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Monitoring of countries graduating and
graduated from the list of LDC category:
Bhutan

**SUSTAINABLE
DEVELOPMENT**  **GOALS**

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Summary

Bhutan saw robust economic growth over the decade 2010 and 2019 with more than 5% average annual GDP growth. This growth was also translated into substantial reductions in poverty. The country meets all graduation criteria and continues to make steady progress on GNI and HAI.

Bhutan has been highly successful in containing the COVID pandemic through lockdowns and border closures at the earlier stages of the pandemic and through an effective vaccination program in 2021. However, the strict containment measures did have severe economic implications and GDP dropped by an estimated 10% in 2020. Growth has now returned, and the economy is projected to grow by 5% in the 2021/22 financial year.

Bhutan has submitted its second annual report on the preparation of a smooth LDC graduation and been responsive to CDP communications. The STS into is being integrated into the 13th national development plan and the country seems well on track for its graduation preparations. The CDPs main concern for continued development is the heavy reliance on hydropower exports, tourism and agriculture. The Committee recommends that the Government continues its efforts to foster economic diversification, supporting in particular the development of small and medium sized enterprises and cottage industries to help expand domestic production and reduce import dependency. It also recommends strengthening and diversifying its linkages with the Indian economy.

Macroeconomic situation

Bhutan saw robust economic growth over the decade 2010 and 2019¹ with more than 5% average annual GDP growth. The economy is closely linked to that of India, which is the source of more than 80% of imports and the destination of more than 80% of exports. The currency is pegged to the Indian Rupee, which has helped ensure macroeconomic stability over the same period. This period of growth and stability has translated into a significant drop in poverty, as the number of people living on less than \$3.20/day has dropped from 36% in 2007 to 12% in 2017. Hydroelectric power production, agriculture, forestry and tourism are the mainstays of the economy.

The COVID pandemic and related border closures and lockdowns has interrupted this progress and had a devastating impact on the economy. The tourism sector has been hit particularly hard with almost a complete stop in international visitors, while manufacturing, construction and non-hydro exports have also suffered from trade disruptions, foreign labor shortages, and depressed external demand². The Government estimated that GDP contracted by 10.1% in 2020,² while the World Bank estimates a 6.7% decline³. Significant uncertainties in near- and medium-term forecasts will persist, but the IMF forecasts a return to weak growth in 2021.

The stringent containment measures and a successful vaccine program have been effective at protecting the population from the pandemic with the number of cases remaining low. As of December 2021, about three quarter of the population is fully vaccinated and only 2641 cases and 3 confirmed deaths have been registered to date.

¹ IMF (2021). World Economic Outlook, accessed December 2021.

² Government of Bhutan (2021). Second Annual Report on the preparation of Bhutan's Transition Strategy for smooth LDC graduation

³ World Bank (2021). World Bank national accounts data (accessed December 2021)

The unemployment rate jumped from 2.7% before the pandemic to 5% in 2020. The tourism sector, which 16% of the working population are dependent for work, has been hit particularly hard. Returning migrants workers also make up a significant share of the unemployed.

Near to medium term risks to the economy are dominated by the impacts of the COVID pandemic. Further lockdowns and disruptions to trade and migrant labor could be particularly damaging. Weakened external demand, in particular from India, which is saw a marked economic contraction in 2020 could be a major concern. However, the rebound in the Indian economy appears to be stronger than earlier feared. Inflation has accelerated, reaching 7.7 % on average in 2020, largely driven by an increase in food prices⁴. Rising unemployment and falling incomes combined with higher inflation is threatening to reverse some of the progress on poverty alleviation.

Longer term risks include a failure to implement structural change and diversify the economy. The impact on cottage and small industries is a particular concern, as such enterprises are particularly vulnerable. Bankruptcies and contraction in this sector could severely hamper efforts to expand and broaden the country's economic base. The country is heavily reliant the hydropower sector for revenues and state-owned enterprises for goods and services and will need to pursue an enabling environment for growth and employment including incentives for private sector investment². Furthermore, the dependency on hydropower and agriculture brings environmental risks, such as vulnerability to low rainfall which could lower output. The current account deficit has narrowed to 11.4% of GDP and is expected to decrease further in coming years as capital inflows to finance hydro-power development slows down⁴. Falling revenues has increased the fiscal deficit to an estimated 7.3% of GDP in FY 2020/21, against 1.9% the year before. This adds further to public debt, which has increased rapidly from 61% of GDP in 2010 to an estimated 130% in 2020⁴. However, most of this debt is directly linked to the hydropower construction projects, where the credit is secured against long term power purchase agreements. The external debt is therefore unlikely to lead to a debt crisis.

