

BHUTAN

Economic growth remained robust at 4.9 percent in FY23/24 and is projected to increase to 6.6 percent in FY24/25 with new hydropower plants. In FY24/25, the fiscal deficit is expected to widen to 5.6 percent of GDP, and the current account deficit is expected to improve with higher hydropower, mining, and forestry exports, and lower cryptocurrency mining equipment imports. Despite significant poverty reduction, 19 percent of Bhutanese remain vulnerable to poverty.

Key conditions and challenges

Increased emigration, especially of skilled workers, after the COVID-19 pandemic has prompted the Bhutanese government to prioritize private sector development and job creation under the 13th Five Year Plan (FYP), launched in July 2024. Hydropower sector is the main driver of economic growth but employs less than one percent of the labor force. The national unemployment rate dropped to 3.1 percent in Q4 of 2024 but remains high among youth and those with higher secondary and bachelor's degrees, especially women, and is a major factor driving emigration. Despite a moderation in emigration in 2024, around 9 percent of Bhutanese still live abroad. The country faces persistent fiscal deficits partly due to low spending efficacy and low tax revenue. International reserves have remained low, and the current account deficit (CAD) has been elevated since FY21/22 due to increased imports to finance the investment in cryptocurrency mining.

Economic growth and remittances helped reduce poverty during 2017-2022, nearly eradicating extreme poverty (\$2.15/day). The number of people living below \$3.65/day and \$6.85/day also dropped significantly. While education and sanitation improved,

Population ¹ thousand	Poverty ² thousands living on less than \$3.65/day
791.5	3.7
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
72.2	106.1
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
3.1	3968.6

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2022. 5/ 2024. 6/ 2024.

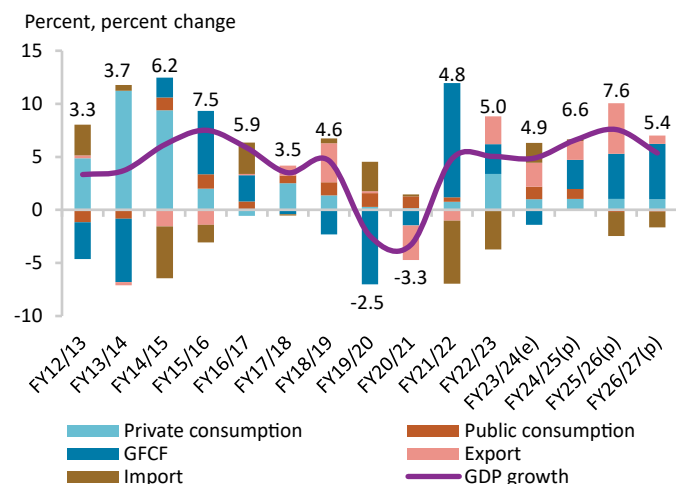
climate vulnerability and spatial inequalities remained. Poverty rates range from 1.5 percent in Thimphu to 41.4 percent in Zhemgang, with 87 percent of the poor living in rural areas. 60 percent of employment in rural areas remains in low-productive agriculture, with high vulnerability to climate change.

Domestic risks include delays in hydropower projects, persistent fiscal deficits, and materialization of financial sector contingent liabilities. External risks include volatile commodity prices due to geopolitical tensions, natural disasters, and climate-related hazards, affecting livelihoods and infrastructure. The direct and indirect impacts of recent global trade uncertainties are likely to be negligible, as trade with US is limited and 80 percent of Bhutan's trade exposure is with India. Sustained high levels of emigration of skilled workers may hinder medium-term growth. Cryptocurrency operations and the Gelephu Mindfulness City project entail significant upside and also downside risks.

Recent developments

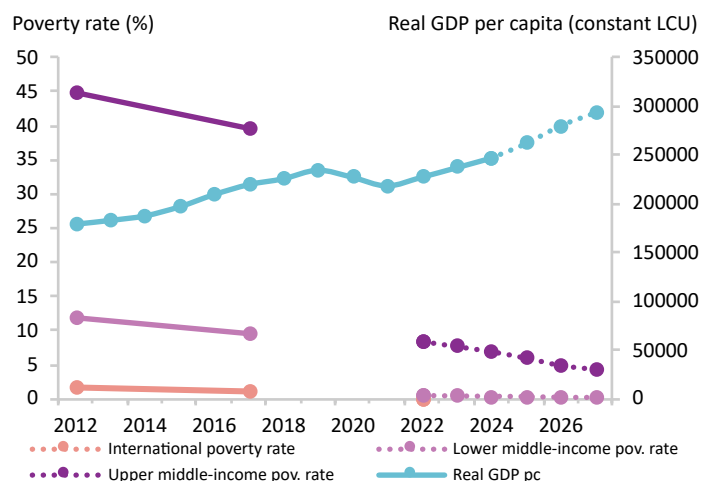
Real GDP grew by 4.9 percent in FY23/24 (July 2023 to June 2024), supported by a 6.8 percent growth in the services sector, led by

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



Sources: National Statistics Bureau (NSB) and World Bank.

