liquidating because it is paid

<sup>14</sup> Government of Bhutan, Royal Monetary Authority. 2023. *Royal Monetary Authority Monthly Statistical Bulletin September 2023*.

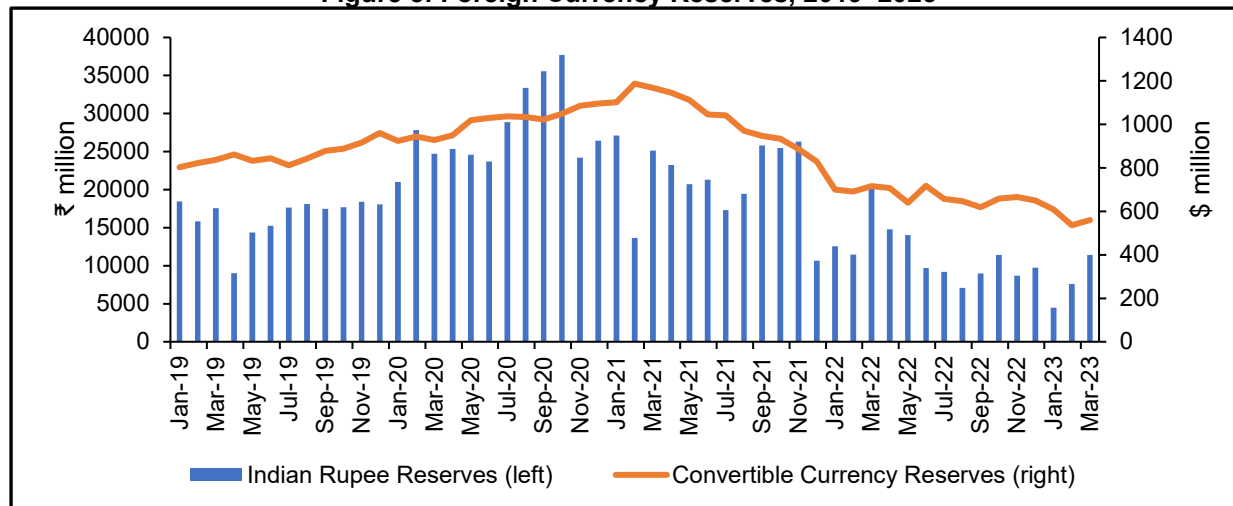
<sup>15</sup> Government of Bhutan, National Statistics Bureau. 2024. *Annual CPI Series* (accessed 8 February 2024).

<sup>16</sup> International Monetary Fund (IMF). 2022. Bhutan: Staff Report for the 2022 Article IV Consultation. *IMF Staff Country Report*. No. 22/146.

back after the hydropower projects are commissioned and the sale of power to India begins. There is no exchange rate risk because the debt is denominated in Indian rupees. Hence, the International Monetary Fund's Article IV mission of July 2022 assessed the risk of public debt distress as *moderate* (footnote 16). Non-hydro external debt is at the constitutionally mandated maximum of 35% of GDP. Domestic debt rose from 4.7% of GDP in FY2019 to 16.2% of GDP in FY2023. Over 95% of domestic debt is government bonds and treasury bills, with the rest being corporate debt.<sup>17</sup>

11. **Weak finance sector.** Bhutan's five banks held total deposits equivalent to 83.1% of GDP in November 2023.<sup>18</sup> Of these, the Bank of Bhutan, Bhutan National Bank, and the Bhutan Development Bank are majority public sector banks, while the Tashi Bank and Druk Punjab National Bank are private banks. Public sector banks together accounted for 81% of the total banking sector's credit to the economy and 80% of total banking sector assets in October 2023.<sup>19</sup> All the banks, to varying degrees, saw their financial health deteriorate after the pandemic. The risk-weighted capital adequacy ratio of banks remained above the 12.5% minimum, improving from 12.8% in September 2019 to 14.7% as of September 2022. Asset quality indicators have similarly improved, with the gross nonperforming loan ratio improving from 18.4% in September 2019 to 7.8% in September 2022. However, these figures should be interpreted with caution, as they are supported by a range of pandemic relief measures, including loan repayment deferments that have been extended for an additional year to June 2024 (for all sectors). Credit flows are largely directed to tourism (loans for hotels and tourism operators) and housing (Figure 8), leaving limited financing available for other productive activities and enterprises (Figure 9). Nominal private credit growth was only 4% during 2018–2022. Market capitalization of the 19 companies listed with the Royal Security Exchange Board increased by 134% in nominal terms, from \$31.7 million in 2017 to \$74.4 million in 2023. The debt market has expanded. In 2023, there were nine outstanding bonds, valued at \$39.9 million, which is a near tripling of the nominal value of bonds since 2017.

**Figure 5: Foreign Currency Reserves, 2019–2023**



Note: The Royal Monetary Authority ceased publishing the breakdown between convertible currency reserves (mainly United States dollars) and Indian rupee reserves after March 2023.

Source: Royal Monetary Authority, June 2023

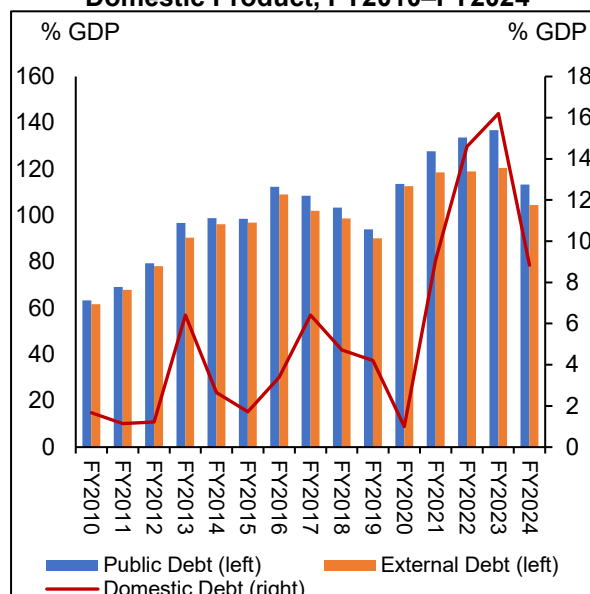
<sup>17</sup> Government of Bhutan, Ministry of Finance. 2023. *Public Debt Situation Report for the quarter ended 30th September 2023*.