In an effort to diversify the economy the Government of Bhutan have targeted the agriculture, cottage and small industries, hydropower, tourism, and mining sectors to help expand domestic production and reduce import dependency⁵. The country is currently implementing its 12th five year plan, which is based on the country's Gross National Happiness philosophy and closely aligned with the 2030 Agenda and the SDGs. The Government has particularly highlighted the importance of SDGs 1 (No Poverty), 13 (Climate action) and 14 (Life on land) for development in Bhutan⁶.

Table 1. Selected macroeconomic data for Bhutan, 2015-2020

Indicator	2015	2016	2017	2018	2019	2020
GDP growth rate (per cent, constant price)	6.2	7.4	6.3	3.8	4.3	-0.8
Inflation rate (%)	6.7	3.3	4.3	3.7	2.8	5.6
Government revenue (billions of national currency)	36.2	42.0	42.7	52.1	42.0	52.6
Government expenditure (billions of national currency)	36.5	44.7	50.0	56.3	44.1	57.6

⁴ Royal Monetary Authority of Bhutan (2021), Monetary Policy Statement July 2021

⁵ IMF (2018) Article IV Consultation: Bhutan.

⁶ Gross National Happiness Commission (2018). 12th Five Year Plan 2018-2023 Retrieved from: <https://www.gnhc.gov.bt/en/wp-content/uploads/2017/05/Finalized-Guideline.pdf>

Government balance (billions of national currency)	-0.2	-2.6	-7.3	-4.2	-2.0	-5.0
Government balance (per cent of GDP)	-0.2	-1.9	-4.8	-2.6	-1.2	-2.8
Net ODA received (millions of US dollars)	97.3	51.6	118.5	107.9	178.7	
Balance of Payments (millions of US dollars)						
Current Account	-548.3	-622.7	-540.4	-478.2	-500.8	-381.2
Goods, Credit (Exports)	581.5	496.5	554.6	602.8	609.3	651.9
Goods, Debit (Imports)	1,008.6	1,029.9	1,025.1	1,020.2	1,010.5	963.0
Balance on Goods	-427.0	-533.4	-470.5	-417.5	-401.2	-311.0
Services, Credit (Exports)	125.4	145.8	161.7	182.9	168.2	134.7
Services, Debit (Imports)	195.1	207.4	209.8	228.3	219.2	225.5
Balance on services	-69.7	-61.6	-48.1	-45.4	-51.0	-90.8
Balance on Goods and Services	-496.7	-595.0	-518.6	-462.9	-452.2	-401.8
Balance on income	-133.2	-171.7	-199.3	-216.1	-221.1	-148.5
Balance on current transfers	81.6	143.9	177.4	200.8	172.5	169.2
Capital Account	226.3	191.7	186.4	165.5	124.6	144.0
Financial Account	-347.5	-461.7	-263.5	-302.0	-204.0	-194.2
Direct investment (net)	-6.5	-11.9	16.6	-2.6	-13.0	2.8
Portfolio investment (net)	0.0	0.0	0.0	83.3	0.0	0.0
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-336.4	-639.2	-260.4	-426.1	-257.2	-438.4
Reserve assets	-4.7	189.3	-19.6	43.5	66.2	241.5
Reserves (months of imports)	9.6	9.4	9.9	7.9	10.0	13.3

Source: GDP growth and inflation are from UN DESA, WESP, Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

LDC criteria and supplementary indicators

Table 2. Indicators for LDC identification, Bhutan, 2018-2022.