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



Source: World Bank. Notes: See footnotes in table on the next page.

tourism-related services, financing, insurance, and real estate. The agriculture sector grew modestly at 1.5 percent due to lower crop yields caused by increasing vulnerability to climate change, shifts in land use, and wildlife-related crop damage. Industry growth at 3.0 percent was supported by strong growth in mining and quarrying (base metals and ferro-silicon). Demand side growth was driven by non-hydropower exports and consumption. Headline inflation decelerated from 4.6 to 4.3 percent, due to lower non-food inflation.

The fiscal deficit narrowed to 0.2 percent of GDP in FY23/24, down from 4.7 percent of GDP in FY22/23, driven by increased domestic revenue from higher tax collection and increased transfers from state-owned enterprises and the central bank. Also, capital expenditure remained low in FY23/24, as most of the capital spending of the 12th FYP was frontloaded in FY20/21 to support pandemic recovery. As a result, fiscal deficits narrowed despite increased current expenditures due to a major salary hike for public servants ranging from 55 to 74 percent, aimed at curbing the high attrition rate of public servants.

The CAD remained elevated at 22.1 percent of GDP in FY23/24, although this is a decline from 34 percent in FY22/23 due to a reduction in cryptocurrency related equipment imports and improved tourism exports. Hydropower exports declined despite the commissioning of the Nikachhu hydropower plant, as domestic energy demand from cryptocurrency mining operations increased. Gross international reserves increased modestly to US\$624 million in June 2024 (4.9 months of FY23/24 total imports).

Outlook

Real GDP growth is projected to rise to 6.6 percent in FY24/25, led by commissioning of Puna-II hydropower plant, and growth in the non-hydropower industries (construction, mining, and

quarrying) and tourism. On the demand side, growth is supported by exports and 13th FYP-related public investments. Medium-term growth will be driven by robust electricity production, construction of the Dorjilung hydropower plant, and mining and quarrying on the supply side and growth of exports and public investment on the demand side. The lifting of housing construction loan moratorium and launching of the collateral-free concessional credit line in FY24/25, which has a sluggish start, are expected to pick up and boost investment.

Poverty reduction is expected to continue, with the \$6.85/day poverty rate falling to 6.0 percent in FY24/25 and 5.0 percent in FY25/26. However, 19 percent of the population remain vulnerable to poverty due to climate hazards, with nearly half of the poor exposed to landslides (Bhutan Poverty and Equity Assessment, forthcoming).

Fiscal deficits are expected to widen to 5.6 percent and 7.2 percent in FY24/25 and FY25/26 due to high capital expenditure during the 13th FYP implementation phase. One-off profit transfers from commissioning of Puna II in FY25/26 and disbursement over the 13th FYP of the BTN 100 billion (US\$1.2 billion) grant from the Indian government will boost revenue. Primary non-wage recurrent expenditure is expected to remain moderate. Public debt is expected to rise to 128 percent of GDP in FY25/26 but is considered sustainable as most of it is hydropower-related. However, rising debt service may limit the fiscal space for spending on social programs.

The CAD is projected to decline to 17.6 and 9.2 percent of GDP in FY24/25 and FY25/26, before moderating further in the medium term due to continued decline in cryptocurrency mining related equipment imports. Export is projected to grow with higher hydropower exports from the commissioning of Puna-II, increased non-hydropower (mining and forestry), and tourism exports. As a result, international reserves are projected to increase to US\$643 million in June 2025 (4.7 months of FY24/25 total imports).

Recent history and projections

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices	4.8	5.0	4.9	6.6	7.6	5.3
Private consumption	1.8	6.8	1.8	2.2	2.3	2.2
Government consumption	1.9	-0.5	5.8	4.5	-0.9	-0.9
Gross fixed capital investment	25.4	5.6	-2.6	5.7	9.0	11.0
Exports, goods and services	-4.1	9.8	8.6	6.2	16.7	2.6
Imports, goods and services	13.2	7.5	-3.7	-0.4	5.4	3.6
Real GDP growth, at constant factor prices	4.9	4.8	4.9	6.6	7.6	5.3
Agriculture	0.1	0.1	1.5	2.8	3.9	3.7
Industry	4.8	2.7	3.0	9.4	13.7	9.3
Services	6.3	7.4	6.8	5.9	4.8	3.2
Inflation (consumer price index)	5.9	4.6	4.3	4.4	4.1	3.9
Current account balance (% of GDP)	-28.1	-34.0	-22.1	-17.6	-9.2	-6.1
Fiscal balance (% of GDP)	-7.0	-4.7	-0.2	-5.6	-7.2	-3.4
Revenues (% of GDP)	25.1	25.2	26.9	26.1	26.8	28.6
Debt (% of GDP)	118.8	116.1	109.2	109.1	127.7	129.1
Primary balance (% of GDP)	-6.8	-4.1	0.6	-3.8	-5.7	-1.8
International poverty rate (\$2.15 in 2017 PPP)^{1,2}	0.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{1,2}	0.5	0.4	0.3	0.3	0.2	0.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{1,2}	8.4	7.7	7.0	6.0	5.0	4.4
GHG emissions growth (mtCO₂e)	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

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