<sup>18</sup> Government of Bhutan, Royal Monetary Authority, 2024. *Monthly Statistical Bulletin*. Vol. XXIII, No.2.

<sup>19</sup> Government of Bhutan, Royal Monetary Authority. 2023. *Financial Indicators-December 2018–November 2023*.

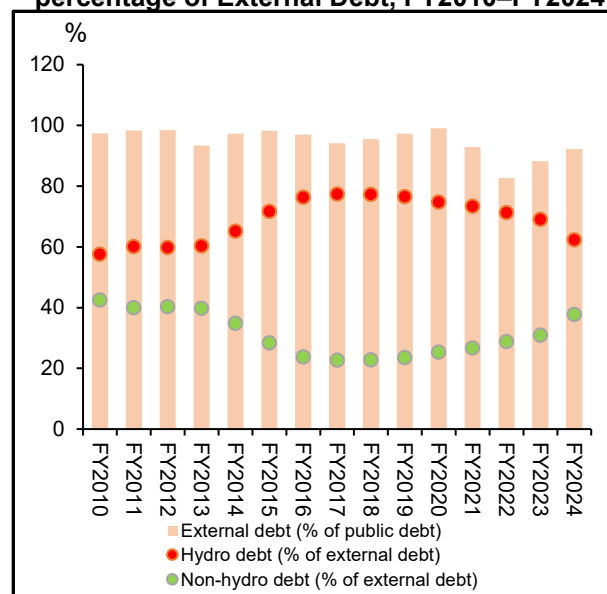


**Figure 6: Public Debt, External Debt, and Domestic Debt as a percentage of Gross Domestic Product, FY2010–FY2024**



FY = fiscal year, GDP = gross domestic product  
 Note: Figures for FY2024 are projections  
 Source: Royal Government of Bhutan, Ministry of Finance (2023)

**Figure 7: External Debt (percentage of public debt), Hydro Debt, and Non-hydro Debt as a percentage of External Debt, FY2010–FY2024**



FY = fiscal year  
 Note: Figures for FY2024 are projections  
 Source: Royal Government of Bhutan, Ministry of Finance (2023)

**12. Progress in financial inclusion.** Bhutan has made good progress in modernizing its payments system and increasing financial inclusion. About 94% of households have a bank account and 87% of households use a bank account to save money.<sup>20</sup> These banked rates are high, given Bhutan's income level. The use of banking apps (through Bank of Bhutan's mBOB and Bhutan National Bank's mPAY) increased during the pandemic as exchange of cash was discouraged and vendors moved to mobile payments. Only 46% of households have an active loan, which is higher than the 2017 figure of 40%. However, the rural–urban gap in bank loans increased from 9 percentage points in 2017 to 12 percentage points in 2022. Most loans (74%) are from banks, and less than 1% of the population has ever received a loan from a microfinance institution. Low adult literacy (71% in 2021) remains a constraint on financial inclusion, disproportionately affecting rural residents.<sup>21</sup>

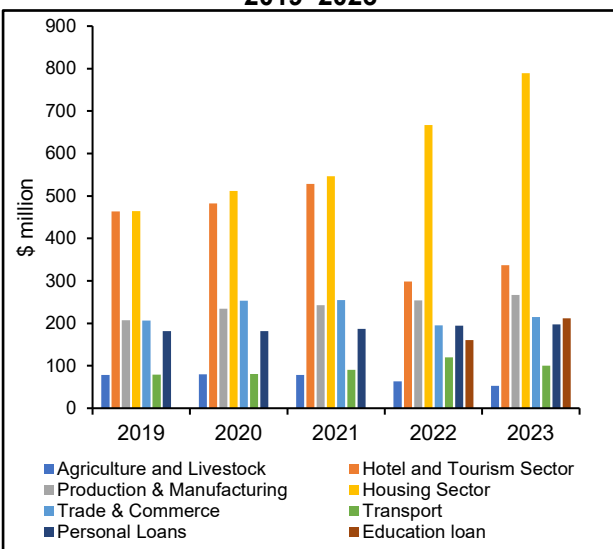
**13. Progress in reducing poverty.** Bhutan's strong growth during 2000–2009 enabled it to achieve its poverty reduction target (i.e., to reduce the extreme poverty rate by 50%) set under the Millennium Development Goals ahead of schedule. Although growth slowed during 2010–2019 (and even more during the pandemic), evidence indicates that progress in reducing extreme poverty is being maintained. Headcount poverty based on the \$2.15 international poverty line (2017 purchasing power parity) fell from 1.5% in 2017 to an estimated 0.6% in 2022. The national poverty line was revised substantially upward in 2022, meaning the rate in 2017 (8.2%) cannot be compared with that in 2022 (12.4%) (Figure 10). The 2022 rural poverty rate is 17.5% as compared to the urban poverty rate of 4.2%. Analysis of microdata suggests that the national

<sup>20</sup> Based on analysis of Government of Bhutan, National Statistics Bureau. 2022. *Bhutan Living Standards Survey 2022*.

<sup>21</sup> Royal Monetary Authority of Bhutan. 2022. *The Current State of Financial Inclusion in Bhutan and the Way Forward*.

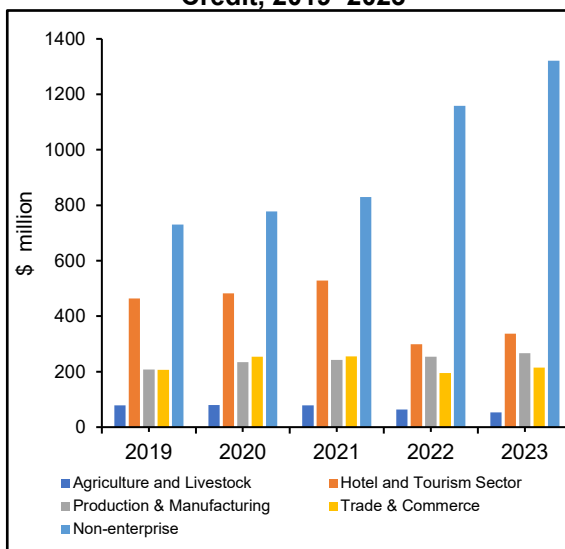
poverty rate fell from 2017 to 2022 in line with the rate of reduction from 2012 to 2017, despite the economic effects of the pandemic. This is confirmed by the reported rate of food insufficiency, which fell from 6.2% in 2017 to 1.5% in 2022. The multidimensional poverty index also declined from 5.8% to 2.1% over the same period, as delivery of basic services improved. While informal safety nets are believed to be strong, there are few formal mechanisms, especially for vulnerable groups such as persons with disabilities, injuries, and illnesses, who accounted for 9% of the unemployed in 2022. Persons with disabilities mostly live in rural areas (80%).

**Figure 8: Sector Credit by Financial Institutions, 2019–2023**



Note: figures for 2023 are through November.  
Source: Royal Monetary Authority. 2024

**Figure 9: Enterprise and Non-enterprise Credit, 2019–2023**



Note: Non-enterprises include housing, transport, personal loans, loans against shares and securities, and education loans. Figures for 2023 are through October.  
Source: Royal Monetary Authority. 2024

**14. Improvement in human development and availability of basic services.** Bhutan's Constitution mandates provision of free basic health services and free education up to the 10th grade, and Bhutan has consequently made significant progress in terms of education and health coverage. Primary school enrolment is nearly universal. The gross secondary school enrollment rate in 2022 was 95% for girls and 82% for boys. Participation in college has doubled since 2013, and there is broad gender equality. However, only 1 in 4 persons with disabilities is literate or had attended formal education in 2021,<sup>22</sup> while for all demographic groups, the link between education and employment outcomes is weak, as reflected in the very high rate of youth unemployment (para. 5). Quality of education as measured by learning-adjusted years of schooling puts Bhutan second lowest in South Asia, at 6.3.<sup>23</sup> During 2017–2022, life expectancy at birth rose from 70.8 years to 71.8 years and expected years of schooling rose from 12.9 to 13.2, while completed years of schooling rose from 3.7 to 5.2. Infant and maternal mortality rates improved over the same period (Figure 11). Bhutan's ranking on the Human Development Index improved from 125th out of 191 economies in 2017 to 134th in 2022, but it was the second-lowest score of any South Asian country on the Human Capital Index in 2020, with a score of 0.48, and has been in

<sup>22</sup> Government of Bhutan, Ministry of Education and United Nations Children's Fund (UNICEF) Bhutan. 2022. [Evaluation of the Inclusive and Special Education Programme in Bhutan 2010–2020](#).

<sup>23</sup> World Bank. 2020. [Gender Data Portal](#).



the “medium human development” category since 2017.<sup>24</sup> As of 2021, all households had access to electricity, 97% had access to drinking water, and 77% had access to basic sanitation.

**15. Improvement in gender equality.** Gender-based differences in life expectancy and education in Bhutan are marginal, but some structural and cultural norms hinder the full realization of gender equality and women's empowerment. School enrolment of girls is high (para. 14), and Bhutan's maternal mortality (60 per 100,000 live births in 2020) is below that in Bangladesh, India, and Nepal. However, because the UN's Multiple Indicator Cluster Survey was last conducted in 2010, more recent information on internationally comparable indicators pertaining to mothers and children (e.g., stunting and vaccination rates) is unavailable. Bhutan's Gender Development Index improved from 0.93 in 2017 to 0.96 in 2021, but its performance on the Global Gender Gap Index (which incorporates more social indicators) has stalled largely due to the lack of progress in increasing female representation in Parliament.<sup>25</sup> The gender gap in the unemployment rate for 2023 is large in relative terms (7.9% for women versus 4.4% for men), while the labor force participation rate gap is large in absolute terms (56.8% for women versus 72.4% for men). In 2021, around 58% of the workers in the agriculture sector were women. The poverty rate (based on the national poverty line) for households headed by women (12.5%) is slightly higher than the rate for households headed by men (12.3%). About 60% of recent TVET graduates are male.

**16. Progress in achieving the Sustainable Development Goals.** As of 2023, Bhutan is faring well on about 58% (72 indicators) of the Sustainable Development Goal (SDG) indicators for which sufficient data are available. It is on track to achieving SDG1 (no poverty), SDG3 (good health and well-being), SDG6 (clean water and sanitation), and SDG7 (affordable and clean energy). This is closely followed by good performance with respect to SDG2 (zero hunger), SDG4 (quality education), SDG12 (responsible consumption and production), and SDG15 (life on land). Bhutan has experienced regressing trends in more than half of measured indicators with respect to advancement in SDG8 (decent work and economic growth), SDG9 (industry, innovation, and infrastructure), and SDG13 (climate action). The assessment of some SDGs has been affected by data gaps.<sup>26</sup>

**17. Rise in economic inequality.** While progress against poverty has been strong, including in rural areas, overall income inequality has widened. The income-based Gini coefficient increased from 0.55 in 2007 to 0.60 in 2022. There is a large rural–urban dichotomy in terms of inequality and vulnerability, with the rural poverty rate nearly four times higher than the urban poverty rate. During 2017–2022, the urban population rose from 40% to 44% of the total population. Households in rural areas have difficulty in accessing essential services; their travel time to hospitals and banks is about 4 times longer than that for urban households, while the average rural household is a 45-minute walk away the nearest paved road, compared to 8 minutes for the average urban household.<sup>27</sup>

**18. Regional disparities.** Bhutan has 20 *dzongkhags* (districts). Thimphu accounts for 19.0% of the total population, Chhukha for 9.5%, and Samtse for 8.6% (Table 1). About half of Bhutan's poor live in the southern and eastern *dzongkhags* of Chukha, Mongar, Samtse, Samdrup

<sup>24</sup> The Human Capital Index is calculated as a function of learning-adjusted years of schooling, stunting rate, and survival rates. It captures the expected productivity of a country's workforce and ranges from 0 to 1. A child with 0.48 Human Capital Index score can expect to be 48% as productive in employment as she or he would be if she or he enjoyed complete education and full health. World Bank Group. [Human Capital Project](#).

<sup>25</sup> World Economic Forum. 2023. [Global Gender Gap Report 2023](#).

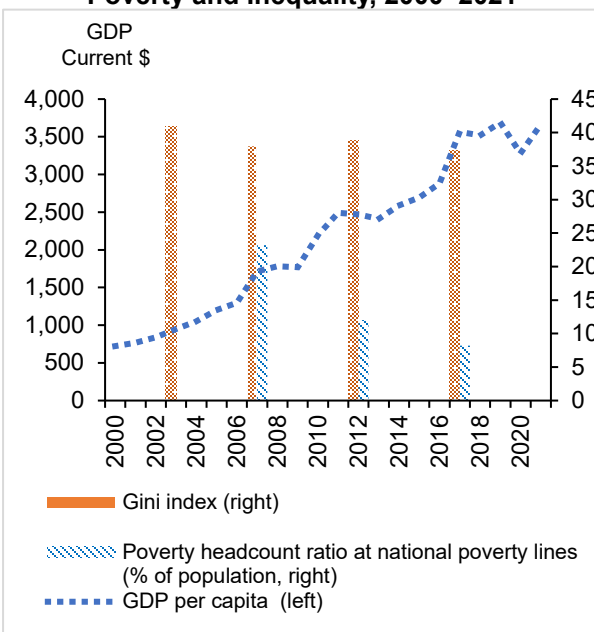
<sup>26</sup> United Nations Sustainable Development Group. 2023. [United Nations Sustainable Development Cooperation Framework for Bhutan 2024–2028](#).

<sup>27</sup> Government of Bhutan, National Statistics Bureau. 2022. [Bhutan Living Standards Survey 2022](#).

Jongkhar, Trashigang, and Zhemgang. The quality and coverage of roads, schools, and health facilities in these areas remain below par. Close to 85% of tourist inflows are to Paro, Punakha, and Thimphu, and many Bhutanese from more rural, poorer, and under-served *dzongkhags* have migrated to cities in search of employment. Infrastructure investment should target Bhutan's underserved *dzongkhags* to ensure growth is broad-based and inclusive.

19. **Vulnerability to climate change and environmental issues.** Bhutan's fragile geological features and steep topography make it highly susceptible to geophysical hazards and the impacts of climate change.<sup>28</sup> Rising global temperature and precipitation variability could lead to extreme weather events, with impacts that include forest fires, floods (including glacial lake outburst floods), and landslides. Projections of weather and climate anomalies in Bhutan show that current trends will likely continue,<sup>29</sup> and are expected to result in more frequent and severe hazardous events that will pose greater threats to communities, agricultural lands, and infrastructure, and endanger Bhutan's forests and biodiversity.<sup>30</sup>

**Figure 10: Gross Domestic Product per Capita, Poverty and Inequality, 2000–2021**

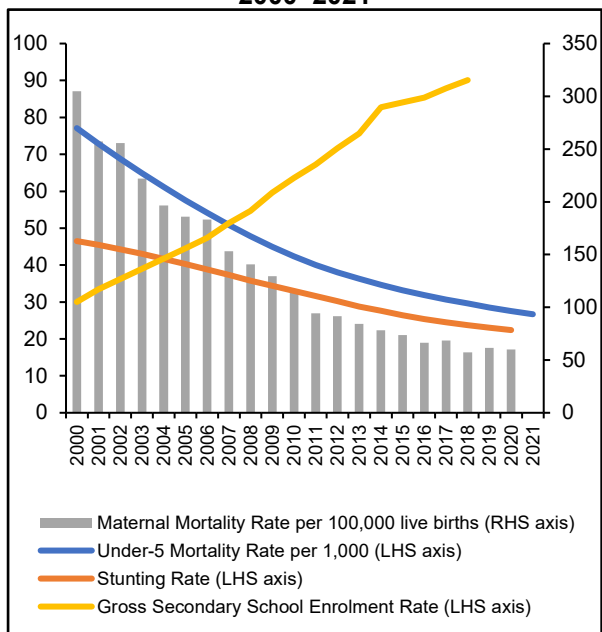


GDP = gross domestic product.

Note: The 2022 poverty estimate is 12.4%, but this is not comparable to the 2003, 2007, 2012, and 2017 numbers due to changes in methodology. Figures after 2017 use the rebased GDP of 2017.

Source: World Bank

**Figure 11: Education and Health Indicators, 2000–2021**



Note: No updates are available after 2021

Source: United Nations Department of Economic and Social Affairs.

## B. Key Impediments to Inclusive and Sustainable Growth

20. **Ambitious targets under the 13th 5-Year Plan (2024–2029).** Bhutan has achieved substantial economic growth and poverty reduction. It achieved lower-middle income country

<sup>28</sup> V. Stevens et al. 2020. *Seismic hazard and risk in Bhutan*. *Natural Hazards*. 104. pp. 2339–2367.

<sup>29</sup> World Bank. *Climate Change Knowledge Portal: Bhutan Current Climate – Trends and Significant Change against Natural Variability*.

<sup>30</sup> About 71% of Bhutan's land area is covered by forest. It has a net carbon sink capacity of 8.9 million tons of carbon dioxide equivalent. Bhutan's constitution mandates that it maintain 60% of its land under forest cover.

status in 2007, and graduated from least-developed country status on 13 December 2023.<sup>31</sup> Under the 13th 5-year plan (for 2024–2029) (footnote 1) and the long-term growth strategy for 2024 to 2034, the government has set ambitious growth targets, aiming to increase Bhutan's GDP from around \$3 billion in 2024 to \$5 billion in 2029, and to \$10 billion by 2034, and raise its current per capita income of around \$3,879 to more than \$12,000 by 2034. This will require an average annual growth rate of around 13% over 10 years. By 2027, the government wants to create full employment by generating an adequate number of quality jobs, and by 2030, it plans to quadruple the income of the bottom 40% of Bhutan's population. Details on how these targets will be achieved and various programs financed are not currently available. However, tackling the challenges discussed below will be important if Bhutan is to achieve its goals and targets.

**21. Narrow economic base and dominance of hydropower.** Bhutan is a small, hilly, and landlocked country, with a narrow economic base. Hydropower projects, both during construction and after commissioning, have traditionally been the main driver of Bhutan's economy. During 2011–2020, yearly earnings from hydropower exports to India averaged 10% of GDP, 33% of government revenue, and 35% of exports. However, the hydropower sector, given its capital-intensive nature, accounts for only around 1% of direct employment. GDP growth spikes in years when new hydropower plants are commissioned and begin selling power to India. Bhutan's hydropower production capacity increased from 1,660 MW in 2015 to 2,326 MW by 2019, and is expected to increase to 3,473 MW by the end of 2024 with the commissioning of the 118-MW Nikachhu hydropower project (partly funded by ADB), and the 1,020-MW Punatsangchhu II project (funded by the Government of India). Bhutan plans to further increase hydropower capacity and is seeking financiers for large projects such as the Dorjilung (1,125 MW) and Kholongchhu (600 MW) plants. While the increased hydropower will help Bhutan increase power sales to India, and support bitcoin mining, it is necessary to use part of the added generation capacity to provide cheap and reliable power to support the diversification of Bhutan's private enterprises and make growth more inclusive.

**22. Dominance of state-owned enterprises.** Bhutan currently has 13 “socially oriented” SOEs under the Ministry of Finance (including Druk Holding and Investments), and 22 “commercially oriented” SOEs under Druk Holding and Investments, for a total of 35 SOEs. They operate across almost all sectors including agriculture, energy, manufacturing, real estate, wholesale and retail trade, banking, insurance, telecommunication, airline, manufacturing, and mining. Representatives of Bhutan's private sector often raise concerns that some SOEs (e.g., those involved in agriculture, livestock, media, and housing) crowd out the private sector through their access to government subsidies and preferential treatment in terms of tax incentives and procurement. The mandates of most SOEs have expanded beyond their original core social objectives, which has resulted in mismanagement and higher losses. In 2021, SOEs generated revenue of \$729.5 million—about 30% of GDP—an increase of 16% over 2020. In 2021, the five best-performing SOEs generated a profit of \$140.8 million while the five worst-performing generated a loss of \$24.0 million.<sup>32</sup> The SOEs accounted for 11,000 jobs (3.5% of total national employment) in 2021.<sup>33</sup> Their assets equaled 207.0% of GDP in 2021, with the government's share equal to about 92.0% of GDP. Ten SOEs alone account for 95% of SOE assets. From FY2017 to FY2021, about \$125 million (at an exchange rate of \$1 = Nu78) was disbursed in the form of subsidies to SOEs under the Ministry of Finance. Considering the small size of Bhutan's

<sup>31</sup> United Nations LDC Portal. [Bhutan graduation status](#).

<sup>32</sup> Government of Bhutan, Ministry of Finance. 2022. *Bhutan State Enterprises Report. Annual Performance Review for Calendar Year 2021*.

<sup>33</sup> Bhutan's civil service has about 25,000 employees.

economy and population, and its growing fiscal stress, a review and reassessment of the rationale and performance of SOEs is needed.

**23. Absence of an enabling environment for the private sector.** Economic diversification has been constrained by Bhutan's location, small market, and the absence of an enabling policy and regulatory environment for the private sector. While the government has enacted several reforms to promote foreign direct investment (FDI) and public-private partnerships, develop the financial sector, and encourage competition, reform implementation has not been effective and the desired results have not been attained.<sup>34</sup> FDI (excluding in the hydropower sector) remains very low, falling from 0.13% of GDP in 2019 to an average of 0.04% of GDP for 2020–2022. The private sector continues to be heavily regulated. Frequent policy changes (para. 24) create uncertainty for the private sector. Despite government pronouncements seeking to boost FDI, some requirements imposed on foreign ventures serve to make Bhutan less attractive. Barriers include the complex approval process and lack of a single window for investors, equity restrictions that make it difficult to find local partners, minimum investment restrictions, and difficulties in obtaining and renewing visas for investors. According to the World Bank's Ease of Doing Business 2019, Bhutan ranked 81st out of 190 economies, behind India, Mongolia, and Uzbekistan.<sup>35</sup> The three most problematic areas identified were difficulties in starting a business, protecting minority investors, and resolving insolvency. Bhutan's banks are burdened by a high nonperforming loan rate. They are also unable to meet the financing needs of entrepreneurs and enterprises. The private sector has to compete with the SOEs for credit, raw material, labor, and market share. In 2022, only 30% of employed individuals worked for a private business. In the absence of quality jobs generated by the private sector, economic growth in Bhutan will not be equitable. More needs to be done to promote trade, update the insolvency law, harmonize customs procedures and certification requirements, and move to a single window clearance system.

**24. Weak public sector management.** Bhutan scores high on five out of six governance indicators (control of corruption, rule of law, political stability, accountability, and government effectiveness).<sup>36</sup> However, it continues to underperform in terms of regulatory quality (i.e., the ability of the government to provide sound policies and regulations to promote private sector development), which creates disincentives for the private sector, discourages FDI, and raises the cost of doing business. For example, as part of its renewed focus on "high value and low volume tourism," the government levied \$200 per person per day as sustainable development fees on non-Indian tourists and around \$15 per person per day on Indian tourists with effect from July 2022. Druk Air and Bhutan Airlines, the two airlines allowed to operate in Bhutan, nearly doubled the fares for non-Bhutanese travelers. These decisions adversely affected the post-pandemic recovery of hotels, restaurants, airlines, tour operators, and businesses with links to the tourism sector, which were devastated during the pandemic. In 2023, about 103,000 tourists visited Bhutan, equal to about 33% of the 315,600 tourists who visited in 2019. To revive the tourism sector and related services, the government has now offered a 50% discount on the sustainable development fee for non-Indian tourists with effect from 1 September 2023. This will be in place until 31 August 2027. With this reduction, the number of tourists should increase. Between July 2022 and July 2023, the sustainable development fee of \$200 per person per day was also levied on potential foreign investors (non-Indians) and \$15 per person per day on potential Indian investors if they came to Bhutan to prospect for business opportunities. This was a disincentive for foreign investors. Information is not available about the government's growing investments in

<sup>34</sup> Reforms include the FDI Regulations, 2019 as amended in July 2021; the Fiscal Incentives Bill, 2016, the PPP Policy, 2016; the PPP Guidelines, 2019; the National Competition Policy, 2020.

<sup>35</sup> World Bank. 2024. [Ease of Doing Business rankings](#).

<sup>36</sup> World Bank. [Worldwide Governance Indicators](#) (accessed 14 December 2023).

bitcoin mining since 2020, which has resulted in a sharp decline in foreign dollar reserves and the amount of power Bhutan sells to India. Since 2022, Bhutan has had to import power from India's Energy Exchange in winter (mainly because of the increase in power consumption due to bitcoin mining) at higher unit rates than at which it sells power to India.

**25. Infrastructure gaps and vulnerability to climate change and disasters.** While Bhutan's road infrastructure has expanded over the years, several *dzongkhags* in the north, east, and south of the country still lack adequate connectivity. Bhutanese travelling west to east along its southern border must drive through the Indian states of West Bengal and Assam, which adds to travel time and costs.<sup>37</sup> With the increase in urbanization, the government needs to invest more in improving urban infrastructure and increasing the supply of affordable housing. Only one-third of Bhutan's farmland land is irrigated. Public sector investment in irrigation and strengthening of integrated water resources management will be essential to ensure climate-smart agriculture. Given its fragile Himalayan ecology, Bhutan is vulnerable to climate change and disasters (e.g., landslides, glacial lake outburst floods, and floods). This makes the design, execution, and maintenance of public infrastructure more complex and expensive. Climate volatility will disproportionately affect farmers and other vulnerable groups. Changes in rainfall patterns will have adverse consequences for Bhutan's hydropower generation and balance of payments. The adverse economic impact of flooding on human health and livelihoods could equal 4% of GDP by the 2030s unless appropriate adaptive measures are taken.<sup>38</sup> Better management of river basins will be critical. The capacity of Bhutan's agencies to undertake multihazard risk assessments and geotechnical surveys, and to monitor and mitigate the risks through appropriate engineering design and disaster warning systems needs to be strengthened. More resources will have to be devoted to build resilient infrastructure in the underserved areas of Bhutan to ensure that Bhutan's future growth is inclusive and sustainable.

**26. Demographic challenges and labor demand and supply mismatch.** Bhutan has a fertility rate of about 2, and about 40% of the population is less than 24 years old. Bhutan also faces challenges associated with aging, even before it has been able to tap its demographic dividend and increase its income level. The share of population above 65 years is projected to increase from 6% in 2022 to 17% by 2050, while the share of working-age population fell from 73% in 2000 to 40% in 2022. The growing emigration of youth and working-age people will further worsen Bhutan's dependency ratio. While the pandemic was the immediate cause of the increase in unemployment (which fell disproportionately on service sector workers), youth unemployment was a problem prior to the pandemic, and the jobless recovery is a symptom of deeper labor market issues. There is a mismatch between the jobs that are available domestically and those to which youth aspire. The government is seeking to modernize and reform its TVET system by emphasizing science, technology, engineering, and mathematics education. Through the Digital Drukyl program, the government plans to scale up digitalization to improve the design and delivery of public services and raise labor productivity. While all these are necessary initiatives, much more needs to be done to lower the cost of doing business, enable the growth of the private sector (especially in labor-intensive industries), and reduce the dominance of SOEs so that more job opportunities can be created.

---

<sup>37</sup> Connectivity has continued to improve, with the total length of blacktopped roads increasing from 4,475 kilometers in 2018 to 4,863 kilometers in 2022. However, there is high demand for road construction and improvement, especially in rural areas, where 28% of respondents to the Bhutan Living Standards Survey (footnote 26) said that building new or improving existing roads should be one of the government's top priorities.

<sup>38</sup> World Bank and ADB. 2021. [Climate Risk Country Profile: Bhutan](#)



### C. Implications for ADB Country Engagement

27. The 13th 5-year plan (for 2024–2029) (footnote 1) will be critical for Bhutan to diversify its economy, promote private sector development, build resilience, address inequalities, and promote broad-based economic growth. As noted (para. 20), the plan is ambitious and aims to lay down the foundation to transform Bhutan into a \$10 billion economy by 2034. Other major objectives of the plan include achieving full employment with quality jobs, realizing energy self-reliance, preserving Bhutanese culture, providing affordable housing, raising the total fertility rate to 2.1, increasing access to essential food and medical items, and pursuing digital transformation.

28. Considering Bhutan's growth performance and the main impediments to inclusive and sustainable growth, ADB will consider the following strategic priorities under the CPS, 2024–2028.

29. **Strengthen public sector management and enable private sector development.** The 13th 5-year plan emphasizes the need to strengthen public sector management, reduce the fiscal deficit, and mobilize more tax and nontax revenue. Technical support will be provided in coordination with the International Monetary Fund and the World Bank to guide the rollout of the goods and services tax, build capacity, and digitize tax administration so that domestic revenue mobilization is increased. ADB will help the government in implementing the medium-term public financial management strategy, including an integrated financial management information system. It will continue to build the government's analytical capacity, including of the Ministry of Finance, National Statistics Bureau, and Royal Monetary Authority. ADB's sovereign and nonsovereign operations teams will work together to undertake sector feasibility studies and provide transaction advisory services to promote public–private partnerships in health diagnostics, solar power, and urban waste management, as requested by the government. This will help catalyze private sector investment from within and outside Bhutan, improve design and delivery of key public services, and reduce the burden on the government's limited budget and institutional capacity. ADB will assist in drafting a competition bill to ensure equal opportunities for all businesses and in reforming Bhutan's Bankruptcy Law to align insolvency procedures with the needs of cottage and small-scale industries. ADB is working with the government to review the FDI policy and improve the investment climate.<sup>39</sup> Support will be given for reforming selected SOEs to reduce crowding out of the private sector and the burden these SOEs place on the budget. Bhutan's banks will be assisted in transitioning to noncollateral-based lending and increasing credit flows to businesses. For a landlocked country such as Bhutan, regional cooperation and integration are critical for generating business and jobs. ADB will support reforms to strengthen policies, institutions, and infrastructure for open trade, including simplification and harmonization of cross-border protocols. It will target improvement in Bhutan's trade digitalization, competitiveness, and governance so that the full benefits from improved road and digital connectivity along Bhutan's southern border with India can be tapped to boost trade, business, and employment opportunities. Strategic priority 1 will be supported through a mix of policy-based loans, technical assistance (TA) for institutional strengthening, and knowledge work to support reforms in public sector management, economic policies, and financial markets to remove systemic obstacles and enable private sector development. The reforms and institutional strengthening will reinforce the support under strategic priorities 2 and 3 to address infrastructure bottlenecks and promote human capital development.

30. **Build climate-adaptive and resilient infrastructure and systems.** Given Bhutan's infrastructure gaps and the threat of climate change and disasters, ADB will strengthen support

---

<sup>39</sup> The "Invest Bhutan" portal, designed under an ADB TA project, includes information on the business potential of different sectors and on all relevant rules and regulations related to private sector development.



for sustainable infrastructure investments. ADB will (i) help Bhutan (a) to expand its solar power capacity so as to reduce its winter power deficit, and (b) scale up its hydropower capacity; (ii) build a 92-kilometer highway connecting Lhamoizingkha to Sarpang along Bhutan's southern border with India to reduce travel time by nearly 2 hours and promote cross-border trade; and (iii) support sustainable river basin management and resilient urban development. Under the new CPS, ADB's support will go beyond project-by-project mainstreaming of climate adaptation and instead take an approach more focused at the catchment basin level by analyzing multi-hazard risks and making the design and implementation of ADB and government projects more disaster-resilient. The Building Adaptation and Resilience in the Hindu Kush Himalayas (Bhutan and Nepal) TA project will build the capacity of relevant government agencies to undertake geotechnical studies and design multi-hazard early warning systems.<sup>40</sup> International best practices for slope stabilization and management of landslide and flooding risks will be tailored to Bhutan's needs. ADB will use the project readiness financing facility to help Bhutan develop a pipeline of well-designed infrastructure projects. Project teams will draw on multisector expertise and explore private sector solutions where feasible, to ensure that integrated and long-term solutions are being offered to Bhutan.

**31. Support human capital development and enhance the employability of youth.**

Human capital development is a priority of the 13th 5-year plan. ADB will continue to help Bhutan in maintaining progress on the SDGs pertaining to education, health quality and access, and gender and social inclusion. It will strengthen health systems, including primary, secondary, and tertiary-level infrastructure and human resources for health; support digitalization of health services; upgrade TVET facilities; and update course curriculum to align with emerging market needs. ADB will provide advisory support for private sector engagement in evaluating possible approaches to bring in requisite technical expertise and financing to create a network of sustainable diagnostic facilities. In addition, policy and regulatory reforms will be supported to establish a conducive environment for private sector engagement for both health and education. To continue to improve TVET demand and quality provision, ADB will provide guidance to strengthen vertical skills pathways through dedicated TVET vocational secondary schools and market-driven, mid- to advanced-level skill programs to progressively acquire skills and green competencies, improve employability and employment outcomes, and prepare the correct skill sets for Bhutan's priority and emerging sectors. ADB will continue supporting TVET and life skills for youth with disabilities.

**32.** The country knowledge plan explains how strategic knowledge products and services will be offered to the government to strengthen the analytical foundation for loans and TA projects under the new CPS. For example, under strategic priority 1, ADB will help the government to prepare feasibility studies for at least two PPP projects, support reforms of selected SOEs, update the Insolvency Law, and draft Bhutan's first national competition bill to enable more private sector participation and attract FDI. ADB will support the Department of Revenue and Customs in preparing a digitalization road map to modernize tax administration, design legislation for the proposed goods and services tax, build capacity and raise awareness, and help in its rollout. ADB will work with the Ministry of Finance, National Statistics Bureau, and Royal Monetary Authority to strengthen their statistics and analytical capacity to enable policy formulation and implementation to become more data and evidence driven.

---

<sup>40</sup> ADB. [Regional: Building Adaptation and Resilience in the Hindu Kush Himalayas—Bhutan and Nepal.](#)

Table 1: District-Level Social Indicators

District	Pop. (2017)	% of total pop.	Unemployment in 2022 (%)		Facilities in 2021 (per thousand)		Roads in 2022 (km/km <sup>2</sup> )	Urban share of pop. (2017)	Poverty Rate (% of poor pop.)		
			Male	Female	Hospitals <sup>a</sup>	Schools <sup>b</sup>			2012	2017	2022
Bumthang	17,820	2.5	2.7	3.7	6 (0.34)	18 (1.01)	0.24	37.2	3.4 (0.6)	2.1 (0.6)	9.8 (1.9)
Chhukha	68,966	9.5	3.4	8.7	17 (0.25)	49 (0.71)	0.49	51.4	11.2 (8.8)	3.5 (3.9)	18.9 (7.9)
Dagana	24,965	3.4	1.2	2.5	10 (0.40)	24 (0.96)	0.56	18.9	25.1 (6.9)	33.3 (13.7)	9.9 (3.1)
Gasa	3,952	0.5	0.2	1.1	3 (0.76)	4 (1.01)	0.02	34.6	<0.5 (<0.5)	12.6 (0.8)	8.2 (0.4)
Haa	13,655	1.9	2.6	6.4	6 (0.44)	11 (0.81)	0.10	22.6	6.4 (0.8)	0.9 (0.2)	9.7 (1.2)
Lhuntshe	14,437	2.0	1.0	3.5	15 (1.04)	18 (1.25)	0.40	14.5	31.9 (6.5)	6.7 (1.8)	15.7 (2.7)
Mongar	37,150	5.1	2.8	3.3	24 (0.65)	40 (1.08)	0.62	27.7	10.5 (5.8)	17.1 (12.6)	17.8 (7.7)
Paro	46,316	6.4	4.4	8.8	7 (0.15)	32 (0.69)	0.19	25.7	<0.5 (<0.5)	0.3 (0.2)	6.0 (3.3)
Pema Gatsel	23,632	3.2	0.5	2.2	20 (0.85)	22 (0.93)	?	32.3	26.9 (8.6)	13.7 (6.7)	17.9 (4.7)
Punakha	28,740	4.0	1.9	4.8	8 (0.28)	22 (0.77)	0.62	23.8	10.0 (3.1)	2.6 (1.2)	2.9 (0.8)
Samdrup Jongkhar	35,079	4.8	2.6	4.6	15 (0.43)	24 (0.68)	0.49	34.7	21.0 (9.1)	6.2 (4.0)	24.7 (7.0)
Samtse	62,590	8.6	2.3	8.0	16 (0.26)	35 (0.56)	0.94	15.5	22.2 (17.4)	12.3 (13.6)	21.9 (15.1)
Sarpang	46,004	6.3	5.9	15.0	14 (0.30)	22 (0.48)	0.31	28.1	4.2 (2.1)	12.1 (8.8)	5.0 (2.0)
Thimphu	138,736	19.1	10.1	15.8	8 (0.06)	???	0.13	83.3	0.5 (0.7)	0.6 (1.3)	1.5 (0.4)
Trashigang	45,518	6.3	1.7	4.7	21 (0.46)	54 (1.19)	0.42	22.2	11.5 (7.2)	10.7 (8.9)	20.6 (9.5)
Trash Yangtse	17,300	2.4	2.5	7.2	9 (0.52)	29 (1.68)	0.23	20.5	13.5 (3.1)	11.9 (3.2)	16.5 (2.9)
Trongsa	19,960	2.7	1.8	2.0	11 (0.55)	19 (0.95)	0.31	17.4	14.9 (2.8)	14.0 (4.4)	21.7 (3.6)
Tsirang	22,376	3.1	2.6	3.0	8 (0.36)	19 (0.85)	1.23	15.7	14.8 (4.0)	4.8 (1.7)	19.5 (5.2)
Wangdue Phodrang	42,186	5.8	3.7	9.3	13 (0.31)	31 (0.73)	0.23	23.3	10.9 (5.3)	5.4 (3.9)	15.9 (6.2)
Zhemgang	17,763	2.4	2.9	9.3	19 (1.07)	34 (1.91)	0.36	19.8	26.3 (7.2)	25.1 (8.5)	41.4 (7.8)
<b>BHUTAN</b>	<b>727,145</b>	<b>100.0</b>	<b>4.4</b>	<b>7.9</b>			<b>0.47</b>	<b>37.7</b>	<b>12.0 (100.0)</b>	<b>8.2 (100.0)</b>	<b>12.4 (100.0)</b>

km = kilometer, km<sup>2</sup> = square kilometer, pop. = population,

<sup>a</sup> Includes hospitals and basic health unit only. Does not include outreach clinics and indigenous units.

<sup>b</sup> Includes schools and colleges but does not include early childhood care and development non-formal centers, day care centers and extended classrooms.

Sources: Population and Housing Census (2017), Poverty Analysis Report (2022), National Statistical Yearbook (2022), Labor Force Survey Report (2022).