Year	HAI	EVI	GNI
2018	76.9	25.7	2542.4
2019	78.4	25.6	2655.1
2020	79.2	25.9	2803.0
2021	79.5	26.0	2969.1
2022	79.8	25.5	3044.6

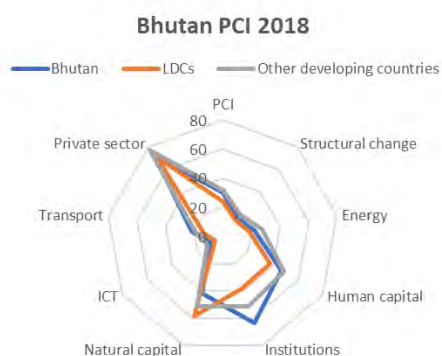
Source: CDP Secretariat

Table 3. Supplementary indicators for Bhutan, 2018-2021

Indicator	2018	2019	2020	2021
Current account balance (% of GDP)	-28.8	-22.1	-19.5	-19.8
External debt (% of GNI)	116.6	114.6	117.5	130.7
Fixed broadband subscriptions per 100 people	2.2	1.4	1.1	0.4
ODA received as percentage of GNI	2.6	5.3	4.8	7.9
Remittances (% of GDP)	1.8	2.4	2.2	3.5
Share of employment in agriculture	57.2	56.5	56.1	55.8
Tourism receipts as share of exports	21.6	21.4	15.4	15.4

Source: CDP Secretariat

Productive Capacity



Source: UNCTAD.

The indicators of productive capacities for Bhutan display a pattern typical of small countries. The country ranks better than the average for LDCs in overall productive capacity and across the different dimensions, except for Natural Capital (which is typically higher in larger countries). These achievements have been achieved even though the country's is landlocked.

Bhutan lags behind other developing countries both in terms of overall productive capacities and of the subcomponents of the PCI. In the area of Institutions Bhutan score the highest relative to other countries in the LDC and ODC groups.

During the 2010s Bhutan improved its performance both in terms of overall productive capacities and most dimensions thereof. Progress has been especially quick in terms of ICTs. This broad-based development progress augurs well for it to achieve graduation with momentum.

Data gap

Bhutan's statistical score was 60 in 2020, about the LDC average, but well below the average of other countries in South Asia (69). Methodology and availability of source data is a particular concern, while the country scores better on periodicity.

Smooth transition, national plan and country specific factors

Bhutan has submitted its second annual report on the preparation of a smooth LDC graduation. A smooth Transition Strategy task force which includes representatives from key sectors related to Bhutan's graduation led by Gross National Happiness Commission Secretariat was formed in April 2021. Bhutan will be integrating its Transition Strategy into the next national development plan) which is expected to come into effect from December 2023.

During country consultations on December 7 2021 the Government stressed that in spite of the disruptions from the COVID pandemic the preparations for graduations were proceeding as planned. Support has been received from UNCTAD who has help develop a white paper outlining key issues for consideration during the graduation period and beyond. In addition, OHRLLS, UNESCAP and the WFP have made a commitment to provide technical support to Bhutan's smooth transition. In response to the COVID crisis a "resilience fund" has been established to provide assistance to the unemployed, a "Build Bhutan" program provide training in construction trades has been initiated as well as measures to assist workers in the badly affected tourism sector.

Challenges to a smooth transition from LDC status include the mobilization of domestic resources and prudent management of hydropower revenues to substitute for declining foreign grants and maintain macroeconomic stability. Total ODA flows were around \$ 181 million in 2019, a significant increase from previous year⁷. Bhutan is also receiving support through the Global Environment Facility (GEF) 12 and the Green Climate Fund (GCF). While the support received through the Least Developed Countries Fund (LDCF), managed by the GEF, is ending with graduation from the category, general support through the GEF remains open. Development partners have pledged around \$865 million for the implementation of the 12th five year plan, half of which has already been received. The Government has received financial and in-kind assistance from a range of multilateral and bilateral donor agencies to combat the impacts of COVID-19. The Government also highlighted assistance in accessing different sources of finance as an area where UN support would be welcomed during the country consultation.

⁷ World Bank (2021). World Development Indicators (Accessed December 2021
<https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=BT>)

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2022 or latest available year)



Legend:

